

RESERVE BANK OF INDIA
Department of Banking Regulation

**Clarifications to Queries on
Guidelines for Licensing of Payments Banks in the Private Sector**

In providing the clarifications, an attempt has been made to assist potential applicants in understanding the terms of the guidelines. The clarifications are specific to the queries and must be read in the overall context of the guidelines.

1. Please provide a timeline for the shortlisted as well as final list of applicants getting the Small Finance Bank/ Payments Bank licence.

A. The timelines will depend primarily on the number of applications received, and time taken for completion of the approval process. No definite timeline can, therefore, be provided at this stage.

2. If the payments bank appoints an entity as its business correspondent (BC), would that entity be able to perform business facilitation (BF) activities such as loan sourcing for some other bank in addition to performing payment related activities for the payment bank?

A. Yes, subject to RBI guidelines for banks appointing BCs.

3. Would the payments bank be able to appoint its promoter group company (parent or other subs) as its corporate BC?

A. Yes, on arm's length basis and subject to the RBI guidelines on BCs.

4. We wish to understand can the Payments Bank entity leverage the existing infrastructure such as technology, distribution (including distribution resources/outlets/premises) and business correspondent services of its promoter group or parent company on an arm's length basis, while ensuring that all

financial related matters including treasury and risk/regulatory activities are completely ring-fenced from the Promoter Group/Parent Company.

- 5. Guidelines provide that the other financial and non-financial services activities of the Promoters, if any, should be kept distinctly ring fenced and not comingled with the banking business. Please explain what kind of management oversight, sharing of infrastructure, human capital etc. would be acceptable as being ring-fenced?*
- 6. Whether arm's length basis of sharing infrastructure and distribution network for acquiring and servicing the customers should qualify the condition that the activities of the payments bank are ring fenced and not comingled with the other activities of the promoter group?*
- 7. The guidelines state that “the other financial and non-financial services activities of the promoters, if any, should be kept distinctly ring-fenced and not comingled with the banking and financial services business of the payments bank”. We would appreciate that this aspect is explained in greater detail.*
- 8. Kindly confirm that the “Payments Bank” is allowed to leverage on the distribution network of the “promoter” and distribution network of its PPI business which is managed through a separate wholly owned subsidiary.*
- 9. Can the Payments Bank solution be co-located in the groups own telecom infrastructure - including Data Center (DC) and Disaster Recovery Center (DR). If any logical separation is needed, would just logical separation of servers suffice (like a separate cage) OR do we need complete separation including separation of other infrastructure components like the pipes, networking and security devices etc. Can the Payments Bank solution be hosted in a third-party Data Center. In our Payments bank model, the DC will be 100% redundant. Will it still be mandatory to have a full functioning DR on day one of operations?*

Request to share if any specific monitoring parameters (at infrastructure and service level) are expected for compliance. Also, for DR request to share RBI side expectation on RPO/RTO parameters for Payments Bank.

As an existing telecom operator, we currently have an extensive Customer Relationship Management (CRM) system. Can we leverage this system for Payments Bank? Can the Payments bank's accounting, financial, payroll and HRMS systems be part of the parent group/entity systems. Though the data/systems are required to be separate for Payments Bank and Telco or other services, can there be a common set of users at parent group level having access to both systems, or controlling process of both the systems. Request to clarify with respect to the following types of users:

- a) Managed services personnel having access to the DC and devices**
- b) Information security officers, and process related staff**
- c) Helpdesk users**
- d) Business users**

10. Clarification is sought on whether the payments bank entity can leverage the existing infrastructure such as distribution, technology, and business correspondent services of its promoter group or parent company at 'arm's length': ensuring that all financial related matters including treasury and risk/regulatory activities are completely ring fenced from the promoter group/parent company, including a general restriction on comingling of customer deposits with promoter funds. Furthermore, with regards to leveraging the distribution network, ensuring that there is a clear legal separation between their current role as the promoter's distributor from their role as payment bank outlets.

11. What exactly is expected to be ring fenced? For example, if a telecom operator applies for payment bank license, will it have to ring fenced people, processes, IT systems, infrastructure, logistics, outsourcing, HR, Finance function and indirect support functions?

12. How the ring fencing is to be achieved?

A. (4 to12) Ring fencing does not restrict arrangements for sharing of infrastructure of the parent promoter / promoter group entities, provided that there is an agreement / contract, etc. if such arrangement is entered into on an arm's length basis suitable firewalls are built in, customer confidentiality maintained and risk mitigation measures are put in place for operational risk. The business plan can clearly bring out these aspects. However, any the PPI entity cannot coexist with the payment bank in the same group.

13. Does the ring fencing to be supported by any external certification or RBI will carry out any inspection?

A. It will be an ongoing requirement.

14. The Annexure to the guidelines (para 3) prescribes the list of information/documentation required for Promoter Group entities which include among other things, the management and corporate structure, total assets of the entities, credit facilities sought and bank account details. We wish to seek the following clarification with respect to the information required in the Annexure to the guidelines in order to comply with the stipulated requirements.

We being a well-diversified group and having operations in many foreign countries which are being run through offshore subsidiaries set up through different holding structures, it may be extremely cumbersome (and possibly not relevant) to furnish the credit facilities/ bank account details, regulator, PAN, TAN, CIN, pictorial organogram indicating the structure of such foreign entities. Hence can we believe submitting the below information would suffice the requirements of Annex I Para (3)?

a) The complete details as sought for all the resident Indian entities of the Promoter and Promoter Group.

b) The financial statements (audited/unaudited) of the foreign entities for the past five years.

c) The audited consolidated financial statements of the Promoter as per International Financial Reporting Standards (IFRS).

A. (a to c)The Annexure to the guidelines indicate that the names of the individuals and entities, details of shareholding, management and corporate structure of all the entities, a pictorial organogram indicating the structure, shareholding and total assets of the entities should be submitted. The organogram should start with the main individual promoters indicating their shareholding in the group entities and also cross holding among the group entities. Organogram for each group entity is not required. The details required as per the annexure to the guidelines are required to be submitted by the applicants.

