REPORT OF THE SEMINAR ON

"Understanding and Addressing Competition and Regulatory Barriers to Growth of Payments Banks"

Thursday, 7th July 2016, New Delhi

Background

CUTS International is implementing an evidence based research project, with support from Bill and Melinda Gates Foundation to identify key competition and regulatory bottlenecks for growth of payments banks in India.

Under the project, a seminar on "Understanding and Addressing Competition and Regulatory Barriers to Growth of Payments Banks" was organized on Thursday, 7th July, 2016, in New Delhi. The seminar was focused on understanding regulatory burden and facilitating growth of payments banks in India.

The seminar witnessed participation from Dr. M S Sahoo, Member, Competition Commission of India; Dr. Arvind Mayaram, former Finance Secretary, Government of India; Shinjini Kumar, CEO, Paytm Payments Bank; Bindu Ananth, senior industry practitioner, among others;

M K Venu**,** Editor, The Wire**;** Bindu Ananth, Chair - IFMR Trust; Mukesh Sadana, Project Management Specialist, USAID**,** T K Arun**,** Editor, Economic Times; Lara Gidvani**,** Regulatory Specialist, GSMA**;** Sumita Kale, Chief Economist, Indicus Centre for Financial Inclusion; and other key stakeholders.

Opening Session

Pradeep S Mehta, Secretary General, CUTS International, opened the seminar by stressing on the importance of differentiated banking for effective financial inclusion. He indicated that universal banks have not been able to achieve this objective and thus all stakeholders would need to come together to make differentiated banking model a success. He emphasised that a facilitative regulatory framework would be key in this regard, which should ensure level playing field. Highlighting CUTS strengthens in regulatory and competition review; he explained the objective of the project. Mehta concluded with highlighting that much more work needs to be done, including targeting non-technology savvy customers, identification and addressing challenges to uptake of digital technology, awareness generation and capacity building on digital financial services, and designing of right products and regulations.

Pawan Bakhshi, Senior Programme Officer, Bill and Melinda Gates Foundation, highlighted that use of cash in payments is a huge cost. The need to keep change, and the inability to do so, rob poor of the small amounts which they are capable of saving. He also mentioned that distance between customer and bank branch has been a barrier for the poor to access banking services. The cost of cash and distance impediment are expected to be addressed by payments banks. There is a need for collective action to help payments banks achieve a level playing field with other banks. Traditional banks have not been able to reach out to the last mile and payments banks have been conceived to address the challenges faced by such universal banks, and work towards effective financial inclusion. He also noted that trust needs to be built to enable poor to use formal financial services. At present, there is one business correspondent for four villages and it is difficult for such BC to service all such villages. The payments banks are expected to address such situation.

M S Sahoo, Member, Competition Commission of India, stressed upon the importance of competition in banking sector. He mentioned that owing to public interest and inherent risks involved in the banking sector, some standards/ conditions are imposed (like capital adequacy norms). Such conditions are important to prevent market failure. Once such conditions are satisfied no further requirements should be imposed and level playing field should be ensured amongst market players. He mentioned that in undertaking competition assessment each service i.e. savings, credit, and payments needs to be separately assessed, to ascertain relevant market and identify anti-competitive actions. Payment banks might face some problems which are common with universal banks, and a solution for all the banks will need to identify in such situations.

Shinjini Kumar, CEO, PayTM Payments Banks, highlighted that while treating similarly placed players differently is competition distortionary, so is treating differently placed players similarly. She mentioned that digital economy has the potential to take away layers of intermediation and reduce inconvenience for market players and consumers. The regulations should not interfere with this possibility. For instance, while aadhar based e-KYC is allowed which leverages digital technology, the regulations still require furnishing two photographs and the bank officers to physically verify the documents. In addition, the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) which is the central KYC registry for banking purposes, requires furnishing of additional information (like mother’s name, occupation) which is neither verifiable nor is required for the customer identification or address verification purposes. She added that KYC was the biggest cost item for payments banks and there was an urgent need to address such issues. The mobile phones are not used up to their capacity and the regulations must promote such usage. Industry does not want mobile numbers to be KYC but tiered KYC should be thought of in case of payments banks.

Arvind Mayaram, former Finance Secretary, Government of India, highlighted the difference in objective of KYC by securities markets regulators like SEBI and banking regulator, i.e. RBI, and observed that former was required to deal with foreign investors and the latter provides access to financial services. He further mentioned that aadhar is not yet fool proof and owing to lack of good internet connectivity and limited technological wherewithal it might not be possible to rely completely on aadhar. We also need to think of reaching out to those consumers who are not yet exposed to technology. Alternative modes of KYC must replicate the online KYC process. Also, there is a need to think about differentiated products like micro-saving instruments, which could keep poor interested in banking services. Changing of habits will also be required among consumers to make poor interested in accessing and using formal banking services.

