Service Charges by Payment Banks

How differentiated are these?

Are payment banks different from the regular banks? Who are their primary target customers? Remember that these banks were conceptualized by Reserve Bank of India (RBI) as 'differentiated banks to serve niche interests', the niche here being farmers, migrant labourers, low-income households, small businesses and the unorganized sector. These banks were to offer savings accounts and remittance services with a low transaction cost. The hope also was that the poorer citizens (who transacted only in cash) would be encouraged and enabled to take their first step into formal banking. The following report assesses the service-charge component by comparing five payment banks on basic parameters. This will also give us a clear picture of the basic banking services that these banks provide.

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For our comparative study on the charges they levy for various services, we have chosen five payment banks that provide detailed information on their websites. We have chosen these banks based on product offer (gathered from their websites and brochures) and services rendered (feedback from consumers).

The parameters on which we have compared them include account-opening fee, minimum first (initial) cash deposit, cash deposit/load cash fee, cash-withdrawal fee, maximum cash withdrawal limit, fund-transfer fee, monthly average balance, charges for non-maintenance of monthly average balance (MAB), savings bank (SB) interest per annum, debit card issuance fee and replacement fee, PIN generation/change charge, maximum NEFT and IMPS allowed, charges for SMS alerts, physical statements fee, cheque-return charge, and charges for account closure within six months. We gave the highest weightage (15 points) to consumer feedback, which also helped in determining the most important and beneficial variables. These variables have a direct bearing on the product structure.

CV RECOMMENDATIONS

Best Buy

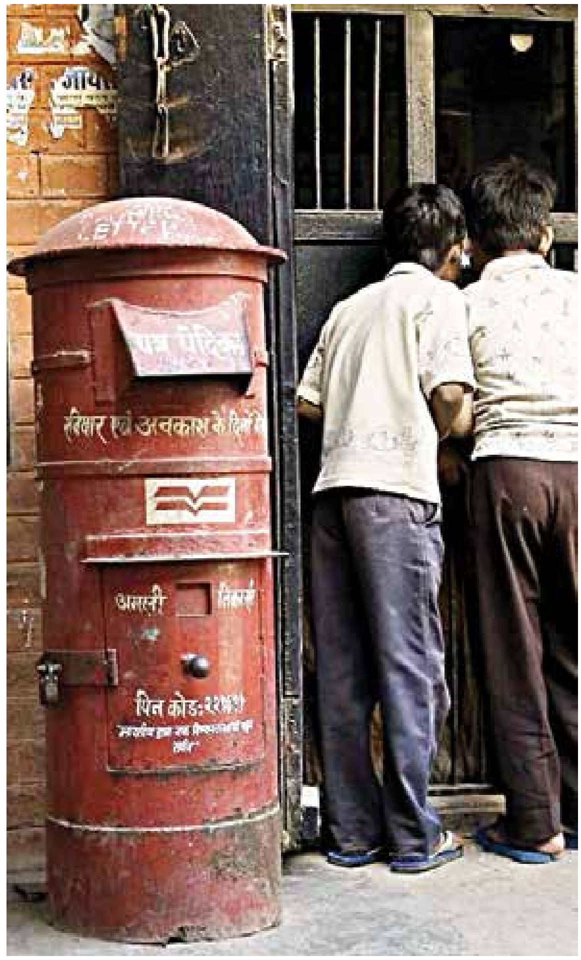
India Post (Sugam Account)

Good Buy

Paytm

Fair Buy

Fino (Pratham Savings)



SERVICE CHARGES BY PAYMENT BANKS:

CV Weightage Points (100)	Service	India Post (Sugam Account)
3	Account-opening fee	NS (0)
2	Cash deposit/Load cash fee	NS (0)
10	Cash-withdrawal fee (%)	NS (0)
3	Fund-transfer fee (%)	NS (0)
7	Minimum first (initial) cash deposit (Rs.)	Nil (7)
2	Maximum cash withdrawal limit (pm)	NS (0)
3	Maximum NEFT (Rs)	100,000 (1)
3	Maximum IMPS (Rs)	100,000 (1)
10	SB interest per annum (%)	5.50 (10)
3	Free personal accident cover (Rs, in lakh)	NS (0)
2	Monthly average balance (Rs)	Nil (2)
7	Non-maintenance of MAB (Rs)	Nil (7)
7	Debit card issuance fee (Rs)	Free (7)
3	Debit card replacement fee (Rs)	100 (2)
4	PIN generation/change charge (Rs)	50 (1)
6	Physical statements fee (Rs)	Free (6)
3	SMS alerts (Rs, per month)	Free (3)
3	Cheque-return charge (Rs)	NS (0)
4	Account closure within 6 months (Rs)	250 (4)
15	Consumer feedback	12
Total 100		63

Notes:

a) *NS: Not specified*

b) *Information given here has been sourced from websites and brochures.*

A COMPARATIVE CHART

	Paytm	Fino (Pratham Savings)	Airtel	Aditya Birla
	NS (0)	NS (0)	Free (3)	Free (3)
	Free (2)	NS (0)	Free (2)	NS (0)
	20 per transaction (10)	0.50 (7)	0.65 (4)	0.85 (1)
	NS (0)	NS (0)	1.00 (3)	2.50 (1)
	NS (0)	1000 (1)	100 (5)	500 (3)
	NS (0)	25,000 (2)	25,000 (2)	25,000 (2)
	No limit (3)	NS (0)	100,000 (1)	NS (0)
	No limit (3)	NS (0)	100,000 (1)	200,000 (2)
	4.00 (5)	4.00 (5)	5.50 (10)	4.00 (5)
	NS (0)	1.00 (3)	1.00 (3)	NS (0)
	Nil (2)	1000 (1)	NS (0)	Nil (2)
	Nil (7)	50 (3)	NS (0)	Nil (7)
	125 (2)	149 (1)	NS (0)	75 (4)
	125 (1)	149 (1)	NS (0)	75 (3)
	8 (2)	10 (2)	NS (0)	Nil (4)
	8 (4)	10 (4)	NS (0)	50 (1)
	Free (3)	5 (1)	NS (0)	NS (0)
	NS (0)	250 (3)	NS (0)	NS (0)
	NS (0)	250 (4)	NS (0)	NS (0)
	11	8	10	4
	55	46	44	42