15. With reference to the Guidelines for Licensing of Payments Banks and Small Finance Banks, we shall be obliged if you could kindly grant us extension of time up to 31st March 2015 to enable us to submit the application in the format prescribed together with the business plan.

A. The last date for receipt of applications for licensing of payments banks has since been extended to February 2, 2015.

16. Functioning as a Business Correspondent (BC) for other banks – Is there a cap on the number of banks for functioning as a BC?

17. The set of guidelines/restrictions that will apply for Payments Banks BC points.

A. (16 to 17) In terms of extant instructions, there is no cap on the number of banks for which one can act as a BC. However, at the point of customer interface, a BC shall

represent the bank which has appointed it. Extant instructions on BCs available at para 8 of circular DBOD. No. BAPD.BC. 7/22.01.001/2014-15 dated July 1 2015 will apply.

18. Can a payments bank charge a fee for undertaking Payments & Remittances on behalf of their customers? If yes, what is the restriction on the transaction fees that can be charged by a Payments Bank?

A. Extant instructions issued by RBI to banks will apply to payments banks also.

19. How many banks/financial institutions can a payment bank deal with for distribution of financial products – mutual funds, insurance products, etc.? What can be the commissions that a payment bank can charge?

A. In terms of our extant instructions on para-banking activities, banks are permitted to undertake marketing and distribution of third party financial products like insurance, mutual fund, etc. in compliance with the guidelines/ regulations of their respective sectoral regulators issued from time to time. As regards commission etc. banks are required to follow the guidelines issued by respective sectoral regulators in the matter.

20. Although not mentioned in the guidelines, can Payment Bank offer locker/vault services to its customers in order to enhance its revenue generating opportunities?

A. Yes.

21. While screening for potential license applications for Payment Banks, will RBI give preference to those applicants who have been already engaged in payment services through the Prepaid Payment Instruments route?

A. The track record of the applicants will be one of the factors that will be seen by RBI at the time of scrutinising the applications.

22. Nachiket Mor Report dated 10th January 2014 on Comprehensive Financial Services Committee for Small businesses and Low income Households report had observed the following:

“Given the difficulties being faced by PPIs and the underlying prudential concerns associated with this model, the existing and new PPI applicants should instead be required to apply for a Payments Bank licence or become Business Correspondents. No additional PPI licences should be granted.”

RBI may kindly share if the recommendations of the Nachiket Mor Report are being considered and whether it is likely to be implemented at some stage in the near future.

A. For the time being, the system of granting PPI licences will also continue. .

23. As a channel, can a Payment Bank recruit Kirana stores across the country as Business Correspondent agents to promote the services of a Payments Bank?

A. Yes, subject to RBI guidelines on BCs.

24. The guideline states a payments bank should have a leverage ratio of not less than 3% i.e. its outside liabilities should not exceed 33.33 times its networth. Are there any specific guidelines on the kind of debt instruments a payment bank can issue?

A. For the purpose of issue of debt instruments, payment banks will be treated as any other bank.

25. When the payments bank reaches the net worth of Rs. 500 crore, it is mandatory for listing within 3 years of reaching that net worth.

- a. ***What is the dilution norm for promoters shareholding at the time of listing***
- b. ***The promoters of the payments bank should hold at least 40 per cent of its paid-up equity capital for the first five years from the commencement of its business. Is there any expected further dilution in promoters shareholding after the fifth year.***

A. For the purpose of these guidelines, payments banks should follow the SEBI dilution norm for promoters at the time of listing and RBI's regulatory / supervisory comfort / discomfort in this regard.

- 26. Can a Payment bank use Aadhar Card alone as a single proof of identity of our customers. Alternatively, should a copy of Aadhar Card be supplemented with other documents such as Ration Card, Pan Card, Driving License, Voters ID, etc.?***

A. The KYC in the payments bank should be as per the KYC guidelines applicable to all other scheduled commercial banks and as per the master circular on Know Your Customer (KYC) / Anti-Money Laundering (AML) / Combating of Financing of Terrorism (CFT) Guidelines issued by RBI from time to time.

- 27. The deadline for application for Payments Bank licence as mentioned in the final guidelines for payments banks is January 16, 2015.***

- a. ***We would request you to kindly grant us an extension up to March 31, 2015 since we would like to submit a comprehensive business plan covering all aspects of our Payment Bank model to comply with the procedures of RBI.***
- b. ***Is there any maximum cap on the number of licenses proposed to be issued by RBI?***

A. (a) The last date for receipt of application for payments banks has since been extended to February 2, 2015.

(b) There is no cap envisaged on the number of licences proposed to be issued by RBI.

28. Finalising business plan itself might take 30-40 days. We can approach potential investors only after finalising business plan. This sequence of events would mean a very stretched timeline to comply with Jan 16th 2015 date.

A. The last date for receipt of applications for licensing of payments banks has since been extended to February 2, 2015.

29. Scope of cross border transactions:

- a. Whether it would include trade transaction in nature of both inward and outward remittances?**
- b. Would the bank be able to provide hedging solutions like forward contracts and plain options to its clients. As hedging solutions would be an integral need for corporates using payment bank for cross border remittances?**
- c. Would there be any restriction on size of transaction that bank can process and size of hedging limits that the bank can sanction?**

30. Para 4 Scope of activities “.....Payments banks will be permitted to handle cross border remittance transactions in the nature of personal payments / remittances on the current account...”

Do the personal payments/remittances in the above paragraph include the transactions initiated and carried out for the business purposes whether by small businesses or by any form of business organization (including partnership firms, limited companies, body of individuals).

31. Can a payments bank handle outward & inward foreign remittances?

A. (29 to 31) Cross border transactions would involve both inward and outward remittances depending on the type of Authorised Person licences issued by RBI.

