

RIP, payments banks?

Too many restrictions are choking them

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It is reported that India Post Payments Bank is struggling to survive with mounting salary bills and very little business. This is not totally unanticipated. Some months ago, Aditya Birla Idea Payments Bank, which is a full service digital bank, said it will be winding up operations. The decision, the bank said, had been taken due to unanticipated developments in the business landscape that have made the economic model unviable.

The Reserve Bank of India had issued guidelines for payments banks in November 2014 with the objective of improving financial inclusion. Though they are called banks, their functions are similar to those of deposit-taking companies.

Cholamandalam Distribution Services was granted approval to launch a payments bank in 2015, but it dropped out a year later citing profitability concerns. Tech Mahindra secured licence but failed to start, blaming thin margins and the long wait for return on investments. Sun Pharma promoter Dilip Shanghvi (who teamed up with IDFC Bank and Telenor Financial Services) had also secured licence, but did not begin operations.

Finally, Aditya Birla Payments Bank, Airtel Payments Bank, India Post Payments Bank, Fino Payments Bank, Jio Payments Bank, Paytm Payments Bank and NSDL Payments Bank are the only ones that are functioning.

Airtel Payments Bank reported a 10 per cent increase in loss at ₹272 crore during fiscal 2017-18 against a loss of ₹244 crore in the year-ago period.

Jio Payments Bank, which is part of Reliance group, got its licence in August 2015 but started operations only in April 2018.

Paytm Payments Bank turned profitable within its second year of operation, reporting a profit

of ₹19 crore for the financial year 2018-2019. NSDL Payments Bank started operations only in October 2018.

A bank's profit is mainly from its lending (financial intermediary) operations. Profits generated by other activities form a very small percentage of the total. The 'other income' component can only supplement a bank's revenues. When payments banks are restricted from disbursing loans and advances, one cannot expect them to thrive merely on commission earned from remittances.

A payments bank can take only up to ₹1 lakh as deposit from a customer.

These banks have to maintain Cash Reserve Ratio and Statutory Liquidity Ratio and hold a maximum of 25 per cent in current and fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

Over and above these, the deposits mobilised by a payments bank are covered by the Deposit Insurance and Credit Guarantee Corporation of India. This involves payment of guarantee commission by the bank.

It was prescribed that the minimum paid-up equity capital for a payments banks shall be ₹100 crore and the bank should have a leverage ratio of not less than 3 per cent—that is, its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves). These restrictions do not leave any scope for generating sufficient income for the bank or its promoters. Hence the day may not be far off when more payments banks exit the scene.

Some of these banks are toying with the idea of converting themselves into small finance banks. It is better these banks are wound up or merged with other commercial banks to protect depositors' money.

The writer is a retired banker

BOOK EXTRACT

Keeping digital giants in check

In his book, V Sridhar looks at concerns over monopoly and privacy, and the regulatory challenge

World is witnessing exponential growth of IT enabled digital platforms that are disrupting the traditional businesses in areas such as education, e-commerce, healthcare, hospitality, and transport. Many start-ups that use digital platforms and associated markets to provide products and services have become unicorns with sky high valuations. These platforms have also changed the traditional economy to gig economy, thus providing on-demand services through real time supply-demand matching of associated labour and services. The technology firms that offer digital platform based services have so far avoided regulatory scrutiny of their business processes and methods due to their innovation, superior and evolving technologies and associated economic benefits they create.

Common examples of platforms are that of transportation providers such as Ola and Uber, e-commerce firms such as Amazon and Flipkart, and education platforms such as Coursera and Vedantu. There are also other classes of digital platform that provide Internet based communication and broadcasting services such as WhatsApp, Hike, and Netflix that compete directly with the traditional telecom and broadcasting firms.

Two Sided Markets (2SM) and associated Platforms (P) form the basis of operation of most of these digital firms... Typical examples include an e-commerce portal that connects users on one side with suppliers of goods on the other side; a travel portal that intermediates between travellers on one side and the travel firms on another; and so on... This becomes very important especially

in an unorganised sector where it is of prime importance for the platform provider to bring a semblance of organisation, thus facilitating commerce between the two sets of users. India is unique in this aspect, compared to many other countries since a large number of unorganised set of firms exists and that too especially in direct consumer related verticals such as travel, consumer goods, healthcare, apparel, fashion, to name a few.

By playing a technology based intermediation role, the 2SMP firms decrease search cost for the users on either side of their platform. In an unorganised market, search costs are often very high...

Economies of scale

...A recurring theme of technology-enabled market places has been the creation of greater economies of scale – cost advantages that business enterprises get as the amount they produce or transact grows. These network effects can be local or global. Be that it may, the economies of scale and network effects lead to winner-take-all nature of 2SMPs and hence monopolisation or cartels in the market place.

