

Indian Banking witnessing Paradigm Shift

■ *Rajesh Agarwal*

In September 2013, a “Committee on Comprehensive Financial Services for Small Businesses and Low Income Households”, headed by Nachiket Mor, was formed by Reserve Bank of India (RBI). By January 2014, the Nachiket Mor Committee submitted its final report and one of its recommendations was the formation of a new category of bank called payments banks.

The RBI in a step to redefine banking in India has granted ‘in principle’ approval for payment banks to 11 entities. Payment Banks are basically a smaller version of banks, which are expected to reach customers mainly through their mobile phones rather than traditional bank branches. A payments bank is a type of non-full service that can only receive and provide. It cannot carry out activities. Payment banks can accept deposits restricted to ₹1 lakh per customer, and are allowed to pay interest on the money that is being deposited. This type of bank is targeted at, low income households, and other unorganised sector entities. Given India’s geographical spread these payment banks can use the mobile platform to provide basic banking transactions, payment for services and subsidies through mobile phones.

The motive of creating these payment banks is to bring about, by making it easier for anyone to get a bank account. It will facilitate people to send money home to smaller towns and villages while working in the city. This is also very important when considered from the perspective of financial inclusion, as someone could now deposit cash into a payment bank account in Mumbai, and his family in Bhagalpur could withdraw cash from any ATM, or even in a further remote rural hamlet through a local kirana store or the prepaid mobile recharge outlet who acts as an authorized partner for the bank. This will help banking services to reach the remotest corner of the country over the medium and long term with huge economic benefits. The new payment banks will make people less dependent on cash, even for small sums, and since a mobile wallet could be a bank account soon, this move could, over time, have a big impact on m-commerce. This means, over time, the mobile phone will perform the same role as credit and debit cards.

India with 630,000 villages, towns and cities has less than 100,000 bank branches thereby leaving a huge vacuum in the banking system and this seems to be a first step towards the government’s efforts to provide banking services to as many as possible. The day is not too far when physical cash will no longer be necessary for making payments. While on the one hand this will act as a boon to people who generally

Entities that received the approval

- 1 Aditya Birla Nuvo
- 2 Airtel M Commerce Services
- 3 Cholamandalam Distribution Services
- 4 Department of Posts
- 5 FINO PayTech
- 6 National Securities Depository
- 7 Reliance Industries
- 8 Dilip Shanghvi, (founder of Sun Pharmaceuticals)
- 9 Vijay Shekhar Sharma, (CEO of Paytm)
- 10 Tech Mahindra
- 11 Vodafone M-Pesa

do not have access to banking system it would also help in curbing black money menace. The entire credit goes to RBI and government in its determination to reach the unbanked population. The success of the payment banks though would depend on the ability to generate volumes, keeping low overheads, adapting to new technology, and on the ability to extract fees from clients. Payment technologies have proved hugely popular in other developing countries. In Kenya, the most cited success story, Vodafone’s M-Pesa is used by two in three of adults to store money, make purchases and transfer funds to friends and relatives.

As per the Finance Minister Arun Jaitley, “Payments banks will change the banking habits of people, it will change the way they think, it will change the way they keep the money, where they keep their money, it will change the way they pay.” Going ahead, banking is going to be more of technology-enabled and effort is now on to expand banking to every unbanked corners of the society, he added.

The impact on the existing players in the banking industry will be minimal because their investments in technology, customer acquisition have already been done, moreover they offer much wider range of services when compared to payment banks and not to forget that some of the private sector banks have already tied up with some of the companies that have got approval. The payment banks will be an add-on to the banks rather than competitors, said RBI Governor Mr. Raghuram Rajan. Payments banks will act as feeders to universal banks. The payments banks have been permitted to do only a few limited functions that are much fewer than universal banks. ■

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