



**RESEARCH PROJECT ON IDENTIFYING AND UNDERSTANDING COMPETITION AND REGULATORY BOTTLENECKS TO
GROWTH OF PAYMENTS BANKS IN INDIA**

Comparison between Project Recommendations and Operating Guidelines for Payments Banks

1. Background

CUTS International¹, with support from Bill & Melinda Gates Foundation, implemented a research project to identify and understand the regulatory and competition bottlenecks to growth of payments banks in India.²

The project involved close interactions with stakeholders, including payments banks licensees and the Reserve Bank of India. The recommendations under the research project were released in September 2016.

On 06 October 2016, the Reserve Bank of India issued operating guidelines for payments banks (operating guidelines).³ This document summarily compares the recommendations under the research project and changes made to the regulatory architecture of payments banks by the operating guidelines. However, it must be noted that determining the exact degree to which project recommendations are accepted (or not) by the RBI will require deeper analysis.

Further, no assessment of positive or negative impact of the changes made through operating guidelines has been conducted. Such analysis would also require in-depth review of operating guidelines and consultation with stakeholders/ sector experts for which additional resources would be required. The operating guidelines also cover issues not included in the recommendations. To that extent, such changes are not mentioned in this document.

2. Recommendations which have been accepted

The table below highlights the project recommendations which have been accepted, either wholly or partially, based on a summary review of the operating guidelines.

Comparison between project recommendations and operating guidelines for payments banks		
S. no	Project Recommendations	Operating Guidelines
1.	Allow payments banks to obtain KYC related customer details from other service providers, subject to customer consent. Allow payments banks to conduct additional KYC and avoid repetition of KYC exercise.	Payments banks should ensure that every customer, including customers of mobile companies on-boarded comply with the KYC regulations, which could include simplified account opening procedures. Payments banks are allowed to obtain KYC related customer details from telecom companies, which are part of promoter/ promoter group of payments banks, if KYC done by such telecom company is of same quality as prescribed for banking company.

¹ www.cuts-international.org

² <http://www.cuts-ccier.org/PaymentsBanks/>

³ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10635&Mode=0>

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S. no	Project Recommendations	Operating Guidelines
2.	Clarify that payments banks need not mandatorily offer passbooks	Payments banks need not offer passbooks for deposit accounts. They may provide statement of account in paper form on chargeable basis, as and when requested, and may provide account information through multiple user friendly modes. Payments banks should provide electronic confirmation through SMS/e-mail/ printed proof of each account transaction
3.	Clarify that payments banks need not mandatorily offer cheque books, and thus need not take wet signature	At their discretion, payments banks may (like all other banks) decide not to take the wet signature while opening of 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, provisions of the Banking Regulation Act, 1949 and RBI directions relating to cheques/drafts, etc., will be applicable to the payments banks.
4.	Clarify that payments banks can internally undertake data analysis	Payments banks cannot undertake any para-banking activity except those allowed as per licensing guidelines and the related FAQs. With respect to outsourcing of operations, the extant provisions as applicable to scheduled commercial banks shall be applicable to payments banks as well.
5.	Clarify the conditions subject to which payments banks can act as business correspondents (BCs) of universal banks	In cases where a payments bank is acting as BC for a bank, the BC engaged by the payment bank shall not open deposit accounts for the partner bank for which the payments bank acts as the BC or undertake KYC documentation for that bank.
6.	Allow maintaining a pool account at payments banks for deposits exceeding Rs. 100,000	RBI will have no objection to payments banks making arrangements with any other scheduled commercial bank / small finance bank, 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 prior written consent of the customer.
7.	Provide clarification in role of physical access points and controlling offices, with respect to customer protection and grievance redress	All customer grievance issues related to a particular access point should be addressed both at the access point and at the district level location. The mechanism put in place by payments banks 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.
8.	Allow interoperability between customer facing business correspondents	Interoperability of the BCs will be allowed except for opening of savings and current accounts.
9.	Clarify the extent to which regulations relating to branch	The annual plans for opening of physical access points by the payments banks for the initial five years would need

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	offices will be applicable to payments banks.	prior approval of RBI. Payments banks will be exempted from the requirement of having a base branch for a certain number of BCs/access points managed by BCs.

3. Other project recommendations

Several recommendations of medium and long term nature were made under the project, which appear to have not included in the operating guidelines, based on a summary review. The table below highlights such recommendations.

Other project recommendations	
1.	Allow submission of documents through digital means
2.	Allow consent through one time password route in e-KYC
3.	Allow opening of current accounts for small merchants based on individual KYC, without the need for entity related documents
4.	Discontinue the requirement to quote PAN/ submission of Form 60 for opening of accounts/ issuance of debit cards
5.	Central KYC Registry should not collect information other than that required to confirm identity and address. Also, allow submission of documents to CKYCR in a manner suitable for payments banks. ⁴
6.	Allow payments banks to offer differential interest rates
7.	Allow payments banks to offer time and recurring deposit services
8.	Allow payments banks to act as BCs of NBFCs
9.	Allow payments banks to obtain authorised dealer – category I license ⁵
10.	Work towards harmonization of KYC across sectors
11.	Work with competition regulator to prevent competition distortionary policies and practices
12.	Prevent competition distortionary policy and practice in utility bill payment market
13.	Facilitate limited access to application programming interface of KYC documents issuing government departments and banks
14.	Conduct periodic review of end of day customer limit and revision through tools like Regulatory Impact Assessment
15.	Create single window clearance and reporting mechanism for cross-selling
16.	Improve coordination between different regulators to prevent issuing conflicting regulations and imposing avoidable costs
17.	Clarify if issuance of ATM cards is mandatory and applicability of minimum free withdrawals at ATMs of other banks

⁴ The operating guidelines mention that 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 payments banks

⁵ The operating guidelines mention that the payments banks will receive authorised dealer category II license. They will need to comply with all conditions attached to such license and implement provisions of Foreign Contribution (Regulation) Act, 2010 (as applicable to commercial banks)