Excessive market power can threaten consumer welfare. For example, in India Uber/Ola and Amazon/ Flipkart control major market shares in cab riding and e-commerce respectively.

Hence regulatory oversight and Significant Market Power assessment is needed to avoid predatory pricing, cartelisation, and abuse of dominant power. In general, the competition watchdog should frame rules that are appropriate for the 2SMPs, that is welfare enhance and does not reduce the public benefits of such market forms.

MEET THE AUTHOR

V Sridhar is a Professor at IIT-B. He is the author of *The Telecom Revolution in India: Technology, Regulation and Policy* and *The Dynamics of Spectrum Management: Legacy, Technology, and Economics* and has also written for leading telecom and information systems journals.



Title: Emerging ICT Policies and Regulations: Roadmap to Digital Economies
Author: V Sridhar
Publisher: Springer
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These 2SMP firms collect data about users, and user behaviour. There are associated information privacy concerns due to collection of data at granular level by these firms. While on one hand the collection and analysis of consumer data improves personalisation of services including price discrimination, it might invade security and privacy of individuals. For example, the location information helps cab aggregators to build a more appropriate supply-demand model; demographic information helps hotel aggregators to match the interests of room seekers and hosts. However, this information if not used appropriately can lead to privacy issues.

Market monopoly

While traditional regulation attempts to minimise market failure—due to information asymmetry, inequitable outcome, significant market power; or existence of negative externalities; whether the same is applicable to the platform economy is not clear. For example, if the platform firm gets greedy and morphs into a network monopoly, it may exhibit its market power much like the traditional firm, thus wiping out the true benefit to the stakeholders. What if the platform economy firms use regulatory arbitrage to win over incumbents, but do not conform to certain minimum safety, security, environmental and privacy require-

ments? They can also engage in anti-competitive behaviour, which can be harmful to their users.

It is propounded by researchers that the right philosophy for regulating this new age platform economy is one that rejects the idea that creators of new technologies seek permissions from public officials before taking their services to market... For innovation to blossom, entrepreneurs need a clear green light from policymakers that signals a general acceptance of risk-taking—especially risk-taking that challenges existing business models and traditional ways of doing things, thus leading to “permission-less innovation”.

...Globally, regulators are struggling to cope up with the realities of the platform economy. While platform companies are innovating with disruptive solutions, which challenge existing operations and business models, they may not fall neatly into existing business structures and corresponding regulatory frameworks. Regulators, in many cases, seem to react by extending or modifying existing regulations to cover such companies, sometimes conflicting with their key business propositions...

...There are host of issues such as predatory pricing, privacy violation, consumer welfare and safety, worker safety and labour contract, consumer discrimination, data localisation (i.e. whether the digital platforms should store and process consumer data within country), substitutability and complementarity of services of digital firms with traditional not-so-digital firms, content moderation including fake news, that warrant regulatory intervention...

...In India, Telecom Regulatory Authority of India, Competition Commission of India, as regulators have been having a number of consultations with all stakeholders about the above issues periodically.'

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NEW READS



Title: Me: Elton John Official Biography
Author: Elton John
Publisher: Macmillan
Price: ₹999

Singer/songwriter Elton John looks back on an extraordinary life of music, fame, drama, addiction, and perseverance in his trademark unabashed style



Title: Fast, Cheap and Viral: How to Create Game-Changing Content on a Shoestring Budget
Author: Aashish Chopra
Publisher: Hachette India
Price: ₹350

A guide to viral video marketing and the secret to reaching millions on a shoestring budget through effective engagement and storytelling



Title: That Will Never Work: The Birth of Netflix and the Amazing Life of an Idea
Author: Marc Randolph
Publisher: Endeavour
Price: ₹699

The story of a tech start-up that began with the simple idea of using the Internet to rent movies, and ended up changing the video industry forever

5 THINGS to WATCH OUT for TODAY

■ **Prime Minister** Narendra Modi is likely to take part in 14th East Asia Summit in Thailand. Modi is also set to have a number of bilateral meetings with various East Asian leaders after the meet, besides attending a special lunch hosted by the Thai Prime Minister.

■ **State-owned** Bharat Sanchar Nigam Ltd is slated to open applications for its voluntary retirement scheme, even as the public sector unit defaulted on October salaries. The window is open for 30 days. BSNL plans to offer VRS to employees above 50 years of age and expects at least 80,000 personnel to avail it. The PSU employs nearly 1.59 lakh personnel, of which around 1.06 lakh are aged above 50.

■ **Financial results** of HDFC, IOB, Godrej Agrovet, Saint Gobain and Sundram Fasteners for the quarter ended September are scheduled to be announced

■ **The odd-even** road rationing scheme is set to return to Delhi for the third time and will be in effect till November 15. Under the scheme, which aims to reduce pollution in Delhi, odd and even-numbered vehicles ply on the roads on alternate days.

