

Reserve Bank of India
Guidelines for Licensing of “Payments Banks”

November 27, 2014

I. Preamble

The Reserve Bank of India (RBI) issues licences to entities to carry on the business of banking and other businesses in which banking companies may engage, as defined and described in Sections 5 (b) and 6 (1) (a) to (o) of the Banking Regulation Act, 1949, respectively.

The last time when RBI came out with a set of guidelines for licensing of new banks in the private sector was in February 2013. The process of licensing culminated with the announcement by the RBI vide [its Press Release dated April 2, 2014](#) that it would grant “in-principle” approval to two applicants who would set up new banks in the private sector within a period of 18 months.

While announcing the decision to grant “in-principle” approval to the two applicants, the RBI indicated in its above Press Release that going forward, RBI intends to use the learning experience from this licensing exercise to revise the guidelines appropriately and move to grant licences more regularly. Further, RBI would work on a policy of having various categories of “differentiated” bank licences which will allow a wider pool of entrants into banking.

In this context, it may be mentioned 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.

Similarly, *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 payments network and universal access to savings and recommended, inter alia, that given the difficulties being faced by the Pre-paid Payment Instruments Issuers (PPI issuers), and the underlying prudential concerns associated with this model, the existing and new PPI issuer applicants should instead be required to apply for a payments bank licence or become Business Correspondents (BCs).

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”.

Taking the above into account that there is a need for niche banking in India, and differentiated licensing could be a desirable step in this direction, [draft guidelines for licensing of payments banks in the private sector were formulated and released for public comments on July 17, 2014.](#) Based on the comments and suggestions received on the draft guidelines, the following guidelines for licensing of payments banks have been finalised.

II. Guidelines

1. Registration, licensing and regulations

The payments bank will be registered as a public limited company under the Companies Act, 2013, and licensed under Section 22 of the Banking Regulation Act, 1949, with specific licensing conditions restricting its activities mainly to acceptance of demand deposits and provision of payments and remittance services. It will be governed by the provisions of the Banking Regulation Act, 1949; Reserve Bank of India Act, 1934; Foreign Exchange Management Act, 1999; Payment and Settlement Systems Act, 2007; Deposit Insurance and Credit Guarantee Corporation Act, 1961; other relevant Statutes and Directives, Prudential Regulations and other Guidelines/Instructions issued by RBI and other regulators from time to time. The payments bank will be given scheduled bank status once it commences operations, and is found suitable as per Section 42 (6) (a) of the Reserve Bank of India Act, 1934.

2. Objectives

There is a need for transactions and savings accounts for the underserved in the population. Also remittances have both macro-economic benefits for the region receiving them as well as micro-economic benefits to the recipients. Higher transaction costs of making remittances diminish these benefits. Therefore, the primary objective of setting up of payments banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments / remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users, by enabling high volume-low value transactions in deposits and payments / remittance services in a secured technology-driven environment.

3. Eligible promoters

The existing non-bank Pre-paid Payment Instrument (PPI) issuers authorised under the Payment and Settlement Systems Act, 2007 (PSS Act); and other entities such as individuals / professionals; Non-Banking Finance Companies (NBFCs), corporate BCs, mobile telephone companies, super-market chains, companies, real sector cooperatives; that are owned and controlled by residents; and public sector entities may apply to set up payments banks.

Existing PPI licence holders could opt for conversion into payments banks. It is not mandatory for an existing PPI issuer to apply for a payments bank licence and it may continue as a PPI issuer as per the guidelines issued by RBI from time to time.

A promoter / promoter group can have a Joint Venture with an existing scheduled commercial

bank to set up a payments bank. However, scheduled commercial bank can take equity stake in a payments bank to the extent permitted under Section 19 (2) of the Banking Regulation Act, 1949.

If a Government entity desires to set up a payments bank, it should first obtain necessary approvals from the Government and submit its application.

If the promoter succeeds in obtaining a payments bank licence from the RBI after due process, it would be required to set up the payments bank under a separate corporate structure unless it is an existing PPI licence holder opting for conversion into a payments bank.

