



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2016-17/80

DBR.NBD.No.25/16.13.218/2016-17

October 6, 2016

Chief Executive Officers of Payments Banks

Madam / Dear Sir,

Operating Guidelines for Payments Banks

Please refer to the [Guidelines for Licensing of Payments Banks \('Licensing Guidelines'\) dated November 27, 2014](#), under which in-principle approvals/ licences were issued to the applicants for setting up of the payments banks.

2. The need for separate Operating Guidelines for payments banks was examined, considering the differentiated nature of business and financial inclusion focus of these banks. Accordingly, the Operating Guidelines for payments banks are given in the Annex.
3. The prudential frameworks for market risk and operational risk are being examined and the instructions in this regard will be issued separately.
4. These Operating Guidelines are supplementary to the Licensing Guidelines and take immediate effect.

Yours faithfully,

(S S Barik)
Chief General Manager-in-Charge



Operating Guidelines for Payments Banks

1. Prudential regulation

The prudential regulatory framework for payments banks (PBs) will largely be drawn from the Basel standards. However, given the financial inclusion focus of these banks, it will be suitably calibrated.

1.1 Capital adequacy framework

Minimum Capital Requirement	15%
Common Equity Tier 1	6%
Additional Tier I	1.5%
Minimum Tier I capital	7.5%
Tier 2 capital	7.5%
Capital Conservation Buffer	Not Applicable
Counter-cyclical capital buffer	Not applicable
Pre-specified Trigger for conversion of AT1	CET1 at 6% up to March 31, 2019, and 7% thereafter

1.2 Large exposures limits (for investments in deposits of scheduled commercial banks)

The exposure in this regard to an individual scheduled commercial bank shall not be more than five per cent of the total outside liabilities of the PB.

1.3 Capital measurement approaches

Credit Risk	Basel II Standardized Approach for credit risk
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1.4 Inter-bank borrowings

PBs will be permitted to participate in the call money and CBLO market as both borrowers and lenders. These borrowings would, however, be subject to the limit on call money borrowings as applicable to scheduled commercial banks.

1.5 Investment classification and valuation norms

- (i) PBs shall, on any given day, maintain a minimum investment to the extent of not less than 75 per cent of 'demand deposit balances' - DDB (including the earnest money deposits of BCs) as on three working days prior to that day, in Government securities/Treasury Bills with maturity up to one year that are recognized by RBI as eligible securities for maintenance of Statutory Liquidity Ratio (SLR).



- (ii) Further, PBs shall, on any given day, maintain balances in demand and time deposits with other scheduled commercial banks, which shall not be more than 25 per cent of its DDB (including the earnest money deposits of BCs) as on three working days prior to that day.
- (iii) The investments and deposits made according to (i) and (ii) above, together shall not be less than 100 per cent of the DDB (including the earnest money deposits of BCs) of the PB unless it is less to the extent of balances kept with RBI.
Note: Balances with other scheduled commercial banks in excess of 25 per cent of DDB (including the earnest money deposits of BCs), is permissible to the extent the excess amount is sourced from funds other than DDB (including the earnest money deposits of BCs).
- (iv) PBs will not be allowed to classify any investment, other than those made out of their own funds, as HTM category. The investments made out of their own funds shall not, in any case be, in assets or investments in respect of which the promoter / a promoter group entity is a direct or indirect obligor.
- (v) PBs will not be allowed to participate in 'when issued' and 'short sale' transactions.
- (vi) PBs will be permitted to invest in bank CDs within the limit applicable to bank deposits.
- (vii) The other directions on the subject as applicable to scheduled commercial banks (see the [Master Circular RBI/2015-16/97 DBR No BP.BC.6/21.04.141/2015-16 dated July 1, 2015](#) and the circulars issued thereafter).

1.6 Restrictions on loans and advances (including lending to NBFCs) including regulatory limits

PBs will not be permitted to lend to any person including their directors. However, PBs may lend to their own employees out of the bank's own funds, as per a Board approved policy outlining the caps on such loans.

1.7 Para-banking activities

PBs will not be permitted to undertake any para-banking activity except those allowed as per the Licensing Guidelines and the related FAQs issued.

