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India's Payments Bank – Make or Break Strategy

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ABSTRACT

Digitalization plays the center stage now more than ever. Banking and all other kinds of financial services are focusing on the digital space and it's growing rapidly every day; and the introduction of payments bank is one of them. The payments bank is like normal banks; they perform almost all banking operations but they don't engage in any credit providing services. Currently there are four payments bank in India like Paytm payment bank, Airtel payment bank, India post payments bank and Fino payments bank.

The Payment wallets like paytm, Mobikwik, Jio money, Free charge, etc., though they may not provide any extra benefits as compared to the interest rates being offered by the payments bank, are already in market and increasing in numbers with major innovative services. The Government of India has already come up with its own BHIM (Bharat Interface for Money) app, allows making digital transactions across banks at free of cost. It will be very difficult for the payments bank to make space in the minds of the people when BHIM and other services provided by the various wallets in the country. Recently, RBI imposed penalty on Payments Bank for violating guidelines for these banks.

This paper focuses on the operations of Payments Bank and mainly focusing on a reality check over these banks and ways to overcome as a mass.

KEYWORDS: Digitalization, Payment wallets, RBI, Government of India, BHIM

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INTRODUCTION

A Payments Bank is a new model of banks conceptualized by the Reserve Bank of India (RBI) with the primary motive to promote digital, paperless and cashless banking in our nation. It is an approach in which other non-banking financial organizations are granted the authority to offer basic bank services to every Indian citizen. A payments bank is different bank with the specific objective of catering to the unbanked and under banked. Although the Pradhan Mantri Jan Dhan Yojana (PMJDY) has brought down the number of unbanked individuals in the country, there are still millions who do not have bank accounts. As per World Bank report, India is a home to 21% of the world's unbanked adults. Payments bank aims to serve these customers, especially migrant workers and those from lower income households, as well as bring them into the formal financial system. It is the added benefit of secured, technology-driven transactions that can be easily tracked without any loop hole for black money.

The payments bank is like normal banks; they perform almost all banking operations but they don't engage in any credit providing services. These banks can accept a restricted deposit, which is currently limited to Rs.100,000 per customer and may be increased further. These banks cannot issue loans and credit cards. Both accounts like current account and savings accounts can be operated by these banks. These banks can issue services like ATM cards, debit cards, net-banking and mobile-banking.

HISTORY OF INDIA'S PAYMENTS BANK

On 23rd September 2013, Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by Nachiket Mor, was formed by the RBI. On 7th January 2014, the Nachiket Mor committee submitted its final report, with the recommendation that the formation of a new category of bank called payments bank. On 17th July 2014, the RBI released the final guidelines for payment banks, seeking comments for interested entities and the general public. On 27th November, RBI released the final drafted guidelines for payment banks.

In February 2015, RBI released the list of entities which had applied for a payments bank license. There were 41 applicants. It was also announced that an external advisory committee (EAC) headed by Nachiket Mor would evaluate the license applications. On 28th February 2015, during the presentation of the Budget it was announced that India Post will use its large network for running payments bank. The external advisory committee headed by Nachiket Mor had submitted its findings on 6th July 2015. The applicant's entities were verified for their financial track record and governance issues. On 19th August 2015, the RBI provides "in-principle" licenses to eleven entities to launch payments bank. The "in-principle" license was valid for 18 months within which the entities must fulfill the requirements and they were not allowed to engage in banking activities within the period. The RBI will grant full licenses under Section 22 of the Banking Regulation Act, 1949, after it is satisfied that the conditions have been fulfilled.

Following are the list of banks approved by RBI for provisional payments bank license;

1. Aditya Birla Nuvo Limited
2. Airtel M Commerce Services Limited
3. Cholamandalam Distribution Services Limited
4. India Department of Posts
5. Fino PayTech Limited
6. National Securities Depository Limited
7. Reliance Industries Limited
8. Shri Dilip Shantilal Shanghvi
9. Shri Vijay Shekhar Sharma
10. Tech Mahindra Limited
11. Vodafone m-pesa Limited

Out of which currently there are four payments bank in India like Paytm payment bank, Airtel payment bank, India post payments bank and Fino payments bank.