32. Is there a minimum paid-up capital requirement on the day of filing an application?

A. At the time of making application, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the 'in-principle approval' is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements within 18 months from the date of in-principle approval or as on the date of commencement of operations, whichever is earlier.

33. Our initial study of potential applicants suggests that most of them have expertise in either domestic payments or in cross border payments and not in both. Therefore, would an application with initial focus on either cross border payments or on domestic payment and not both, be eligible? Such applicants may seek time to build expertise/ offerings in other areas.

A. The payments banks are expected to primarily focus on domestic payments services.

34. Would an individual/professional need to show funding sources for capital requirements at the time of applying for the licence or can he start the process of funding for capital only if he is successful in getting the licence?

35. Related query - Would the individual/professional need to disclose details of the expected corporate structure or can he indicate broad funding sources/shareholding?

A. (34 to 35) At the time of making application, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the 'in-principle approval' is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the

requirements and within 18 months from the date of in-principle approval or as on the date of commencement of operations whichever is earlier.

The Annexure to the guidelines indicate that the applicants should furnish detailed information about the persons/entities, who would subscribe to 5 per cent or more of the paid-up equity capital (shareholding pattern) of the proposed bank, including foreign equity participation, in the proposed bank and the sources of capital of the proposed investors. This would need to be complied with.

36. Can an existing PPI offering prepaid instruments on internet apply for payments bank licence and offer branchless payments bank?

37. Can payments bank have only 1 physical branch office but operate on all India basis?

A. (36 to 37) As per para 4 (v) of the guidelines, RBI is open to payments bank offering internet banking services. However, RBI does not envisage payments banks to be “virtual” banks or branchless banks. Further, as stated in para 13 (i) of the guidelines, the payments bank will be required to have at least 25 per cent of physical access points including BCs in rural centres and a controlling office for a cluster of access points should also be established for control over various outlets and customer grievance redressal.

38. Can an NBFC in lending business apply for Payments bank licence if it's plan is to setup a separate corporate entity, distinct from its other businesses but having commercial arrangement to source customers from the other businesses.

A. Yes.

39. Can payments bank be free to set its own reward / fee structure for its customers?

A. Extant instructions issued by RBI to banks will apply to payments banks also.

40. Can payment bank set up its own ATMs? If a payment bank sets up its ATMs, will it be allowed to handle cash functions on its own or will it have to tie-up with a scheduled bank for the same?

A. Yes. As stated in para 4 of the guidelines, the payments bank would be permitted to set up its own outlets such as branches, Automated Teller Machines (ATMs), Business Correspondents (BCs), etc. The bank will be free to handle cash on its own or have a tie-up arrangement with other scheduled commercial banks.

41. Will payment banks be allowed to become clearing members of the clearing house or will they have to route their settlements through other clearing banks?

A. Payments banks are eligible to become clearing members subject to access criteria. .

42. In the case of a payments bank, what will be the revenue stream for the payment bank? It is learnt that the company can accept small deposit. Can you give clarity as to what the bank will be permitted to do with the deposits collected as it is not permitted to do any lending business?

A. The activities that a payments bank can undertake have been clearly spelt out in para 4 of the guidelines.

43. Whether the minimum capital of Rs. 100 crore is insisted with the objective that the bank shall fund its payment operation from the capital source?

A. Yes.

44. Is it necessary that the payment bank should have full-fledged branches? Does RBI have in mind any minimum number of branches that these banks should have in a phased manner?

A. The business plan should include proposal for opening access points in unbanked rural centres as stipulated in para 13(ii) of the guidelines. The stipulation is for total branch network.

45. Whether an Individual currently an NRI can apply subject to him/her deciding to return for good for setting up of the Bank?

A. Yes.

46. Entities like NBFCs etc are to be owned and controlled by residents. Whether such companies and societies are to be fully (100%) owned by residents? What is the definition of control? Does this mean that the board needs to be fully residents or the executive management needs to be fully residents?

47. The guidelines require that Companies, owned and controlled by residents, will be eligible. However the terms “owned” and “control” have not been defined. Would the terms have same meaning as defined in the FDI policy?

48. Whether Individuals / professionals can be NRI / non-resident who can act as Promoters as express word “Resident” is not specified?

A. (46 to 48) The definition is as per the Government's FDI policy and the FEMA regulations as amended from time-to-time. As per the latest FDI policy and the FEMA regulations, a Company 'Owned by residents' shall be an Indian company if more than 50% of the capital in it is beneficially owned by resident Indian citizens and/or Indian companies, which are ultimately owned and controlled by resident Indian citizens. A company shall be considered 'Controlled' by resident Indian citizens if the residents

Indian citizens and Indian companies, which are owned and controlled by resident Indian citizens, have the power to appoint a majority of its directors in that company.

49. Whether an existing PPI seeking to convert into a Payments Bank would need to be owned and controlled by residents? If yes, then could you also please confirm whether the DIPP definition of 'owned and controlled' is being used for this purpose?

50. Whether it is necessary for existing PPI issuers to be owned and controlled by residents, as a pre-requisite for conversion into payment banks? Kindly clarify.

A. (49 to 50) Yes. Existing PPIs seeking to convert into a Payments Bank would need to be owned and controlled by residents. The definition is as per the Government's FDI policy and the FEMA regulations as amended from time-to-time. As per the latest FDI policy and the FEMA regulations, a Company 'Owned by residents' shall be an Indian company if more than 50% of the capital in it is beneficially owned by resident Indian citizens and/or Indian companies, which are ultimately owned and controlled by resident Indian citizens. A company shall be considered 'Controlled' by resident Indian citizens if the residents Indian citizens and Indian companies, which are owned and controlled by resident Indian citizens, have the power to appoint a majority of its directors in that company.

51. The payment bank would not be taking any credit risk while small bank would be taking all the risks that a payment bank would be taking and additionally credit risk. Given that small bank would be taking more risks, different networth requirement for payment bank and small bank could be explored.