1.8 Product approval

- (i) At the time of submitting application for licence, the PBs should submit to RBI a list of financial products they intend to offer with a clear description.



- (ii) Any new products proposed to be introduced thereafter should be intimated to RBI for information. If required, RBI may place suitable restrictions on the design, functioning, or other features of the product including discontinuing the product.

2. Risk management

2.1 Credit risk management including credit concentration risk

Not applicable, except as indicated in para. 1.3.

2.2 Market risk management

The provisions regarding market risk management for PBs will be as applicable to commercial banks. PBs will be permitted to use derivatives only for the purpose of hedging their foreign currency positions arising out of the activities conducted under the AD Category II authorization.

2.3 Operational risk management

Payment Banks should implement the operational risk management requirements, issued by RBI for scheduled commercial banks for operational risk, including collection of operational loss data.

2.4 Liquidity risk management

The provisions regarding liquidity risk management shall be as applicable to scheduled commercial banks, with suitable enhancements to take into account the liquidity risk profile of PBs.

2.5 Strategic and reputational risk management

The provisions regarding strategic and reputational risk management shall be as applicable to scheduled commercial banks, with suitable enhancements to take care of the reputational risk arising from use of agents.

2.6 Internal controls, audit and compliance

The provisions regarding internal controls, audit and compliance by the PBs shall be as applicable to scheduled commercial banks, with suitable enhancements to take care of the ICT related aspects and operations through agents.

3. CRR, SLR, disclosures and statutory/regulatory reports

For PBs, the CRR and SLR requirements and the various disclosures and statutory/regulatory reports will be as applicable to commercial banks (see the [Master Circular RBI/2015-16/98 DBR.No.Ret.BC.24/12.01.001/2015-16 dated July 1, 2015](#) and the circulars issued thereafter).



4. Ownership and control regulations

The extant provisions in this regard as applicable to private sector banks, as covered in the Master Directions on Issue and Pricing of shares by Private Sector Banks [DBR.PSBD.No.95/16.13.100/2015-16 dated April 21, 2016](#) and Master Directions on Ownership in Private Sector Banks [DBR.PSBD.No. 97/16.13.100/2015-16 dated May 12, 2016](#), shall be applicable to PBs as well, except what is provided in the existing regulation contained in the Licensing Guidelines.

5. Corporate governance

5.1 Constitution and functioning of board of directors

The extant provisions as applicable to banking companies shall be applicable to PBs as well. Specifically in the case of converting entities, the terms and conditions of appointment of existing Directors will be grandfathered till completion of their present term.

5.2 Constitution and functioning of committees of the board, management level committees, remuneration policies

The extant provisions in this regard as applicable to private sector banks, shall be applicable to PBs as well.

6. Banking Operations

6.1 Authorization of Access Points

- (i) The annual plans for opening of physical access points by the PBs for the initial five years would need prior approval of RBI. The first of such plan shall be submitted to RBI before commencement of business. After the initial stabilisation period of five years, and after a review, RBI may liberalize the requirement of prior approval.
- (ii) An employee of the PB should be available for sufficient duration, at a fixed location known to the customers at the district level, to attend to customer grievances and support the agent supervision. This fixed location may also be used to conduct the banking business of the PB, and it will be considered as a physical access point for the purposes of assessing the requirement of opening at least 25 per cent physical access points in rural centres.

6.2 Regulation of Business Correspondents

- (i) The PBs can engage all permitted entities including the companies owned by their business partners and own group companies on an arm's length basis as "BCs". These



companies can have their own branches managed by their employees operating as “access points” or may engage other entities/persons to manage the “access points” which could be managed by the latter’s staff. In the above cases, from the regulatory perspective, the bank will be responsible for the business carried out at the ‘access points’ and the conduct of all the parties in the chain regardless of the organizational structure including any other intermediaries inserted in the chain to manage the BC network.

- (ii) Inter-operability of the BCs will be allowed except for opening of savings and current accounts.
- (iii) BCs cannot undertake any offline transactions. Consequently, BCs cannot undertake transactions if there is no internet connectivity.
- (iv) The PBs will be exempted from the requirement of having a base branch for a certain number of BCs/access points managed by BCs as currently stipulated in the RBI guidelines to scheduled commercial banks.