c) *Charges for services described differently in nomenclature are grouped under major heads.*

d) *Minimal charges are taken for individual SB accounts in banks based in metros.*

e) *In many banks, GST is included/excluded in the service charges and is therefore not specified here.*

Certainly payment banks have the potential to play an important part in bringing untouched rural areas under the banking system. They perform almost all standard banking operations – they accept demand deposits (up to Rs 1 lakh), offer remittance services, mobile payments/transfers/purchases and other banking services like ATM/debit cards, net banking and third-party fund transfers. Of course they function on a rather smaller business scale compared with other banks and also do not have the mandate to extend loans.

How things pan out will depend on how well payment banks meet the challenges that are now coming to the fore.

- A lot will depend upon the volume of business. However, customer acquisition is not going to be a cakewalk since even other normal banks are vying for the same lot. So, yes, the competition is getting tougher.

> A payment bank may be defined as a 'non-full-service niche bank'. It can only open demand deposits (current and savings deposit accounts) and provide remittances. It is expected to reach customers mainly through their mobile phones rather than traditional bank branches.

- Depending on volume also means that the model should focus on being cost-effective and technology-enabled. The customer acquisition and servicing cost structures of payments banks may not follow those of a traditional bank.
- The offering is very niche and does not cover the whole gamut of banking services. An accountholder at a payment bank may still need to go to another full-service bank to meet some of their banking needs.
- The new KYC norms for payment banks are stringent – they have to now get their customers' information verified by third parties. RBI had earlier accepted Aadhaar-based eKYC as a means for customer authentication at the time of opening accounts.
- The old norms also allowed KYC done for mobile connections to be extended to opening bank accounts. This allowed telecom operators with payment bank licenses to provide bank accounts to all of their existing customers with minimum effort and no extra cost. Payment banks may not have the same level of manpower to collect paper-based KYC as traditional banks.
- The maximum cap for holding one's money in a payment bank needs to be enhanced to at least Rs 500,000 to enable traders and small businesses as well as salaried/self-employed individuals to utilize the banking services to the optimum.
- The deposit insurance cover, which is at present capped at Rs 100,000 per depositor, also needs to be suitably enhanced to provide additional insurance cover and enhance the credibility factor.

Service Charges by Payment Banks

What They Are Allowed to Do	Within These Limitations
• They can accept cash and effect cash payments to customers. • They can accept demand deposits – that is, current deposits and savings bank deposits. • They can extend debit card facility. • They can effect money transactions on electronic platforms such as ECS, NEFT and RTGS. • They can undertake utility-bill payments on behalf of customers and the general public. • They can act as business correspondents (BCs) of another bank/entity subject to RBI norms on such activity. • They can open their branches and ATMs, and offer internet banking and other non-risk-sharing simple financial services activities not requiring any commitment of their own funds (such as distribution of mutual funds, units, insurance products, pension products, etc.) ,subject to prior approval of the RBI and after complying with the requirements of the sectoral regulators for such products.	• Presently, cash transaction is limited to Rs 100,000 per customer. (Payment banks will initially be restricted to holding a maximum balance of Rs 100,000 per individual customer, as per RBI press release dated 27.11.2014.) • Payment banks are not authorised to open recurring deposits and fixed deposits (time deposits). • They cannot issue credit cards. • They cannot undertake any lending activity. • No NRI deposits should be accepted.

In 2013, in its policy discussion paper on Banking Structure in India – The Way Forward, Reserve Bank of India enunciated that there was 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.

In response to RBI's call for applications for payment bank licenses, 41 entities had applied. On 19 August 2015, RBI gave in-principle licenses to 11 of them to launch payments banks: 1) Aditya Birla Nuvo, 2) Airtel M Commerce Services, 3) Cholamandalam Distribution Services, 4) Department of Posts, 5) Fino PayTech, 6) National Securities Depository, 7) Reliance Industries, 8) Dilip Shanghvi (founder of Sun Pharmaceuticals), 9) Vijay Shekhar Sharma (CEO of Paytm), 10) Tech Mahindra, and 11) Vodafone M-Pesa.

Within a period of 18 months starting 19 August 2015, they were expected to comply with the conditions regarding paid-up equity capital (minimum Rs 100 crore) and the promoter's minimum initial contribution to the paid-up equity capital (shall be at least 40 per cent for the first five years from the commencement of business). Additionally, 26 per cent of the paid-up capital will be held at all times by resident Indians. NRIs' holding can be allowed up to 24 per cent of the total paid up capital. The operations of the bank should be fully networked and technology-driven, conforming to generally accepted standards and norms. Last but not the least, a customer grievances cell must be in place. Only after conforming to these requirements could the aforementioned entities become eligible to approach RBI to obtain a regular license/approval for commencement of banking business.

Out of the chosen 11, 3 entities reportedly surrendered their in-principle license. There is no information on the RBI website regarding the 'fate' of three other entities, thereby leaving only five players in the field *(refer to the Product Comparison Chart)*.