A. The minimum paid-up equity capital of both small finance banks and the payments banks is Rs.100 crore.

52. Whether super market chains incorporated in India with NRI shareholding in full or part on non repatriating basis will be eligible to apply?

A. As per para 3 of the guidelines, super-market chains, that are owned and controlled by residents will be eligible as promoters to set up payments banks.

At the time of making application, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines including with regard to ownership and control. After the 'in-principle approval' is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements within 18 months from the date of in-principle approval or as on the date of commencement of operations, whichever is earlier.

53. Our company is a private limited company incorporated under the Companies Act, 1956. Can the conversion to public limited company be completed after receiving in-principle approval to form a Payments Bank?

A. At the time of making application, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the 'in-principle approval' is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements within 18 months from the date of in-principle approval or as on the date of commencement of operations, whichever is earlier.

54. In the scenario that our company becomes the Payments Bank, our company currently has only 2 promoters who would hold 40% of the paid up equity capital of our company. However, the two promoters will be entitled to exercise only 10% voting rights each. Accordingly, for the aforesaid purposes, our company will have to issue equity shares with differential voting rights to the two promoters, which would require compliance with conditions prescribed under Section

43(a)(ii) of the Companies Act, 2013 read with Rule 4 of the Companies (Share Capital and Debentures) Rules, 2014. As per the said Rules, the shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital of a company including equity shares with differential rights issued at any point of time. Please clarify as to how our company will be required to structure its shareholding pattern and the voting rights to be exercised by the promoters keeping in view the requirements of the Rules as well as the PB Guidelines.

A. For the purpose of voting rights in respect of shares held in private sector banks, please be guided by the provisions of Section 12 (2) of the Banking Regulation Act, 1949. As regards shareholding pattern of the company, it is not under the purview of RBI.

55. Would the minimum capital of Rs. 100 crore include the amount in Securities Premium account? (That portion of the Securities Premium account which represents the amount collected as premium per equity share in addition to the face value of equity share).

56. Whether securities premium will be considered for computing capitalisation of the payments bank?

A. (55 to 56) The minimum capital requirement of Rs.100 crore would include share premium provided there is no differential pricing of shares.

57. Para 4 Scope of activities “.....payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer....payments bank can accept a large pool of money to be remitted to a number of accounts provided at the end of the day the balance does not exceed Rs. 100, 000”.

Please guide in the situation when over the weekends and where the consecutive bank holidays occur, the balance in the account breaches the limit Rs. 100,000.

A. The balance at the close of business on any day should not exceed Rs.100,000 per individual customer.

58. Para 13 – Other conditions “....the payments bank will be required to have at least 25 per cent of physical access points including BCs in rural centres. Further a controlling office for a cluster of access points should also be established for control over various outlets and customer grievance redressal”.

In the present set up of PPI business, two types of entities monitor and exercise control over the retailer points, in the context of payment bank guidelines the “physical access points”, with atleast one of the company’s affiliate holding office:

- a. ***The Distributor partner***
- b. ***Business Correspondent/PPI Agent***

Would the same mechanism be adopted for the purpose of meeting the requirement of “controlling office”. Can these be designated as the controlling offices?

A. Controlling offices should be manned by employees of the payments bank. Business correspondents are agents and therefore BC outlets cannot be designated as controlling offices.

59. The guidelines are silent on whether a Promoter / Promoter entity can set up an Intermediate Holding Company for the purpose of promoting the Payments Bank.

In the above structure:

- a. *Whether the requirement of shareholding lock-in would apply at the Intermediate Holding Company level or at the Promoter / Investor level of the said Intermediate Holding Company. In other words, can the shareholders of the*

Intermediate Holding Company dilute his / its stake in the said company within 5 years?

b. Whether the shareholding in the Intermediate Holding Company can change inter-se between Promoter group within the above-mentioned thresholds?

A. The guidelines do not require setting up of a holding company to set up the payments banks. If there is an intermediate company, it should be an NOFHC and conform to all requirements relating to NOFHC stipulated in our guidelines on licensing of new banks in the private sector dated February 22, 2013.

60. Whether a Corporate Business Correspondent ('BC'), owned and controlled by residents, can convert into a Payments Bank?

A. Yes.

61. Can the Promoter/ Promoter Group Company be appointed as a BC of a proposed Payments Bank?

A. Yes, on arm's length basis and subject to the RBI guidelines on BCs.

62. Whether the BC of a Payments Bank will be able to perform business facilitation activities such as loan sourcing for some other bank?

A. Yes, subject to RBI guidelines for banks appointing BCs.

63. Whether a Payments Bank can undertake non-risk government services like Aadhar enrolment, etc.?

A. Yes. As per the guidelines, the payments banks can undertake other non-risk sharing simple financial services activities, not requiring any commitment of their own funds.

64. Guidelines provide that apart from amounts to be maintained as CRR on its outside demand and time liabilities, the Payments Bank would be required to invest minimum 75 percent of its demand deposit balances in Government Securities / Treasury Bills as SLR and hold a maximum of 25 percent in current and time / fixed deposits with other scheduled banks. In this regard, can the 4 percent cash reserves used for meeting CRR be counted towards the requirement of holding minimum 75 percent in G-secs or 4 percent CRR is in addition to 75 percent in G-secs?

A. The amounts to be invested in Government Securities / Treasury bills, would be in addition to maintaining CRR.

65. Whether the Director / Individual Shareholder of an entity promoting a Payments Bank could become the Chairman of such bank?

A. Yes, subject to prior approval of the RBI as provided in the Banking Regulation Act, 1949.

66. Whether the promoter entity and the Payments Bank can have common directors?

A. There could be common directors in the promoter entity and the bank. However, a director of the promoter entity cannot be considered as independent director of the bank.

67. We are in receipt of Guideline for Payments Bank. In this regard we are planning to apply for the license. Since the available time is short, may I kindly request you to extend the dead line at least by a month to complete all the necessary formalities?