RBI REGULATIONS ON PAYMENTS BANK

The minimum capital requirement is Rs.1 billion. For the first five years, the stake of the promoter should remain at least 40%. Foreign share holdings will be allowed to these banks as per the rule of FDI for private banks in India. The voting rights of the shareholder will be regulated by the Banking Regulation Act, 1949. The voting right of any shareholder should be limits at 10%, can be raised to 26% by the approval of RBI. The bank should be fully computerized from the beginning. These banks can accept utility bills and cannot form subsidiaries to undertake non-banking activities. Initially, the deposits will be restricted to Rs.100,000 per customer, but it may be raised by the RBI based on the performance of the bank. These banks cannot engage in lending activities. 25% of the bank branches should be set up in the unbanked rural area. The bank must use the mandatory term called "payments bank" in its name to differentiate it from normal bank. The banks will be licensed as payments bank under Section 22 of the Banking Regulation Act, 1949, and will be registered as public limited company under the Companies Act, 2013.

BENEFITS OF PAYMENTS BANK

Most of the customer’s reaction on regarding Payments bank account is “One more bank account”. The following are the benefits of payments bank account namely;

1. Zero Balance Account

Normal banks levy charges on its customers in case a customer fails to maintain a minimum account balance, whereas payments bank came up with Zero balance account where no minimum balance is to be maintained. Normally banks charge a certain amount of fees for online transactions, where as payments bank is not charging anything, they are providing online transactions at free of cost.

2. Higher Interest Rate

The cost savings is allowed to the customers of Payments bank by the way of higher interest rate. The maximum interest rate of 7.25% is offered by Airtel payments bank for their customer's savings account.

3. Convenience

The payments bank with wide distribution channel is more likely to succeed compared to others. Payments bank account holder may find large no of banking points in the region even though they will provide only basic banking services. Time convenience is another important factor as banking points are normally open on all 365 days from 8 AM to 10 PM.

4. Safe and Secure

The online payments through Payments bank account are very safe and secure than transacting through a mobile browser. It requires 4 – factor authentication for a transaction.

5. Ease of maintaining Account

Payments bank allows its customers to open a savings bank account number with the same as their mobile number. Though it may not find as important benefit but imagine the large population in rural and semi – urban areas, this feature will make banking convenient for those people.

6. Special Offers

Similar to mobile wallets payments bank also provides special offers like Cash back offers and Discount offers to its customers.

7. Additional Benefits

Rather than cash back and discount offers, payments bank account promotes additional benefits to its customers. For example: Airtel Payments bank offers free accidental insurance cover of Rs. 1 lakh to its customers.

PAYMENTS BANK – A GAME CHANGER

For the first time in the history of India's banking sector that RBI is giving out differentiated licences for specific activities. RBI is planning with a second set of such licences for small finance banks and the process for which is in its final stage. This move shows up a major step in pushing financial inclusion in the country.

Payments bank aims to redefine banking in India. The Reserve Bank expects payments banks to target India’s emigrant labourers, low-income households and small businesses, offering savings accounts and rendering services with low transaction cost. It believes payments bank will enable poor citizens who transact only in cash to take their first step into formal banking. It could be uneconomical for traditional banks to open its branches in every village but the mobile phones coverage is a low-cost platform for quickly taking basic banking services to every rural citizen. The innovation is also expected to speed up India’s journey into a cashless economy.

India’s domestic remittance market is estimated to be about 800-900 billion and growing. When money transfers made possible through mobile phones, a big chunk of it especially with the migrant labourers shifted to this new platform. Payments bank also plays a crucial role in implementing the government’s direct benefit transfer scheme, like subsidies on healthcare; education and gas are paid directly to beneficiaries’ accounts.

This is the first time since banks were nationalized; private sector business groups have bagged the RBI’s nod for banking services. It’s a primary step to redefining banking in India. It hopes payments bank will enable poorer citizens who transect only in cash to take their 1st step into formal banking.

DIGITAL WALLET VS PAYMENTS BANK

A digital wallet or e-wallet is a just like a normal wallet or purse. The only difference between them is that the former stores cash digitally or electronically, later stacks them in form of physical notes and coins. One may use a credit/debit card, net banking or UPI to load money into a digital wallet. However, it won’t get any interest on the stored amount.

Most of the e-wallets have inbuilt features to support for various recharges and bill payments. Online transactions can be done through them wherever accepted. There is a certain limit to the total amount of money can be store, add, and send in a digital wallet. Currently, it is Rs. 20,000 in India.

When a user is looking for payments alone, wallets are convenient. But payments banks go beyond just this. That's why companies such as Paytm and FINO Paytech have ventured into the payments bank space despite having had a mobile wallet for many years. A payments bank offers much wider services than the digital wallets.