The entities and their Promoters / Promoter Groups as defined in the SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009 should be 'fit and proper' in order to be eligible to promote payments banks. RBI would assess the 'fit and proper' status of the applicants and group entities on the basis of their past record of sound credentials and integrity; financial soundness and successful track record of at least 5 years professional experience or in running their businesses.

4. Scope of activities

The payments bank will be set up as a differentiated bank and shall confine its activities to further the objectives for which it is set up. Therefore, the payments bank would be permitted to set up its own outlets such as branches, Automated Teller Machines (ATMs), Business Correspondents (BCs), etc. to undertake only certain restricted activities permitted to banks under the Banking Regulation Act, 1949, as given below:

- i. Acceptance of demand deposits, i.e., current deposits, and savings bank deposits from individuals, small businesses and other entities, as permitted. No NRI deposits should be accepted. The eligible deposits mobilised by the payments bank would be covered under the deposit insurance scheme of the Deposit Insurance and Credit Guarantee Corporation of India (DICGC). Given that their primary role is to provide payments and remittance services and demand deposit products to small businesses and low-income households, payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer. After the performance of the payments bank is gauged, RBI may consider raising the maximum balance limit. However, payments bank can accept a large pool of money to be remitted to a number of accounts provided at the end of the day the balance does not exceed Rs. 100, 000. If the transactions in the accounts conform to the "small accounts"¹ transactions, simplified KYC/AML/CFT norms will be applicable to

¹ In terms of Rule 2 clause (fb) of the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005 (Notification No. 14/2010/F.No.6/2/2007-E.S dated December 16, 2010) 'small account' means a savings account in a banking company where:

- i. the aggregate of all credits in a financial year does not exceed rupees one lakh;
- ii. the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand; and
- iii. the balance at any point of time does not exceed rupees fifty thousand.

such accounts as defined under the Rules framed under the Prevention of Money-laundering Act, 2002. The payments bank will have to undertake its own KYC/AML/CFT exercise as any other bank.

- ii. Issuance of ATM / Debit Cards. Payments banks, however, cannot issue credit cards.
- iii. Payments and remittance services through various channels including branches, Automated Teller Machines (ATMs), Business Correspondents (BCs) and mobile banking. The payments / remittance services would include acceptance of funds at one end through various channels including branches and BCs and payments of cash at the other end, through branches, BCs, and ATMs. Cash-out can also be permitted at Point-of-Sale terminal locations as per extant instructions issued under the PSS Act. Payments banks can be part of any card payment network (other than credit cards) that is authorised under the PSS Act. In the case of walk-in customers, the bank should follow the extant KYC guidelines issued by the RBI.
- iv. Issuance of PPIs as per instructions issued from time to time under the PSS Act. However, the outstanding balances in PPIs will be deployed as per the pattern of deployment of funds indicated at paragraph 5 below.
- v. Internet banking - The RBI is also open to payments bank offering Internet banking services. The payments bank is expected to leverage technology to offer low cost banking solutions. Such a bank should ensure that it has all enabling systems in place including business partners, third party service providers and risk management systems and controls to enable offering transactional services on the internet. It may be clarified that RBI does not envisage payments banks to be “virtual” banks or branchless banks. Therefore, while offering internet banking services, the payments bank will be required to comply with RBI instructions on internet banking; and information security, electronic banking, technology risk management and cyber frauds.
- vi. Functioning as Business Correspondent (BC) of another bank – A payments bank may choose to become a BC of another bank, subject to the RBI guidelines on BCs.
- vii. As a channel, the payments bank can accept remittances to be sent to or receive remittances from multiple banks under a payment mechanism approved by RBI, such as RTGS / NEFT / IMPS.
- viii. Payments banks will be permitted to handle cross border remittance transactions in the nature of personal payments / remittances on the current account. All facilities / approvals incidental to undertaking such transactions in foreign exchange will be enabled by RBI on an application made to it.
- ix. Payments banks can undertake other non-risk sharing simple financial services activities, not requiring any commitment of their own funds, such as distribution of mutual fund

units, insurance products, pension products, etc. with the prior approval of the RBI and after complying with the requirements of the sectoral regulator for such products.

- x. The payments bank may undertake utility bill payments etc. on behalf of its customers and general public.