A. The last date for receipt of applications for licensing of payments banks has since been extended to February 2, 2015.

68. We note that the promoter (if it is a company) (“Promoter Company”) is required to be owned and controlled by residents India citizens. Therefore, we understand that foreign investment in such Promoter Company will be permitted upto 49%, so long as the foreign investor does not exercise control on the Promoter Company. In this regard, please clarify as follows:

- (i) Will the “fit and proper” status (including the track record) of such foreign shareholder in the Promoter Company be considered for the purpose of evaluating the application and determination of the “fit and proper” status?**
- (ii) If yes, is there a need for the resident shareholder of the Promoter Company to also have a track record?**
- (iii) Will the experience of a direct foreign shareholder in the Payments Bank (since foreign investment is allowed upto 74%) be taken into account for determination of the “fit and proper” status?**

A. (i to iii) Fit and proper exercise will be undertaken at various levels as necessary.

69. Are all non-Indian citizens assumed to be excluded from a customer relationship with a Payments Bank? Since cross-border remittance transactions are allowed (as per Clause 4(viii)), would in-bound remittances into an account maintained with Payments Bank regarded as a deposit? (See Clause 4(i))

70. The Guidelines state in regulation 4 (i) that “No NRI deposits should be accepted.” However, regulation 4(viii) states that “Payments banks will be permitted to handle cross remittance transactions in the nature of personal payments/remittances on the current account.” Confirmation is sought that incoming foreign remittances from NRI will be permitted into the payments bank accounts.

A. (69 to 70) As per the guidelines, the payments bank cannot accept any NRI deposits. In-bound remittance into accounts maintained by residents with payments bank will be considered as deposits.

71. If a Business Correspondent (BC) arrangement is made with a third party in order to ensure a widespread reach of its services, will the BC be subject to the existing banking regulations for BCs? (See Clause 4(iii))? Would such regulations still apply if the BC is already regulated by another regulator e.g., DoT?

A. Yes, if a BC arrangement is made with a third party, the arrangement should be subject to the RBI guidelines on BCs.

72. Will Payment Banks be allowed to connect to National Unified USSD Platform (NUUP) of NPCI? (See Clause 4(vii))?

A. Yes.

73. What is regarded as a “utility bill”? For example, can payment for third party products/services on a post-paid basis be regarded as within the frame of “utility bill” or as a “credit”? (See Clause 4(x))

A. Utility bill would mean electricity bill, telephone bill etc. Payment for such third party products/services on a post-paid basis will be treated as credit and not allowed.

74. We note that the Promoter Company is required to maintain atleast 40% shareholding in the Payments Bank for the first 5 years from the commencement of business. In this regard, please clarify as follows:

(i) Is the lock-in applicable from the date of grant of licence, or from the date of actual commencement of operations?

(ii) Whose shareholding is subject to the said lock-in: (a) the shareholding held by the Promoter Company i.e. the company that has applied for the approval for Payments Bank; (b) the foreign shareholder of the Payments Bank (who may also be the shareholder of such Promoter Company); or (c) both.

A. (i) As per the guidelines, the promoters of the payments bank should hold at least 40 per cent of its paid-up equity capital for the first five years from the date of banking licence.

(ii) The shareholding of the promoters will be subject to lock-in i.e., option (a) above.

75. Are there any lock-in or other restrictions on shareholding of Promoter Company?

A. Any proposed material change in the shareholding pattern in the promoter entity at the time of application and during the period between the application and in-principle approval and even thereafter should be brought to the prior notice of Reserve Bank of India.

76. The set of guidelines/restrictions that will apply for Payments Banks BC points.

A. The guidelines applicable to scheduled commercial banks for engaging BCs will apply to payments banks also.

77. Owing to the restriction on the limit the core business of payments bank that is the payments and remittances may get affected. Acceptance of a large pool of money for remittance to other accounts during the day with only the day end balance being restricted to Rs. 100,000 gives some relief, yet it may affect the efficiency in terms of having the funds transferred to another account to meet this requirement.

May we suggest that an enhanced limit be considered as an average Quarterly Balance differently, for the Savings accounts and current account by Payments Bank as this model is secure for the deposit holders as well as is in line with RBI and Government's objective of financial inclusion.

A. The current limit of Rs. 1,00,000 per individual customer remains.

78. Some of the PPIs has been in operation for less than 5 years, and are considering applying for Payments Bank license. We would request you to please guide us on how to meet the requirement of submission of 5 years of financial records of the applicant entity.

79. In case of an entity registered under PSS Act for prepaid instrument issuance (PPI), which has been in business for less than 5 years, will RBI consider such entity for conversion into the bank (given that PPI's have been approved by RBI over last three years)?

A.(78 to 79) As per the guidelines, RBI would assess the 'fit and proper' status of the applicants and group entities on the basis of their past record of sound credentials and integrity; financial soundness and successful track record of at least 5 years professional experience or in running their businesses. For promoters of PPI issuers having less than five years of track record, the track record prior to PPI business will be seen.

80. Since foreign investment upto 49% is permitted in the Promoter Company, can the same foreign shareholder also hold 74% directly in the Payments Bank? Will the direct and indirect foreign shareholding be aggregated for computing the overall cap of 74%?

A. The answer to both the parts of the question is "No".

81. This clause provides that “...shareholder’s voting rights in private sector banks are capped at 10 per cent.” How should this phrase be interpreted? For example, if the Payments Bank only has two shareholders, each having a 10% voting rights, what happens to the remaining 80%? Would the cap on voting rights be valid for meetings of board of directors or shareholders, or both?

82. We note from Clause 7 that since Payments Banks cannot undertake lending activities, it is not compulsory for them to have a diversified ownership, unlike in the case of universal commercial banks. Given the above, what is the rationale for imposing the 10% cap on the voting rights of each shareholder?

A. (81 to 82) The cap on voting rights is as per the provisions of the BR Act, 1949 which presently is 10 per cent. The cap on voting rights is for the shareholders.

