PROJECT ON DEVELOPING INTERVENTIONS TO ADDRESS REGULATORY AND COMPETITION BOTTLENECKS IN GROWTH OF PAYMENTS BANKS

REPORT OF THE MEETING OF EXPERT COMMITTEE

02 MARCH 2016

BACKGROUND

CUTS International is undertaking an evidence based research project to identify key competition and regulatory bottlenecks in establishment and growth of payments banks in India. The objective is to develop necessary policy and practice interventions to address the bottlenecks for enhancing access to banking to the unserved and underserved sections of the society. This initiative is being supported by Bill & Melinda Gates Foundation, New Delhi.[1]

An expert group has been constituted under the project to guide the implementation of the project, enable requisite focus and prioritisation, review interim findings, and ensure timely progress of the project. The group comprises representatives from think tanks and other similar stakeholders in the industry other than the payments bank licensees.[2] The first meeting of the expert group was organised on 02 March 2016 in New Delhi.

Following members of the expert group participated in the meeting:

1. Manoj Sharma, Microsave

2. Sumita Kale, Indicus

3. Amitabh Tewary, MasterCard

4. Krishnan Dharmarajan, CDFI

5. Leena Datwani, CGAP

6. Roy Mathew, CDFI

7. Lara Gidwani, GSMA (remote participation)

8. Pawan Bakhshi, Gates Foundation

The meeting began with a brief introduction to the project by Gates Foundation followed by presentation by CUTS International on the competition and regulatory concerns identified on the

[1] http://www.cuts-ccier.org/PaymentsBanks/
[2] http://www.cuts-ccier.org/PaymentsBanks/pdf/Expert_Comitee.pdf

basis of review of existing literature. This was followed by a discussion amongst the participants. Summary of key issues discussed is set out below.

Know Your Customer (KYC) requirements

The critical regulatory concern discussed was use of Aadhar and transfer of existing customers of telecom operators/ Prepaid Payment Instrument (PPI) Operators to payments banks. It was pointed out that there is high ambiguity with respect to KYC requirements of telecom operators and it is not clear to what extent they comply with the bank KYC requirements. Also, the regulations at present do not seem to allow sharing of KYCs between PPIs and banks.

The experts also argued that there might be differential treatment between related parties and non-related parties with respect to sharing of customer information, i.e. related parties might agree to share customer information but unrelated parties might not. A payment bank might agree to rely on information collected by related party telecom operator but same might not be the case with an unrelated party. Similarly, a telecom operator might be hesitant to share the information with an unrelated party payment bank, and thus perhaps violating the principles of interoperability and shared infrastructure.

It was pointed out that while informed consent of consumer it necessary, the issue of consent of recipient bank to rely on the consumer information is also relevant. Further, this process of sharing of consumer information does not however provide clarity on the transfer of risk in relation to incorrect information. The regulations at present also do not allow sharing of information at the time of KYC, which also might need to be amended. The issue of central repository of KYC details was also discussed.

Maintaining individual customer limit

The payment bank guidelines require maintaining end of day limit on account of customers of Rs. 1,00,000. While the limit is expected to be revised by RBI, there remains ambiguity with respect to compliance with the same in case deposit is made close to end of business or there is cancellation of transaction and refund of money is made by merchants (which is mandated by RBI). It was argued that most payments banks will enter into arrangements with commercial banks to offer full banking services and consequently a full bank account could be offered wherein the excess deposit could be transferred. Such bank account will be a consolidated non-interest bearing account wherein excess deposits could be made. However, there could be concerns with respect to KYC compliance by such accounts and consideration for commercial banks to open such account.

Consumer protection

There could be possibility of fraud and sham transfers of fund from one account to another, for earning interest and benefiting from incentives such as cash backs/ discounts. While at present banks refund the money to the customer in case of allegation of fraud, as payments banks are likely to work on thin margins, the same might not be possible in that market.

Also, as the infrastructure is costly one does not know the kind of consumer grievance redress at the customer facing points will payments banks ensure. The controlling offices will require to monitor physical access points but the nature and quality of interaction with the customers might be sub-optimal.

Relation between promoter group and payments banks

It is highly unlikely that promoter banks and payments banks will work in coordination and not compete. In such scenario, examination of relation between these entities will be relevant. Payments banks can be business correspondents (BCs) of promoter banks and promoter group entities can be BC of payment bank but it would be interesting to see if that actually happens.

Also, there is a possibility of exclusive arrangements between these entities, especially non-financial sector promoters and payments banks which might have concerns in relation to competition.

Applicability of other regulations and coordination amongst regulators

It was noted that we are moving from an ecosystem which promotes savings and deposits to ecosystem which promotes transfers and withdrawals. Earlier, revenue could have been generated from static money and now it would be made from transfers. Consequently, the regulatory approach should reflect this change. Regulations like charging ATM withdrawals should not be applicable in case of payments banks. In addition, the regulators must have effective consultation platform to discuss issues of mutual interest and avoid overlap and inconsistency in regulation.

Conclusion and way forward

It was agreed that there were several issues that require clarity. Discussing these issues with wider set of stakeholders, including licensees and regulators, was necessary.

The meeting aided in validating the findings of literature review and prioritizing the issues for ensuing stakeholder interaction. CUTS project team will come back to the expert committee for further discussion after stakeholder consultations.

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