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Payments banks to expand reach of banking in rural areas: World Bank

By PTI | Updated: Oct 23, 2015, 12.40 PM IST

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WASHINGTON: India's move to set up 11 new payments banks is expected to expand penetration of the banking sector in vast rural areas of the country, the [World Bank](#) has said.

"The decision by the Reserve Bank of India to grant 'in principle' approval for 11 entities to set up payments banks, which would be directed at small savers in underserved (largely rural) markets, could help transform the rural remittances market," the World Bank said in a report on remittances released here yesterday.

These banks would be subject to regulatory requirements that limit credit risk, (75 per cent of deposit balances are to be in eligible [government securities](#) or treasury bills, while loans, credit card issuance, and acceptance of non-resident Indian deposits are prohibited) but would be subject to lighter prudential norms (minimum paid up capital of about USD 15 million, compared to five times that amount for universal banks), it said.

The payments banks would have simplified Know-Your-Customer (KYC)/Anti [Money Laundering](#) (AML)/ Countering Financing of Terrorism (CFT) norms commensurate with the small accounts and bottom of the pyramid customers they are expected to handle (RBI 2014, [Deloitte](#) 2014).

The payments banks are permitted to provide remittance services, including through mobile telephones, and many of the approved entities are mobile operators, the Bank said.

According to the World Bank, the entry of new players is likely to increase competition, lower remittance costs and extend the formal market for remittances.

The Reserve Bank on Wednesday granted 'in-principle' approval to 11 entities, including [Reliance Industries](#), [Aditya Birla Nuvo](#), Vodafone and [Airtel](#), to set up payments banks and proposed such licences 'on tap' in future.

More than half of India's population lack formal bank accounts, and the vast majority of villages lack last mile banking services, the Bank said.

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