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RBI grants "in-principle" approval to 11 Applicants for Payments Banks

The Reserve Bank of India has today decided to grant "in-principle" approval to the following 11 applicants to set up payments banks under the Guidelines for Licensing of Payments Banks issued on November 27, 2014 (Guidelines).

1. Aditya Birla Nuvo Limited
2. Airtel M Commerce Services Limited
3. Cholamandalam Distribution Services Limited
4. 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

Selection process

The process for selecting the applicants has been as follows:

First, a detailed scrutiny was undertaken by an External Advisory Committee (EAC) under the Chairmanship of Dr. Nachiket Mor, Director, Central Board of the Reserve Bank of India. The recommendations of the EAC were an input to an Internal Screening Committee (ISC), consisting of the Governor and the four Deputy Governors. This Internal Screening Committee prepared a final list of recommendations for the Committee of the Central Board (CCB), after independently scrutinising all the applications. At its meeting on August 19, 2015, the CCB went through the applications, informed by the recommendations of the EAC and the ISC, and approved the announced list of applicants.

In arriving at the final list, the CCB noted that it would be difficult at this stage to forecast the most successful likely model in the emerging business of payments. The CCB further noted that payments banks cannot undertake lending, and therefore believed that the payments bank would not be subject to the same risks as a full service bank. Therefore, the CCB evaluated applicants to assess whether there would be unacceptable risk even to the narrower functions of a payments bank. It has selected entities with experience in different sectors and with different capabilities so that different models could be tried. It did ensure that all the selected applicants have the reach and the technological and financial strength to service hitherto excluded customers across the country. Nevertheless, the in-principle approvals are subject to the condition {(15 (v)} in the guidelines, including any developments in on-going cases.

Going forward, the Reserve Bank intends to use the learning from this licensing round to appropriately revise the Guidelines and move to giving licences more regularly, that is, virtually "on tap". The Reserve Bank believes that some of the entities who did not qualify in this round, could well be successful in future rounds.

Background

It may be recalled that on August 27, 2013, the Reserve Bank placed on its website, a policy discussion paper on *Banking Structure in India – The Way Forward*. One of the observations in the discussion paper was that there is a need for niche banking in India, and differentiated licensing could be a desirable step in this direction, particularly for infrastructure financing, wholesale banking and retail banking.

Subsequently, *the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households* (Chairman: Dr. Nachiket Mor) in its report released in January 2014 examined the issues relevant to an ubiquitous payment network and universal access to savings and recommended the licensing of payment banks to offer financial services to the hitherto excluded segments of the population.

In the Union Budget 2014-2015 presented on July 10, 2014, the Hon'ble Finance Minister announced that:

> *"After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in the private sector in the current financial year. RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force".*

Draft guidelines for licensing of payments banks were released for public comments on July 17, 2014. Based on the comments and suggestions received on the draft guidelines, final guidelines for licensing of payments banks were issued on November 27, 2014. The Reserve Bank also issued clarifications to the queries (numbering 144) on the guidelines on January 1, 2015. The Reserve Bank received 41 applications for payments banks.

Details of "in-principle" approval

The "in-principle" approval granted will be valid for a period of 18 months, during which time the applicants have to comply with the requirements under the Guidelines and fulfil the other conditions as may be stipulated by the Reserve Bank.

On being satisfied that the applicants have complied with the requisite conditions laid down by it as part of “in-principle” approval, the Reserve Bank would consider granting to them a licence for commencement of banking business under Section 22(1) of the Banking Regulation Act, 1949. Until a regular licence is issued, the applicants cannot undertake any banking business.

Additional Details

The guidelines provided that after initial screening for prima facie eligibility, the applications would be referred to an External Advisory Committee (EAC) constituted for the purpose. Accordingly, to screen the applications, and to recommend licences only to those applicants who comply with the Guidelines, the Reserve Bank, on February 4, 2015, set up an EAC chaired by Dr. Nachiket Mor, Director, Central Board of Reserve Bank of India. EAC had three members: Ms. Roopa Kudva, former MD & CEO, CRISIL Limited, Ms. Shubhalakshmi Panse, former Chairman & Managing Director, Allahabad Bank and Dr. Deepak Phatak, Chair Professor, IIT Bombay. Later, as Ms Roopa Kudva, recused herself from the Committee the Reserve Bank, in May 2015, appointed Shri Naresh Takkar, Managing Director & Group CEO, ICRA Limited to the Committee.

As stipulated in the Guidelines, the EAC set up its own procedures for screening the applications including calling for more information, wherever required. The applications were screened for financial soundness, i.e., five year track record of the promoter and the key entities of the promoter group. The assessment also included governance issues with a focus on ‘fit and proper’ criteria for promoters based on due diligence reports and/or any other information indicating deliberate and repeated violations of law/regulations; significant Incremental contribution in terms of existing and demonstrated physical rural reach, business model innovation, technological and operational capability indicating a model that can handle the required volumes of transactions and money with a high degree of demonstrated fidelity and safety; and proposed business plan in terms of product mix, innovative technological solutions, geographic access and viable financial plan. In order to facilitate assessment of outreach and capability for handling low value high volume transactions, additional data was called for from applicants and was considered by EAC for arriving at the decisions. The EAC submitted its report on July 06, 2015.

Alpana Killawala
Principal Chief General Manager

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