If a customer looking for quick and convenient payments, wallets are fare better. User can download the app, sign up and start using the wallet by transferring money from either a bank account or a credit card. Many users prefer wallets for online transactions to avoid exposing their bank and card details through Internet. When a user needs wallet like functionality but more benefits such as interest income on idle money, fund transfers and withdrawal of money at an ATM via card, payments banks are more suitable.

BHIM VS PAYMENTS BANK

Bharat Interface for Money (BHIM) app developed by National Payments Corporation of India (NPCI), based on the Unified Payment Interface (UPI). The Government of India initiated and was launched by Prime Minister Narendra Modi, at Digi Dhan mela at Talkatora Stadium in New Delhi on 30 December 2016. It was named after B. R. Ambedkar and is developed to facilitate e-payments directly through banks as part of the 2016 Indian banknote demonetisation and drive towards cashless transactions. The app supports all Indian banks that use this platform, which is built over the Immediate Payment Service infrastructure and allows the user to instantly transfer money between bank accounts between two parties. It can be used on all mobile devices.

Unlike mobile wallets (PayTM, MobiKwik, mPesa, Airtel Money etc) which hold money, the BHIM app is a only mechanism which transfers money between different bank accounts. Transactions on BHIM are done instant and can be done 24/7 including weekends and bank holidays. BHIM allows users to check the current balance in their accounts and to choose which account to use for performing transactions, although only one can be active at any time.

PAYMENTS BANK – A REALITY CHECK

In 2017, Airtel Payments Bank was forbidden from adding new customers for a few months because they opened bank accounts without informed consent from its customers and has received a notice from the UIDAI. Airtel's retailers have allegedly used Aadhaar e-KYC to open bank accounts for customers when they went to stores for verification of their SIMs.

The UIDAI reported in its notice that Airtel Payments Bank to take immediate corrective measures and report back to the authority on the same. It added that opening accounts without customers consent is a violation of rules and is punishable with financial penalties. On a result, the banking regulator imposed a penalty of Rs. 5 crore. Later, Airtel payments bank received necessary approvals to resume acceptance of new customers.

The same continues in 2018 for other payments bank. Fino Payments Bank has been restricted by the Reserve Bank of India from adding new customers. That's because some customer accounts were found to have more than Rs 1 lakh deposit limit permitted to payments bank. The payments bank reported that it is in the process of upgrading its processes and technology to support these changes. Meanwhile, all existing customer accounts continue to operate.

Paytm Payments Bank had been reported by the RBI to stop accepting new customers immediately. Because the RBI made observations about the way in which Paytm Payments Bank was acquiring customers and its adherence to the KYC norms specified by the regulator. In e-KYC, the bank and the customer are not face to face and the bank may allow the customer to open a bank account using a one-time-password (OTP) authentication. Payments banks should ensure themselves, to conduct a biometric verification of the customer within a year of opening the account, failing which the bank account would cease to function. But that's not enough.

But typically non-banking payments companies used identity proof and proof of address as KYC documents. However for banks, the KYC goes a step further more than that. RBI's KYC guidelines specify that to allow a customer to have a functioning bank account, the bank should collect official valid documents like an Aadhar card, PAN card, driver's licence, passport or utility bills. Since Paytm did not follow this process fully, it was informed to stop adding new customers.

Recently, the central bank declared that the KYC done by these firms before launching their respective banks are invalid. This has increased operational costs. Customer acquisition has become even more difficult now. Earlier it was very simple to get customers on-board as the KYC level was really basic. But now things have changed a lot. The competition has turned even more vicious, and not just from rivals.

The Narendra Modi government launched the Pradhan Mantri Jan-Dhan Yojana (PMJDY) in 2014, a financial inclusion scheme aimed at providing bank accounts to all Indians. Since its launch, over 322 million accounts have been opened under this scheme, covering 99.7% of Indian households, government estimates show. So a large section of the unbanked population is already covered at present, narrowing payments banks scope.

CONCLUSION

With all these limitations, the payments banks have to concentrate on their business models largely depend on the volume of customers they will be able to attract. Payments bank need to intensify their efforts and try different approaches. Due to lack of awareness of the payments bank there is lack of demand for the product. The customers from urban areas are much aware about it and they are not using it due to lack of interest, since several other options are available to perform financial transactions.

Even with the digital wave in the country, the rural citizens are still finding difficult to digitalize their daily routine in the world of money. There is a significant potential for the product to expand in rural areas, because of low density of bank branches and ATM's in these regions. So, payments bank need to heavily invest in marketing, especially in rural areas will certainly survive them in the fittest.

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