International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 • Website: www.ijfmr.com • Email: editor@ijfmr.com

Critically Evaluate the Regulations Related Payment Banks

Ms. Supriya Sadashiv Kalse

Advoate, Civil and Criminal, Civil and Criminal Court Pune

Abstract
The Indian financial services have undergone major changes in particularly banking industry which witnessed radical changes during this time period. The Indian banking system has developed new responses to deal with the emerging situation. During this period, the banking system evolved from the liberalization of the economy to technological advancements and regulatory reforms, this evolution has had a profound impact on how financial services are accessed, delivered, and regulated in India. After considering those changes examine the strategies and initiatives undertaken by banks to remain competitive and relevant in this dynamic environment. The Indian banking system is one of the key drivers of economic growth and development. The banking system plays important role in growth & other aspect of the India's developing economy.

Critically Evaluate the Regulations Related Payment Banks.

1. Introduction-

The Indian banking system is one of the largest and most compounded structure in the world, playing a main role in the country's economic growth and development. The sources of the Indian banking system can be traced back to the establishment of the Bank of Bengal in 1806, after that Bank of Bombay in 1840 and the Bank of Madras in 1843. These three banks together formed the foundation of modern banking in India. In 1921, they were merged to create the Imperial Bank of India, which later became the State Bank of India (SBI) in 1955, after nationalization.

The Indian financial services have undergone major changes in particularly banking industry which witnessed radical changes during this time period. The Indian banking system has developed new responses to deal with the emerging situation. During this period, the banking system evolved from the liberalization of the economy to technological advancements and regulatory reforms, this evolution has had a profound impact on how financial services are accessed, delivered, and regulated in India. After considering those changes examine the strategies and initiatives undertaken by banks to remain competitive and relevant in this dynamic environment. The Indian banking system is one of the key drivers of economic growth and development. The banking system plays important role in growth & other aspect of the India's developing economy.

2. Historical Development of Banking-

The Indian banking system is as old as vedic civilization. In vedic times loans is called as 'Runa' it means loan & 'Runpatra' means loan agreement. This concept deals with the study of money lending in ancient times or vedic times. Akin to the Vedic era, Mauryan period are also known for various types of such instruments. The 'Arthashastra' of Kautilya (Chanakya) mentions presence of bankers during Maurya era. There were instruments in Maurya Era known as "Adesha" which are equivalent to Bill of exchange of current times. There are plenty of references available in the ancient Indian literature regarding an indigenous banking system that financed the trade and commerce in the country.

The money lenders in India called Shroffs, Seths, Sahukar etc. had been carrying on the business of money lending (banking) since ancient times. These indigenous bankers included very small money lenders to shroffs with huge businesses, who carried on the large and specialized business even greater than the business of banks. Over the time, Indian banking system evolved from simple money storage and lending services to a complex financial ecosystem.

3. Types of banks in India-

The banking system plays very important role in modern economies, playing a which facilitating the financial transaction, managing the savings funds. This system made a giant network of financial institutions, both public and private, that offer a wide range of services to individuals, businesses, and governments.

1. Central Bank- The Reserve Bank of India is the central bank of India. It deals with the issuing currency, money supply regulation, setting & applying the interest rates to all the loans & money lending institutions & monitoring all the financial policies & regulations related to banking system in India.
2. Commercial Banks- These banks provide a wide array of services, including checking and savings accounts, loans, credit cards, and investment services. They primarily serve individuals and businesses.
   - Public sector Banks – A bank in which the majority stakes are owned by the Government of India. Eg.- State Bank of India, Canara Bank.
   - Private sector Banks – A bank in which the majority stakes are owned by a private group. Eg.- IDFC bank, IndusInd bank
3. Regional Rural Banks (RRB)- These are special category of commercial banks which provide concessional credit to agriculture and rural sector.
4. Local Area Banks (LAB)- This banks are nothing but private sector banks mostly in doing business south India region. Eg- COSTAL LOCAL AREA BANK LTD., ANDRA PRADESH.
5. Specialized Banks- This banks helps to rural areas or agriculture sector for agricultural development in India Eg.- NABARD
6. Small Finance Banks- This bank helps in mostly in Micro industry unorganised sector by providing financial assistance, money lending & other banking services.
7. Payments Banks- This banking type is newly introduced by the Reserve Bank Of India. These banks cannot issue credit.

4. Concept of Payments Bank-

- The establishment of Payments Banks in India marks a significant innovation in the Indian financial landscape, aimed at furthering financial inclusion by providing small savings accounts, facilitating remittance services, and enabling low-income households, small businesses, and migrant labourers to access basic banking facilities.
- That, to ensure stability, prudence, and the soundness of these institutions, the Reserve Bank of India ("RBI") has instituted a stringent regulatory framework, with its core prudential norms broadly aligned with international standards, including the Basel Framework.

