Payment Banks- History & Regulations (UPSC Notes)

Payments bank is a new form of bank-created under the purview of the Reserve Bank of India (RBI). Payments banks can accept a limited deposit of ₹100,000 per customer and may be increased further. These banks cannot lend loans and issue credit cards but they can offer services such as net banking, ATM cards, debit banks and Mobile Banking.

Payment Bank is an important topic for the IAS Exam and forms an important part of the UPSC Syllabus. Candidates can also download the notes PDF at the end of this article.

History of Payment Banks

The Committee on Comprehensive Financial Services for Small Business and Low-Income Households, headed by Nachiket Mor, was formed on September 2013 by the RBI. The committee submitted its final recommendation on January 7th, 2014 which elaborated upon the formation of a new type of bank called payment bank. In July the same year, the RBI created a draft for guidelines that would govern payments bank while inviting comments from major stakeholders and the general public. The final guidelines were issued on 27th November 2014.

In February 2015, RBI released the list of entities which had applied for a payment bank licence. There were 41 applicants. It was also announced that an external advisory committee (EAC) headed by Nachiket Mor would evaluate the licence applications. On 28 February 2015, during the presentation of the Budget, it was announced that India Post will use its large network to run payment bank. The external advisory committee headed by Nachiket Mor submitted its findings on 6 July 2015. The applicant entities were examined for their financial track record and governance issues. On 19 August 2015, the Reserve Bank of India gave "in-principle" licences to eleven entities to launch payment banks. The "in-principle" license was valid for 18 months within which the entities must fulfil 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.

Regulations under Payment Bank

The minimum capital requirement is 100 crore. For the first five years, the stake of the promoter should remain at least 40%. The foreign shareholding will be allowed in these banks as per the rules for FDI in private banks in India. The voting rights will be regulated by the Banking Regulation Act, 1949. The voting right of any shareholder is capped at 10%, which can be raised to 26% by Reserve Bank of India. 25% of its branches must be in the unbanked rural area. The bank must use the term "payment bank" in its name to differentiate it from other types of bank. The banks will be licensed as payment banks under Section 22 of the Banking

Regulation Act, 1949, and will be registered as a public limited company under the Companies Act, 2013.

Payment Banks forms an important topic under the Economics section for the Civil Service Exam. Candidates preparing for UPSC 2020 are also advised to keep a track on the latest current affairs topics related to several economic developments in the country.

What is Differentiated Banking?

Differentiated banking refers to the condition where the banking system is classified under two groups namely Payment banks and Small banks where both these groups have the common objective of extending financial inclusion. As per the estimates, almost 40 per cent of the population do not have access to any form of banking which directs ones attention towards promoting financial literacy.

The entities eligible to start their business as per the RBI directives as Payment Banks includes non-banking prepaid instrument issuers, mobile telecom companies, Non-Banking Finance Companies(NBFC), corporate business correspondents, co-operatives and supermarket chains. NBFC's, microfinance institutions, individuals with experience of banking and finance societies for ten years and local area banks qualify for starting Small Banks.

The minimum paid-up capital required in both cases of payment and small banks is Rs. 100 crore. In order for this system to be effective, these banks have to fulfil certain criteria. The Differentiated Banks would have to maintain higher capitalization levels in comparison to the scheduled commercial banks. These banks are also supposed to be high-tech organisations along with maintaining a balance between technology and serving underprivileged customers. Hence with the aid of the digital revolution, financial inclusion is set to be a reality via the proposed banking system.