83. Would the cap of 10% apply to each shareholder under whose name shares are held, or each “shareholder group” comprising of affiliates and related entities? If such cap will be applicable to each shareholder group, what will be the basis of clubbing the entities together?

A. The cap on voting rights is per person as indicated in Section 12 (2) of BR Act 1949.

84. Can the shareholders of the Payments Bank by way of a shareholders/joint venture agreement, restrict the voting rights to even less than 10% for a particular shareholder who is holding more than 10% of the paid-up share capital)?

85. If the answer to the above query is no, can the voting rights be proportionately reduced based on the shareholding of each shareholder? As an example, if a shareholder holds 60% and his voting rights are capped at 10%, then can the voting rights of the other shareholder holding 40% be capped at 6.67%?

A. (84 to 85) Payments banks can issue differential voting rights, subject to minimum equity capital being voting equity. As on date the voting rights are limited to 10 per cent per shareholder (Section 12(2) of the Banking Regulation Act, 1949). The provision relating to 26 per cent voting rights is an enabling provision for the future.

86. *In paragraph I (3), information relating to all entities in the promoter group is required to be provided. Is this requirement limited only to direct shareholders of the Promoter Company or does this extend to indirect shareholders of the Promoter Company and entities under common control of the ultimate shareholders?*

A. The Annexure to the guidelines indicate that the names of the individuals and entities in the promoter group, details of shareholding, management and corporate structure of all the entities, a pictorial organogram indicating the structure, shareholding and total assets of the entities should be submitted. In this context, the promoter group will be as defined by SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009.

87. (a) *Our company is incorporated as per Companies Act in India hence should be eligible to apply. However it may be noted that Indian shareholding is 25% and foreign shareholding is at 75%. Considering the foreign shareholding (75%) and control structure of the company, please confirm if, the company is eligible to apply for "Payments Banks" Licence as a promoter.*

(b) Since our company is owned by a foreign shareholder, please clarify whether this covers the shareholding pattern of promoters as well.

A. (a & b) At the time of making application, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the 'in-principle approval' is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements within 18 months from the date of in-principle approval or as on the date of commencement of operations whichever is earlier.

88. Currently, our company is an online remittance network, platform service provider/payment aggregator and has applied to RBI to be able to act as Money Transfer Operator itself or through its subsidiary and awaiting revert from RBI. Considering that our company is granted RBI permission and in case, and if it applies for a payments bank license, can the company continue to provide its services to the customer considering the scope of activities of payments bank as mentioned in the Guidelines also include cross border remittances.

A. Yes.

89. As of today, paid up equity capital of our company is approx. Rs.13 crore. However, the same may be increased as specified to meet the eligibility criteria. Please confirm whether the capital requirement of Rs. 100 crore is mandatory at the time of application for payment banks License by the promoter i.e. TOML or the capital may be infused at a later stage? Our company will be sole shareholder for the Payments Bank Entity as required. Hence, 100% in Payments Bank will be held by Indian entity only.

A. At the time of making application, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the ‘in-principle approval’ is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements within 18 months from the date of in-principle approval or as on the date of commencement of operations whichever is earlier.

90. Please confirm, whether the independent Directors have to be identified at the time of application or at the time of incorporation or during a specified period as may be approved by RBI.

A. The names of the independent Directors of the bank would be required to be furnished to the Reserve Bank after grant of in-principle approval.

91. Further, can the Board of promoters and payments bank have common Independent Directors?

92. Whether independent directors of the promoters nominated on the Board of payments bank would qualify as independent directors for the payments bank.

A. (91 to 92) No

93. Whether MOA of the promoter/applicant, should contain the enabling clause in its object clause, to promote a company to specifically conduct banking business at the time of filing an application or can it be done subsequently as payments bank can be formed within 18 months from the date of receipt of in-principle without altering MOA.

A. It would suffice if the MOA would have the enabling clause after the in-principle approval and while obtaining the final licence for the bank.

94. Please confirm what actually the in-principle approval would contain and what would be the duties and obligations of a promoter, post receiving the in principle approval.

A. The in-principle approval will have the conditions that should be complied by the promoter for obtaining the banking licence. The conditions will primarily be stipulated as indicated in the guidelines and also depending on the specific application of the promoters.

95. Whether foreign owned and controlled Indian entities can be a promoter in the payments bank?

A. No. However, at the time of making application, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the 'in-principle approval' is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements within 18 months from the date of in-principle approval or as on the date of commencement of operations whichever is earlier.

96. *Whether PPI issuer and payments bank entity could co-exist within the same promoter group.*

A. No.

97. (a) *Whether a joint venture between distinct promoter groups can form payments bank or is it essential that any joint venture should necessarily involve a scheduled commercial bank.*

(b) *Can Promoter have JV with an entity other than Schedule Bank?*

(c) *Whether any preference would be given for joint ventures as against payments banks being promoted by single promoter/ promoter group entities.*

A. (a & b) Joint Venture should necessarily involve a Scheduled Commercial Bank.

(c) No special preference would be accorded to Joint Ventures for licensing of Payments Banks.

98. *Whether a foreign banking entity which has a branch in India on across border basis, (without involving the Indian branches' balance sheet) can acquire a stake in a payments bank, subject to compliance with foreign investment guidelines.*

A. As per extant instructions vide master circular on Exposure Norms, Banks / FIs should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's / FI's holding exceeds 5 percent of the investee bank's equity capital. Investment by a foreign banking entity is subject to the above exposure limit.

99. Whether individual customer limit applies to only demand deposits and PPIs may be issued as per prevailing instructions issued from time to time.

A. The individual customer limit applies to PPI balances also.

100. Whether PPIs issued by payments bank will also be eligible to use all the funding sources (credit cards, debit to bank accounts).

A. Credit cards are not permitted.

101. Whether payments bank can offer interest on the PPI issued.

102. Whether two factor authentication for open loop prepaid products(under membership of a card scheme) would be applicable.