The payments bank cannot set up subsidiaries to undertake non-banking financial services activities. The other financial and non-financial services activities of the promoters, if any, should be kept distinctly ring-fenced and not comingled with the banking and financial services business of the payments bank.

The payments bank will be required to use the words "Payments Bank" in its name in order to differentiate it from other banks.

5. Deployment of funds

The payments bank cannot undertake lending activities. Apart from amounts maintained as Cash Reserve Ratio (CRR) with RBI on its outside demand and time liabilities, it will be required to invest minimum 75 per cent of its "demand deposit balances" 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) and hold maximum 25 per cent in current and time / fixed deposits with other scheduled commercial banks for operational purposes and liquidity management. The "balances outstanding under the PPIs issued" by the payments bank should be flexibly invested / deployed between SLR eligible Government securities/Treasury Bills and bank deposits (both demand and time) in such a manner that it is able to comply with the requirements of CRR and SLR on its "overall outside demand and time liabilities" including its deposit balances and outstanding balances in PPIs issued.

The payments bank will participate in the payment and settlement system and will have access to the inter-bank uncollateralised call money market and the collateralized repo and CBLO market for purposes of temporary liquidity management.

6. Capital requirement

The payments bank will not have significant credit and market risks. However, it will be exposed to operational risk. The payments bank will also be required to invest in technological infrastructure for its operations. Capital will be needed to buffer against operational risk and also utilised for creation of such fixed assets. Therefore, the minimum paid-up equity capital of the payments bank shall be Rs. 100 crore. The payments bank shall be required to maintain a minimum capital adequacy ratio of 15 per cent of its risk weighted assets (RWA) on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time. Tier I capital should be at least 7.5 per cent of RWAs. Tier II capital should be limited to a maximum of 100 per cent of total Tier I capital. However, as payments banks are not expected to deal with sophisticated products, the capital adequacy ratio will be computed under Basel Committee's standardised approaches.

As the payments bank will not have significant risk weighted assets, its compliance with a minimum capital adequacy ratio of 15 per cent would not reflect the true risk. Therefore, as a backstop measure, the payments bank should have a leverage ratio of not less than 3 per cent, i.e., its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).

7. Promoters' contribution

Since a payments bank cannot undertake lending activities, it is not mandatory for it to have a diversified ownership structure. Therefore, no maximum shareholding limit for promoters is prescribed. However, the promoters of the payments bank should hold at least 40 per cent of its paid-up equity capital for the first five years from the commencement of its business. If the payments bank is set up as a joint venture with equity partnership with a scheduled commercial bank, the scheduled commercial banks can take equity stake in a payments bank to the extent permitted under Section 19 (2) of the Banking Regulation Act, 1949. When the payments bank reaches the net worth of Rs.500 crore, and therefore becomes systemically important, diversified ownership and listing will be mandatory within three years of reaching that net worth. However, payments banks having net worth of below Rs.500 crore could also get their shares listed voluntarily, subject to fulfillment of the requirements of the capital markets regulator.

8. 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. As per the current FDI policy, the aggregate foreign investment in a private sector bank from all sources will be allowed upto a maximum of 74 per cent of the paid-up capital of the bank (automatic upto 49 per cent and approval route beyond 49 per cent to 74 per cent). At all times, at least 26 per cent of the paid-up capital will have to be held by residents. In the case of Foreign Institutional Investors (FIIs) / Foreign Portfolio Investors (FPIs), individual FII / FPI holding is restricted to below 10 per cent of the total paid-up capital, aggregate limit for all FIIs /FPIs / Qualified Foreign Investors (QFIs) cannot exceed 24 per cent of the total paid-up capital, which can be raised to 49 per cent of the total paid-up capital by the bank concerned through a resolution by its Board of Directors followed by a special resolution to that effect by its General Body. In the case of NRIs, the individual holding is restricted to 5 per cent of the total paid-up capital both on repatriation and non-repatriation basis and aggregate limit cannot exceed 10 per cent of the total paid-up capital both on repatriation and non-repatriation basis. However, Non-Resident Indian (NRI) holding can be allowed upto 24 per cent of the total paid-up capital both on repatriation and non-repatriation basis provided the banking company passes a special resolution to that effect in the General Body.