Panel Discussion: Addressing Barriers to Growth of Payments Banks

Amol Kulkarni, Senior Policy Analyst, CUTS International, made a presentation on CUTS study to identify and understand the key competition and regulatory barriers to growth of payments banks in India. He mentioned that challenges faced by payments banks can be categorised in four broad heads: (i) Inherent limitations, (ii) ambiguity in guidelines, (iii) cost of compliance burden and (iv) customer inconvenience. He covered issues such as payments banks not being allowed to provide recurring and term deposits, the problems in customer migration and KYC, costs to put in place infrastructure and requirements and concerns with respect to data protection and privacy. He concluded with recommendations proposed under the study and issues for discussion during the panel discussion.

Bindu Ananth, Chair, IFMR Trust, while commenting on the presentation noted that the scope of activities of payments banks should be characterized as ‘features’ and need not to be considered ‘restrictions’ or ‘limitations’. Adding to this, she cleared that the difference between payments banks and other commercial banks is based only on two grounds: (i) it cannot lend and (ii) customer balance limit, and that these features require payments banks to focus on small and rural consumers. Further, she added that the issue of migration of customers is important, as it could be facilitated by interoperability and sharing of infrastructure, which cannot be foreseen without the ease in regulation. She also added that it would be important to highlight areas, if any, wherein payments banks are differently treated from universal banks. She noted that commercial viability and business case was not primary concern of regulators and the industry is capable enough to build a commercially viable business model within the guidelines. She concluded by saying that we need to wait to get payments banks started before getting into too much detail of the guidelines.

Mukesh Sadana, Project Management Specialist, USAID suggested that in the banking ecosystem, an opportunity was given to the corporates to apply for payments banks licenses, since they are open to undertaking risk based businesses. Companies who withdrew were perhaps not able to cope up with the risk. Talking about regulatory complexities, he agreed with the suggestion by Ms. Ananth and said that it is not possible for the entire regulatory architecture to be in place before the business of payments banks is started. He also mentioned that there is no clarity on the convergence of small banks and payments banks. He further noted the concerns regarding challenges with regard to cash backs, cash in and cash out etc in contrast with international success of such kind of banking ecosystem. He highlighted the example of Kenya’s business model wherein the focus is immensely given on the business size, so that it can have a suitable presence in the market, thereby having a reasonable usage of the products served. In conclusion, he suggested that there is a need to highlight the difference between operational and regulatory based challenges for payments banks.

Lara Gidvani, Regulatory Specialist, GSMA, pointed out that business models of such differentiated banks are extremely crucial from the purview of financial inclusion. Discussing operational and regulatory issues, she mentioned that potentially such issues might hinder the efficacy and not let the business models sustain. She further touched the issue on profitability of payments banks, and thus highlighted that payments banks need develop transaction based model. The entities would need to cautiously choose the product mix, taking in account the consideration of targeted customers. She mentioned that while payments banks are expected to be low value high volume business, there are technology issues which do not deal low value transactions efficiently.

T K Arun, Editor, Economic Times, started by saying that the role of payments banks cannot be reviewed standalone, without considering the operations and viability of other differentiated banks like small finance banks. He also discussed the restriction regarding cash out from the perspective of telecom companies, by stating that a person could only transfer the money to other phone but would not able to withdraw the cash. In contrast to this, he also mentioned that entities other than telecom companies might have an advantage as they would use various distribution channels, other than payments through mobile phones. He also mentioned the rationale behind giving monopoly to Rupay cards, by stating that the charges by visa and mastercard are on a higher side and not in proportion with the transaction amounts. There is also a need to discuss technologies like Unified Payments Interface (UPI) and other technologies developed by NPCI and the impact they are going to have on payments banks model. He also indicated that micro finance entities will be in a position to use UPI and compete with payments banks.

Sumita Kale, Chief Economist, Indicus Centre for Financial Inclusion, mentioned that there is a need to differentiate issues which deal with payments banks and commercial banks, respectively. She raised the issue of BC networking with the use of non-financial assets, questioning the added value to the collaboration. She further emphasized on the issue of payments banks acting as BCs to other banks. She suggested adding the way forward to the concept of central KYC agency and its implications in the report. While concluding she mentioned that all stakeholders including Telecom Regulatory Authority of India, Department of Telecommunication, etc will need to work together to make payments banks a success.

Arvind Mayaram, while chairing the session pointed out the lack of clarity on sharing infrastructure and facilitation of interoperability. He highlighted that there were several technological developments in the market and perhaps payments banks would find it very difficult to survive and grow amidst such technological developments.

This was followed by a lively discussion with participants which included experts, researchers, industry and media. While addressing the question on envisaging competition as an impediment between payments banks and commercial banks, Mr. Mayaram explained that competition should not be considered as an impediment, but as a tool to facilitate the growth of innovative business models for effective implication within the scope of activities.

Udai S Mehta, Director, CUTS International, thanked the speakers for their comprehensive inputs. He noted that while CUTS has taken up this research study, and has been pushing for gaining a broader understanding of competition and regulatory bottlenecks of payments banks regulations, there is a need for stakeholders to make collective efforts to take forward recommendations under the study.

He shared the objective of engaging with regulators with other institutions, funders etc. in order to ensure the success of this initiative, along with the need to study and highlight the cost-benefit analysis of policies and regulations, specifically in digital finance space.

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