103. Whether a payments bank can offer semi closed wallets to offer customers single sign on experience similar to that offered by non bank PPI issuers

A. (101 to 103) These will be subject to guidelines issued under the PSS Act.

104. Whether remittances under the current account means remittances that are in the nature of current account transactions as defined under FEMA 1999 and regulations issued there under.

A. Yes.

105. Whether an existing PPI licence holder with paid up capital of Rs 100 core but net worth below Rs.100 crore satisfies the capital requirement.

A. No.

106. What is meant by 'access point' and 'other networks in para 13 of the guidelines.

A. Access points refer to branches, BCs, ATMs and other networks. Other networks refer to mobile banking, POs terminals etc.

107. What set of payments bank services offered will qualify for an access point for payments bank.

A. Access point should offer acceptance and repayment of deposits and remittance/payment services to qualify for an access point.

108. Whether payments bank aspirants would be provided a time frame for to achieve 25% rural access point condition post commencement of payments bank business.

A. Yes.

109. Whether it is mandatory for a payments bank to implement core banking solution.

A. Please refer to para 13 (ii) of the guidelines.

110. Where the promoter group is a listed company, is it sufficient to list shareholding of promoter / promoter group. If several entities in the promoter group are body corporates, whether details of all shareholders in the promoter group should be given. As regards annual reports for past five years, whether consolidated financial statements of the promoter entity is sufficient.

A. As per Annex to the guidelines on additional information required, names of the individuals and entities, details of shareholding, management and corporate structure of all the entities, a pictorial organogram indicating the structure, shareholding and total assets of the entities, and Annual reports of the past five years of all the group entities should be furnished. For the purpose, promoter / promoter group will be as defined by SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009. The

consolidated and standalone financial statements of the past five years of all the group entities should be provided.

111. Whether such shareholder who owns more than 10% shares in our company, but is not part of Promoter Group for our filings with stock exchanges (Company "X") will form part of Promoter Group of the applicant company for the purpose of "Payment Bank Application".

A. For the purpose, promoter / promoter group will be as defined by SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009.

112. Whether the company (Company Y) in which the applicant entity's wholly owned subsidiary holds more than 10% shareholding but is not part of Promoter Group for our filings with stock exchanges will form part of Promoter Group of the applicant company for the purpose of "Payments Bank Application".

A. For the purpose, promoter / promoter group will be as defined by SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009.

113. Whether we need to provide information such as shareholding pattern, management & corporate structure, organogram, assets, liabilities etc. of Company X and Company Y with the application for Payment Bank.

A. The Annexure to the guidelines indicate that the names of the individuals and entities, details of shareholding, management and corporate structure of all the entities, a pictorial organogram indicating the structure, shareholding and total assets of the entities should be submitted. The organogram should start with the main individual promoters indicating their shareholding in the group entities and also cross holding among the group entities. Organogram for each group entity is not required. The details required as per the annexure to the guidelines are required to be submitted by the applicants.

114. Would the proposed applicant be eligible to apply given that it is controlled by an Indian Promoter Group, but has majority foreign shareholding? Whether the proposed applicant can still apply with a roadmap to reduce its foreign shareholding to the prescribed level in the period of 18 months allowed for setting up the Payment Bank following the “in-principle” approval.

A. No. However, at the time of making application, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the ‘in-principle approval’ is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements within 18 months from the date of in-principle approval or as on the date of commencement of operations whichever is earlier.

115. Whether the proposed payment bank can be jointly promoted by more than one Promoter Company (Companies not being in the same Group). If yes, whether all such Promoter Companies have to be owned and controlled by resident Indians or a majority of them can be owned and controlled by residents?

A. No.

116. (a) Whether the proposed Payments Bank can be 100% held by the “Promoter Company”?

(b) If yes, then in a such a scenario, is it right to assume that there would be no restriction on Voting Rights?

A. (a) Yes.

(b) No.

117. Whether an existing PPI authorized entity which has operations only for last 6 months, but whose promoter has a track record of over 2 decades can apply for

Payments Bank as a Promoter. If yes, whether the condition of 5 years' experience can be waived off?

A. Yes, they are eligible to apply.

118. Can the same promoter have a PPI business in one entity and a Payment Bank in another entity?

A. No.

119. Can a Payment Bank offer a semi-closed wallet that is permitted under the current PPI authorization as a separate product with reduced KYC requirement in addition to opening normal accounts under the Payment Bank Guidelines? For this purpose, if required, can the existing PPI authorization be transferred to the Payment Bank entity? If the Payment bank is not allowed to offer Semi closed wallet, then can the existing PPI accounts be migrated into Savings Accounts?

A. As per para 4 of the guidelines, payments banks can issue PPIs as per instructions issued from time to time under the PSS Act, in addition to opening normal accounts under the Payment Bank guidelines. Further, the PPI entity cannot coexist with the payment bank in the same group.

120. Alternatively can the current entity holding the PPI authorization be converted to a Payment Bank?

A. Yes.

121. Please confirm that there is no obligation for a Payments Bank to have a minimum number of branches. In case there is any such requirement, please inform the obligation to set up minimum number of branches and ATMs that RBI expects the payments bank to have, based on our customer base/reach? Also,

will the payments bank be subjected to branch authorization requirements (eg: Preparing the annual branch expansion plan) as specified in the branch authorization master circular. As per the guidelines, Payments banks are required to have at-least 25 percent of physical access points in rural areas. Does RBI envision any minimum infrastructure requirements for physical access points?

A. Please refer to para 13(i) of the guidelines.

122. What will be the norms of free ATM transactions applicable to Payment Banks?

A. Norms of free ATM transactions will be applicable to Payments Banks also.

123. Will this same documentation obtained by Telecom companies for KYC checks for their customers before signing them up as subscribers be considered adequate for the purpose of KYC for a Payment Bank promoted by a telecom company?