- The Payments bank means nothing but the banks like other bank, which deals with smaller scale of banking operations with not involving in credit risk. They can only accept payment through deposit method only.
- Objective of RBI – In India there are many people who are involved in small scale businesses like grocery shops, who doesn't have any kind of knowledge of the banking system. They are doing all the transaction in cash mainly in rural area of India. So, such types of people need to change with respect to time. So, the main objective of RBI to introduce the payments banks in India is to provide to spread the banking, objectives 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.
- 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.
- They cannot involve in credit system or money lending in practice. In simple words, it can provide most banking operations but they cannot disburse loans or issue credit cards. Payments bank cannot set up subsidiaries to undertake non-banking financial activities. They can provide other services like ATM, Internet banking, UPI etc.
- In 2013, a Reserve Bank Of India formed a committee for study 'Comprehensive financial services for small businesses and low-income households'. This committee headed by the Nachiket Mor. The main objective of this committee is to 'Propose measures for achieving financial inclusion and increased access to financial service'.
- This committee submitted its report to Reserve Bank Of India in January 2014, they suggested many things to Reserve Bank Of India in this report. One of the main suggestions in this report is to introduce the new banking type i.e. 'PAYMENTS BANKS'. They introduced this type for people comes under lower income group so they can enjoy the services comes under advanced banking system.

5. Regulations related to Payments Bank in India.

- The concept of Payments bank is introduced by Reserve Bank of India in 2013-14 & it is regulated under various acts & regulations of RBI. The Payments Bank will register as public limited company under the Companies Act, 2013.
- Basically, the Payments Banks is governed by the provisions of the following acts & statutes in India.
  1. The Companies Act, 2013.
  2. Banking Regulation Act, 1949.
  3. Reserve Bank of India Act, 1934.
  4. Foreign Exchange Management Act (FEMA), 1999.
  5. Payment and Settlement Systems Act, 2007.

- Banks needs to invest minimum 75% of its demand deposit balance in statutory liquidatory Ratio (SLR) under eligible government securities bills with maturity up to one year.
- Need to 25% in current & time fixed deposit under other commercial bank for operational purpose & liquidity management.

A. Regulations for licensing of Payments Bank- To register the payments banks in India, it is mandatory to license from apex bank.

- Registration & licensing- The Payments Bank shall registered as the public limited company u/s 149 the Companies Act 2013. The Payments Banks are allowed banking license u/s 22 of the Banking Regulation Act, 1949. This section mention the specific terms & condition on the Payments Banks for restricting the activities mainly regarding accepting the demand deposit & other provision of payments related services. Other relevant Statutes and Directives, Prudential Regulations and other instructions issued by RBI and other regulators from time to time.
- The payments bank will be given scheduled bank status once it, and is found suitable as per Section 42 (6) (a) of the Reserve Bank of India Act, 1934. This all acts & statutes deals with the regulations of the Payments Banks. This license allows banking company to carry out the banking activities. The concept banking activities mentioned specified under the provisions of section 5 (b) and 6 (1) (a) to (o) of the Banking Regulation Act.

B. Regulations for Operating of Payments Banks. -

- Prudential regulation- The regulatory framework is for payments banks are drawn from the Basel standards which deals with the comfort & suitability in the banking system. According to this regulations of the banks Minimum Capital Requirement is 15%, Common Equity Tier 1 is at least 6%, Additional Tier I is 1.5%, Minimum Tier I capital 7.5% Tier 2 capital 7.5% Capital Conservation Buffer Not Applicable Counter-cyclical capital buffer Not applicable Pre-specified Trigger for conversion of AT1 CET1 at 6% up to March 31, 2019, and 7% etc. due to non-money lending framework this type of banks does not have credit risk.
- RBI permits Payments Banks to inter bank borrowings from banks like scheduled commercial banks in India. but RBI does not permit to Payments banks for any type of money lending including their own directors. According to RBI, Payments bank not permitted to any kind of short sale transactions. RBI mandates the restrictions on the loan advancing through NBFC also.

6. Leading Payments Banks in India

a. Bharti Airtel Payment Bank
b. PAYTM Payments Bank
c. Fino Payments Banks
d. Indian Post Payment Bank
e. Jio Payments Bank
f. NSDL Payments Bank

7. **Conclusion**:

- Payments Banks represent a carefully regulated innovation in the Indian banking sector, designed to extend formal financial services to the underserved population while minimizing systemic risk. The regulatory framework, drawing on international best practices but tailored to local conditions, ensures that Payments Banks operate on a low-risk, deposit-oriented model without engaging in lending or speculative activities.

- By mandating robust prudential standards, restricting credit risk exposure, and ensuring a strong governance framework, the Reserve Bank of India has created an operational environment wherein Payments Banks can contribute meaningfully to the goal of financial inclusion without compromising the stability and integrity of the broader banking system.
- As the Payments Bank ecosystem evolves, continuous regulatory vigilance and adaptive policy-making will be essential to nurture their growth while safeguarding the interests of depositors and maintaining the resilience of the financial sector.