■ **The main** runway of the Mumbai international airport will be partially shut till March 28, 2020. The terminal will remain closed for eight hours every day, except Sundays and select days, for re-carpeting. The secondary runway will be catering to the flights during this time. The repair work of the main runway had been slated to start from November 1.

BY THE WAY DIPANKAR BHATTACHARYA looks at people and professions



EASY

ACROSS

01. Forcibly move prisoner (4-5)
05. Acknowledgment of applause (3)
07. Those opposing motion (4)
08. Intermittently, occasionally (3,3,2)
10. Renounce, deny (8)
11. Inner fruit skin (4)
13. Engraved design (6)
15. Deadly epidemic (6)
18. Is sickly (4)
19. One sent as representative (8)
22. Using block capitals (8)
23. End section of movement (mus) (4)
24. Vehicle (3)
25. First dentition (4,5)

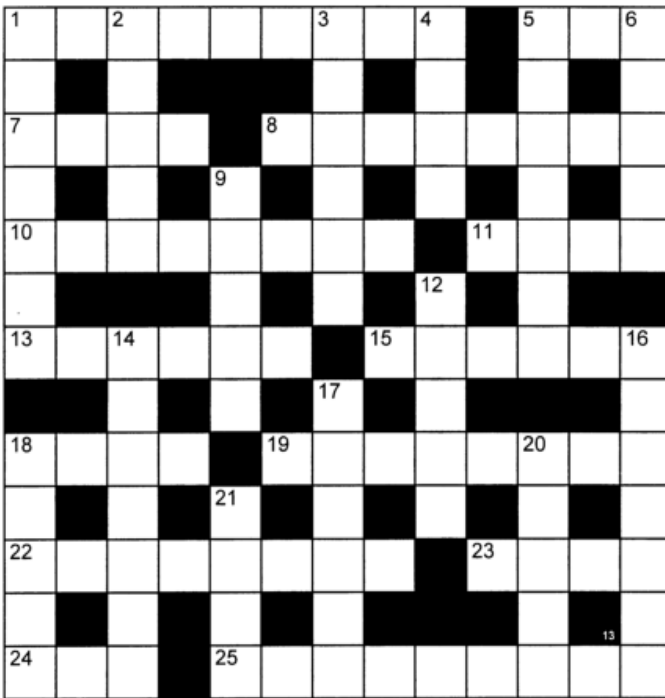
DOWN

01. Flourish of trumpets (7)
02. Water mass (5)
03. Disprove, deny (6)
04. Chief (4)
05. About to break into leaf (7)
06. Winding machine (5)
09. Be in harmony (5)
12. Glossy, prosperous-looking (5)
14. Coal worker (7)
16. Deception, humbug (7)
17. Edible heart of nut (6)
18. Savoury jelly (5)
20. Started from sleep (5)
21. Stalk (4)

SOLUTION: BL Two-way Crossword 1477

ACROSS 01. Pebble 04. Scrimp 09. Lessons 10. Okapi 11. Avow 12. Limp 13. Ere 15. Sing 16. Pend 19. Gag 21. Ably 22. Ages 24. Alone 25. Cornice 26. Expose 27. Etches
DOWN 01. Pull a long face 02. Bishops 03. Look 05. Croupier 06. Inane 07. Pricelessness 08. Astir 14. Invaders 17. Dogfish 18. Slack 20. Group 23. Trot

BL TWO-WAY CROSSWORD 1478



NOT SO EASY

ACROSS

01. Amphibian takes a month to move one by force (4-5)
05. Sort of tie brought into contact with the string? (3)
07. They're against the motion one's responsible for (4)
08. Two positions for the switch, occasionally (3,3,2)
10. Deny that gnat has a bee worried (8)
11. Sort of helmet found around pigs? (4)
13. Finely drawn in sketch editor used (6)
15. The Black Death came up with gale somehow (6)
18. Sail head-to-tail if one is ill (4)
19. Pass on responsibility to a representative (8)
22. Making an impression of writing in capitals (8)
23. Musical tail in chihuahua docked in reverse order (4)
24. It's roughly the right set of wheels (3)
25. They're the first to bite the elk Tim routed (4,5)

DOWN

01. Supporter has price of travelling to parade of enthusiasm (7)
02. Indian, say, has no Ace to turn to (5)
03. Deny it's true about iron perhaps (6)
04. Be at the top of the bean (4)
05. Beginning to develop a method of grafting (7)
06. Haul up half of Wykehamist's college (5)
09. Say one will get on together (5)
12. Smooth way Welsh emblems are presented tail-first (5)
14. Dog right at the stern of a coal-ship (7)
16. Humbug should make the viewer come clean (7)
17. What's edible in Brazil sounds rank in the army (6)
18. Broad-leaved lavender is savoury in jelly (5)
20. Stopped dreaming all right, in wonderment (5)
21. It curves at the prow to check the tide (4)