# Payment Banks

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## What are Payment Banks?

- A payments bank (Airtel Payments Bank, India Post Payments Bank, etc.) is like any other bank, but operating on a smaller or restricted scale.
- Credit risk is not involved with the Payments Bank. It can carry out most banking operations but cannot advance loans or issue credit cards.
- It can accept demand deposits only i.e. savings and current accounts, not time deposits.
- The Payment Banks cannot set up subsidiaries to undertake non-banking financial services activities.
- A committee headed by Dr. Nachiket Mor recommended setting up of 'Payments Bank' to cater to the lower income groups and small businesses.
- **Benefits:** Expansion of rural banking, access to diversified services, social & financial inclusion are some of the benefits.
- **Challenges:** Lack of customer awareness, lack of incentives for agents, lack of infrastructure, technological issues are some of the challenges.

**Note:**

- There are two kinds of banking licences that are granted by the Reserve Bank of India - universal bank licence and differentiated bank licence.
- Payments bank comes under a differentiated bank licence since it cannot offer all the services that a commercial bank offers. In particular, a payments bank cannot lend.
- It can take deposits upto ₹1 lakh per account and it can issue debit cards but not credit cards.
- Commercial banks in India like State Bank of India or ICICI Bank, do not have any such restrictions.

## Objectives

The objectives of setting up of a payments bank is to further financial inclusion by providing small savings accounts and payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

## Scope of Activities

- Acceptance of demand deposits, initially restricted to holding a maximum balance of Rs 100,000 per individual customer.
- Issuance of ATM/debit cards.
- They cannot issue credit cards.
- They are not allowed to give loans.
- Payments and remittance services through various channels.
- Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.
- They are only allowed to invest the money received from customers' deposits into government securities.
- They cannot accept NRI deposits.
- A payments bank account holder would be able to deposit and withdraw money through any ATM or other service providers.
- Payments licensees would be granted to mobile firms, supermarket chains and others to cater to individuals and small businesses.

## Eligible Promoters

- Existing non-bank Pre-paid Payment Instrument (PPI) issuers;
- Other entities such as
    - individuals/professionals;
    - Non-Banking Finance Companies (NBFCs),
    - Corporate Business Correspondents (BCs), mobile telephone companies,
    - Supermarket chains, companies, real sector cooperatives; that are owned and controlled by residents; and
    - Public sector entities may apply to set up payments banks.
- A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payments bank.
- Scheduled commercial banks can take equity stake in a payments bank to the extent permitted under the Banking Regulation Act, 1949.

## Regulation

- The Payments Bank will be registered as a public limited company under the Companies Act, 2013. It is governed by the provisions of the Banking Regulation Act, 1949; RBI Act, 1934; Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007, other relevant Statutes and Directives.
- They need to maintain a Cash Reserve Ratio (CRR).
- Required to invest a minimum 75% of its "demand deposit balances" in Statutory Liquidity Ratio (SLR) eligible Government securities/treasury bills with maturity up to one year.
- Need to hold maximum 25% in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

## Other Important Provisions

- **Capital requirement:** The minimum paid-up capital for payments bank is Rs 100 crore.
- **Promoter's contribution:** Minimum initial contribution to the paid-up equity capital shall at least be 40% for the first five years from the commencement of its business.
- **Foreign shareholding:** The foreign shareholding in the payments bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.

## Important Terms

- **Promoter:** A person involved in setting up and funding a new company.
- **Credit Risk:** Risk of loss or default which arises from the debtor being unlikely to repay the loan amount.
- **Paid-up Capital:** Amount of money for which shares of the Company were issued to the shareholders and payment was made by the shareholders.

**Read TTP on India Post Payment Bank**