9. Voting rights and transfer/acquisition of shares

As per Section 12 (2) of the Banking Regulation Act, 1949, any shareholder's voting rights in private sector banks are capped at 10 per cent. This limit can be raised to 26 per cent in a phased manner by the RBI. Further, as per Section 12B of the Act *ibid*, any acquisition of 5 per cent or more of paid-up share capital in a private sector bank will require prior approval of RBI. This

will also apply to the payments banks.

10. Prudential norms

As the payments bank will not have loans and advances in its portfolio, the prudential norms and regulations of RBI as applicable to loans and advances, will therefore, not apply to it. However, the payments bank will be exposed to operational risk and should establish a robust operational risk management system. Further, it may face liquidity risk, and therefore is required to follow RBI's guidelines on liquidity risk management, to the extent applicable.

11. Business plan

The applicants for the payments banks licence will be required to furnish their business plans and project reports with their applications. The business plan will have to address how the bank proposes to achieve the objectives of setting up of payments banks. The business plan, inter alia, should cover aspects relating to business model proposed to be used; bank's access points in rural and semi-urban areas; control over its BCs and customer grievance redressal; joint venture partnership with a scheduled commercial bank, if any; etc. The business plan submitted by the applicant should be realistic and viable. Preference will be given to those applicants who propose to set up payments banks with access points primarily in the under-banked States / districts in the North-East, East and Central regions of the country. However, to be effective, the payments banks should ensure widespread network of access points particularly to remote areas, either through their own branch network, ATMs or BCs or through networks provided by others. The payments bank is expected to adapt technological solutions to lower costs and extend its network.

In case of deviation from the stated business plan after issue of licence, RBI may consider restricting the payment bank's expansion, effecting change in management and imposing other penal measures as may be necessary.

12. Corporate governance

- i. The Board of the payments banks should have a majority of independent Directors.
- ii. The bank should comply with the corporate governance guidelines including 'fit and proper' criteria for Directors as issued by RBI from time to time.

13. Other conditions

- i. The payments bank shall operate in remote areas mostly through BCs, ATMs and other networks. Therefore, the requirement of opening at least 25 per cent of branches in unbanked rural centres (population up to 9,999 as per the latest census), is not stipulated for them. However, the payments bank will be required to have at least 25 per cent of physical access points including BCs in rural centres. Further, a controlling office for a cluster of access points should also be established for control over various outlets and

customer grievance redressal.

- ii. The operations of the bank should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms; while new approaches (such as for data storage, security and real time data updation) are encouraged, a detailed technology plan for the same should be furnished to RBI.
- iii. The bank should have a high powered Customer Grievances Cell to handle customer complaints. The payments banks will come under the purview of RBI's Banking Ombudsman Scheme, 2006.
- iv. The compliance of terms and conditions laid down by RBI is an essential condition of grant of licence. Any non-compliance will attract penal measures including cancellation of licence of the bank.

14. Procedure for application

In terms of Rule 11 of the Banking Regulation (Companies) Rules, 1949, applications shall be submitted in the prescribed form (Form III). In addition, the applicants should furnish the business plan as per paragraph 11 and other requisite information as per Annex. Applications for setting up of payments banks, along with other details as mentioned above, contained in an envelope superscribed "Application for Payments Bank" should be addressed to:

The Chief General Manager
Department of Banking Regulation
Reserve Bank of India
Central Office, 13th Floor, Central Office Building
Shahid Bhagat Singh Marg
Mumbai -400001

Applications for payments banks will be received at the above address till the close of business hours as on January 16, 2015. After experience gained in dealing with the payments banks, applications will be received on a continuous basis. However, these guidelines are subject to periodic review and revision.

15. Procedure for RBI decisions

- i. The applications will be initially screened by RBI to ensure *prima facie* eligibility of the applicants. RBI may apply additional criteria to determine the suitability of applications, in addition to the prescribed 'fit and proper' criteria.
- ii. Thereafter an External Advisory Committee (EAC) comprising eminent professionals like bankers, chartered accountants, finance professionals, etc. will evaluate the applications. The names of the professionals in EAC will be placed on RBI's website.