Note: It is clarified that in cases where a PB is acting as the BC for a bank, the BC engaged by the PB shall not open deposit accounts for the partner bank for whom the PB acts as the BC or undertake KYC documentation for that bank.

6.3 Bank charges, lockers, nominations, facilities to disabled persons, etc.

The extant provisions in this regard as applicable to scheduled commercial banks, shall be applicable to PBs as well.

7. Bank deposits

- (i) As provided in the current RBI directions, PBs can accept only savings and current deposits. The aggregate limit per customer shall not exceed ₹100,000, as provided in the Licensing Guidelines. However, the RBI will have no objection to the PBs making arrangements with any other scheduled commercial bank / SFB, for amounts in excess of the prescribed limits, to be swept into an account opened for the customer at that bank. This arrangement should be activated with the prior written consent of the customer.
- (ii) The above limit shall apply to customer deposits and not to any security/earnest money deposit the bank may collect from any of its service providers in the ordinary course of business.
- (iii) All RBI and BR Act provisions and RBI directions relating to minimum balance, inoperative accounts, unclaimed deposits including transfer of such deposits to the



Depositors Education and Awareness Fund maintained by RBI on regular basis, nominations, cheques/drafts, etc., will be applicable to the PBs.

(iv) Payments Banks:

- need not issue passbooks for the deposit accounts;
- may provide statement of account in paper form on request on chargeable basis, or otherwise;
- may provide account information through multiple user friendly modes such as SMS and/or internet banking; and
- should provide electronic confirmation through SMS/e-mail/printed proof for each account transaction.

8. KYC requirements

- (i) At their discretion, PBs may (like all other banks) decide not to take the wet signature while opening accounts and instead rely upon the electronic authentication/confirmation of the terms and conditions of the banking relationship/account relationship keeping in view their confidence in the legal validity and authenticity of such authentications/confirmations. However, all the extant regulations concerning KYC including those covering the Central KYC Registry, and any subsequent instructions in this regard, as applicable to commercial banks, would be applicable to PBs.
- (ii) PBs should ensure that every customer, including customers of mobile companies on-boarded comply with the KYC regulations, which could include simplified account opening procedures. It is clarified here that if the KYC done by a telecom company, which is a promoter / promoter group entity of the PB, is of the same quality as prescribed for a banking company, PBs may obtain the KYC details of the customer from that telecom company, subject to customer consent.

9. Foreign exchange business

Payments Banks shall:

- comply with all the conditions attached with the AD Cat II licence that will be issued by the FED, CO.
- implement the provisions of Foreign Contribution (Regulation) Act, 2010 (As applicable to commercial banks).



10. Other banking services

10.1 Currency distribution(covering detection of forged and counterfeit notes, currency chest facilities, facilities for exchange of notes)

PBs may, at their option, exchange mutilated and defective notes at their branches, subject to compliance with RBI norms.

10.2 Customer education and protection

- (i) All customer grievance issues related to a particular access point should be addressed both at the access point and at the district level location mentioned above at paragraph 6.1 (ii).
- (ii) PBs will be covered by the Banking Ombudsman (BO) Scheme.
- (iii) The mechanism put in place by PBs to effectively resolve customer complaints and its communication to customers, and role of different levels (access point, controlling office (centre at the district level), and head office) in grievance redressal should be clearly communicated to RBI along with the application for licence.
- (iv) The customer service policy approved by the boards of the PBs should provide for continuous and intensive monitoring of redressing of customer grievance by the PBs.
- (v) RBI will closely supervise the grievance redress system of the bank through both onsite and off-site surveillance system.

11. Outsourcing of operations, internet banking and mobile banking

- (i) The extant provisions in this regard as applicable to scheduled commercial banks, shall be applicable to PBs as well.
- (ii) Loading of PPI balances through other bank credit cards will be permitted.

12. Implementation of Ind AS

Implementation of Ind AS would be applicable to PBs once they become scheduled banks. In view of the same, it is recommended that the PBs start adoption of the same in order to avoid transition costs subsequently.