A. The payments bank will have to undertake its own KYC/AML/CFT exercise as any other bank.

124. Will payment banks be allowed to access inter-bank call money market for short term liquidity management? Will they be allowed to enter into repurchase agreements on their government securities holdings?

A. Yes.

125. Would this allow the payment bank to sell credit products, mutual fund units, Insurance and trading products to its customers on behalf of other banks?

A. A payments bank may choose to become a BC of another bank, subject to the RBI guidelines on BCs.

126. Whether account holders who are registered as merchants with higher levels of KYC can be allowed to hold balances exceeding Rs.1 lakh.

A. No.

127. Since there are no specific limits mentioned for cross border outward and inward transactions, we assume we can perform these transactions as long as the maximum end of the day balance is Rs 1 lakh (per individual customer).

A. Please refer to para 4(i) of the guidelines.

128. Kindly confirm if the Payments Bank can issue debit cards with VISA/MASTER/RUPAY?

A. Yes.

129. Will all RBI guidelines applicable for Schedule Commercial banks, will be applicable to Payments banks? (e.g. to provide BSBDA accounts, Free ATM transactions, Risk based supervision, etc.)

A. Yes. All guidelines issued to SCBs that are relevant to the activities undertaken by the Payments Banks will apply.

130. Please confirm that there will be no obligation to provide cheque books or other paper based products for Payments banks? Consequently, please also confirm that a Payments Bank is not required to participate in ACH/ECS.

A. Payments banks are expected to do the normal banking business as stated in Section 5 of the BR Act 1949 (except lending), which includes acceptance of deposits repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise. Membership of clearing house/ECS etc. is part of payment and settlement systems.

131. Will Aadhar based e-KYC authentication (facilitated by NPCI) be allowed for new account opening at payment bank?

A. As per para 3 of the guidelines, the payments bank will have to undertake its own KYC/AML/CFT exercise as any other bank and will be guided by extant instructions on the same.

132. Would other transactions – remittances, PoS cash-out etc. be regulated similar to existing banks? Or would payment banks have a different set of regulations?

A. Yes the same set of regulations will apply.

133. (a) Can a payment bank promoter set up another non banking finance company to carry out lending activities, especially for transaction linked products such as credit cards? (b) Can the Payment Bank acquire a minority ownership stake in such an NBFC?

A. (a) Yes.

(b) No.

134. Would all the existing IT guidelines issued by RBI for scheduled commercial banks be applicable for the Payment banks as well? Request to share any specific exceptions or exclusions provided for payment bank entities.

A. All RBI guidelines applicable for scheduled commercial banks, will be applicable to payments banks.

135. It's mentioned in the Payment bank guidelines that Cash-out can also be permitted at Point-of-Sale terminal locations. Request to clarify if this can be used for the following:

- a) To provide retailers with POS terminals and allow them to facilitate debit card based cash withdrawals by end customers of payment bank**
- b) BCs to use the POS terminals and facilitate debit card based withdrawals, without account information**
- c) Can the trade channels use their mobile application or portals as POS terminals to facilitate transactions**
- d) Can the trade channels perform cash withdrawals using Aadhaar based biometric authentication**

A. (a to d) The extant instructions issued under the Payment and Settlement Systems Act will be applicable.

136. Clarification is sought on whether payment banks are permitted to offer credit on behalf of a licensed credit provider, in an arrangement that does not require the commitment of their own funds.

A. A payments bank can choose to become a BC of another bank subject to RBI guidelines on BCs and not any other credit provider.

137. Clarification is sought on whether the Rs 100,000 limit is applicable to the balances held by the payments bank as a corporate entity from its business relationships such as Business Correspondents, or other deposits from its agents, service providers or vendors etc. These balances should not be classified as customer deposits, and as such the limits should not apply to the payments

bank accounts of those retailers serving as business correspondents (BCs) to provide cash-in/out services.

A. The Rs.1,00,000 limit applies to customer deposits.

138. Clarification is sought on whether companies registered in India but with significant foreign direct investment (up to 100%) that fall into the categories of eligible entities qualify as eligible promoters.

A. At the time of making application, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the 'in-principle approval' is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements and the within 18 months from the date of in-principle approval or as on the date of commencement of operations whichever is earlier.

139. With regards to the procedures for application for payments bank, clarification is sought on whether (1) An application for a payments bank is considered binding in the case that in-principle approval is granted; (2) whether an additional round of applications is expected?

A. The in-principle approval issued by RBI will enable the applicant to set up the bank within eighteen months from the date of granting such in-principle approval and thereafter the in-principle approval will lapse automatically. After experience gained in dealing with the payments banks, applications will be received on a continuous basis. However, these guidelines are subject to periodic review and revision.

140. Whether the Promoter entity can continue to carry its other business (other than which is to be carried out by bank for e.g. real estate, IT solutions, services, manufacturing etc.) in the promoter entity itself or does the said business has to be transferred to other entity by the promoter entity?

A. Promoter entity can continue to carry its other business (other than which is to be carried out by bank for e.g. IT solutions, services etc.) in the promoter group. The other financial and non-financial services activities of the promoters, should be kept distinctly ring-fenced and not comingled with banking business.

141. Eligible Promoter does not include MFI as against specific mention in Small Finance Banks guidelines Whether MFI is will be an eligible promoter for Payments Banks considering MFI is typically an NBFC?

A. Yes. NBFC – MFI are eligible.

142. Whether Payments Banks can accept Fixed Deposit (FD), Term deposit / Recurring deposit?

A. No

143. Can the entrepreneurs who have wide experience of providing mobile payments and compliance solutions to banks and meets remaining eligibility conditions are eligible to apply for Payment Banks?

A. Yes

144. Is it possible to make application of present Trade Name which is in software industry (Pvt Ltd.) and separate the Payments Banks business once the necessary approvals are obtained from RBI and other relevant compliance agencies.

A. Yes. A software company can promote a payments bank if otherwise found eligible.