- iii. The EAC will reserve the right to call for more information as well as have discussions with any applicant/s and seek clarification on any issue as may be required by it. The EAC will submit its recommendations to RBI for consideration. The decision to issue an in-principle approval for setting up of a bank will be taken by RBI. RBI's decision in this regard will be final.
 - iv. The validity of the in-principle approval issued by RBI will be eighteen months from the date of granting such in-principle approval and would thereafter lapse automatically. Therefore, the bank will have to be set up within eighteen months of grant of in-principle approval.
 - v. After issue of the in-principle approval for setting up of a bank, if any adverse features are noticed subsequently regarding the promoters or the companies/entities with which the promoters are associated and the group in which they have interest, the RBI may impose additional conditions and if warranted, it may withdraw the in-principle approval.
 - vi. In order to ensure transparency, the names of applicants for bank licences will be placed on the RBI website on receipt of the applications. The names of successful applicants will also be placed on the RBI website.
 - vii. Banking being a highly leveraged business, licences shall be issued on a very selective basis to those who conform to the above requirements, who have an impeccable track record and who are likely to conform to the best standards of customer service and efficiency. Therefore, it may not be possible for RBI to issue licences to all the applicants meeting the eligibility criteria prescribed above. RBI will adopt a cautious approach in licensing payments banks in the initial years, and with experience gained, may suitably revise the approach.
-

Additional information to be furnished

I. Existing Structure

1. Information on the individual promoter :

- a. Name of the promoter, date of birth, residential status, parents' names, PAN No., branch and bank account details including the credit facilities.
- b. Detailed information on the background and experience of the individual promoter, his/her expertise, track record of business and financial worth, details of promoter's direct and indirect interests in various entities/companies/industries, etc.

2. Information on the entity promoting the bank :

Shareholding pattern of the promoter entity, Memorandum and Articles of Association and financial statements of the promoter entity for the past five years (including a tabulation of important financial indicators for the said years), and income tax returns for last three years.

3. Information on the individuals and entities in the promoter group :

- a. Names of the individuals and entities, details of shareholding, management and corporate structure of all the entities, a pictorial organogram indicating the structure, shareholding and total assets of the entities.
- b. Annual reports of the past five years of all the group entities.
- c. Tabulation of names of all the individuals and entities in the promoter group (including financial, non-financial and overseas entities) with details of date of incorporation, Registered Office address, activity of the entity, PAN No., TAN No., CIN No., income tax circle to which the entity belongs, account number, branch and bank account details of the entities including the credit facilities and regulators of the entity (registration details in the case of entities regulated by SEBI), details of listing (on stock exchanges) of the entities in the group.

II. Proposed Structure

The applicants should furnish detailed information about the persons/entities, who would subscribe to 5 per cent or more of the paid-up equity capital (shareholding pattern) of the

proposed bank, including foreign equity participation, in the proposed bank and the sources of capital of the proposed investors.

III. Project Report

A project report covering business potential and viability of the proposed bank, the business plan², any other financial services proposed to be offered, etc. as per the guidelines, and any other information that is considered relevant. The business plan, *inter alia*, should cover aspects relating to business model proposed to be used; bank's access points in rural and semi-urban areas; control over its BCs and customer grievance redressal; joint venture partnership with a scheduled commercial bank, if any; etc. The project report should give as much concrete details as feasible, based on adequate ground level information and avoid unrealistic or unduly ambitious projections. The business plan should address how the bank proposes to achieve financial inclusion³.

IV. Any other information

The promoters may furnish any other relevant information and documents supporting the applications. Further, the RBI may call for any other additional information, as may be required, in due course.

² Business plan should, *inter alia*, include (but not limited to), the underlying assumptions, the existing infrastructure/ network/ branches, and the proposed product lines, target clientele, target locations, risk management, plans relating to human resources, branch network, alternative points of presence, usage of technology, financial projections for five years, etc.

³ Financial Inclusion Plan should include (but not limited to), details of joint venture or partnership for offering financial inclusion products, promoting financial literacy, achieving the objective of payments banks, etc.