



# RBI Imposes Restrictions on Paytm Payments Bank

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## Why in News?

Recently, the [Reserve Bank of India \(RBI\)](#) has imposed strict restrictions on **Paytm Payments Bank Ltd (PPBL)**. This move comes after an audit report highlighted persistent non-compliances and supervisory concerns within the bank.

## What are the Key Restrictions Imposed on PPBL?

- **Background:** Section 35A of the **Banking Regulation Act, 1949**, confers authority upon the RBI to issue directives to banks and undertake necessary actions to prevent the operations of any banking entity from being conducted in a manner detrimental to the interests of depositors or prejudicial to the bank's own interests.
  - In this case, sources indicate concerns over **dubious transactions** involving significant sums of money between Paytm and its associated banking entity prompted the RBI to take action against the business.
    - PPBL reportedly had **numerous non-compliant accounts lacking proper KYC verification**, with thousands of instances where a single **PAN** was used to open multiple accounts.
  - Additionally, transactions exceeding regulatory limits in minimum KYC prepaid instruments raised red flags about potential [money laundering activities](#).
- **Key Restrictions:**
  - **Deposit Bar:** PPBL is barred from accepting further deposits, top-ups, or credit transactions into its accounts or wallets from **29<sup>th</sup> February, 2024**.
    - This also applies to its prepaid instruments for [FASTags](#) and [National Common Mobility Cards \(NCMC\)](#) cards.
  - **Service Limitations:** The ban extends to banking services such as [Aadhaar Enabled Payment System](#), Immediate Payment Service, bill payments, and UPI transactions.
    - The bank must settle all pipeline and nodal account transactions by 29th March, with no further transactions permitted thereafter.
  - **Closure of Nodal Accounts:** PPBL is directed to terminate nodal accounts of its parent company and Paytm Payments Services before 29th February, 2024.

## Note

Nodal accounts serve as specialized bank accounts established by businesses, acting as financial intermediaries.

- These accounts are designed to hold funds collected from participating banks on behalf of consumers, with the primary purpose of later transferring these funds to specific merchants.

## What are Payment Banks?

- **About:**
  - Payment banks are a specialized type of bank introduced by the **RBI** in 2014. They are designed to promote financial inclusion by offering basic banking services to the unbanked and underbanked population.
  - They were introduced on the recommendations of the [Nachiket Mor committee](#) set up by the RBI to examine financial services for small businesses and low-income households.
  - **Example:** Airtel Payments Bank, [India Post Payments Bank](#), etc.
- **Licensing Requirements:** They are licenced under **Section 22 (1) of the [Banking Regulation Act, 1949](#)**
  - They fall under the differentiated bank license category of RBI as they are restricted from offering the full range of services provided by commercial banks.
    - RBI grants two types of banking licenses: **universal bank licenses and differentiated bank licenses.**
- **Features:**
  - **Reserve Requirements:** They are required to maintain the [Cash Reserve Ratio \(CRR\)](#) and [Statutory Liquidity Ratio \(SLR\)](#).
    - Minimum **75%** of its demand deposit balances in **Statutory Liquidity Ratio** eligible G-securities/ T-bills with maturity up to one year.
    - Maximum **25%** in current and time/ fixed deposits with other scheduled commercial banks apart from maintaining CRR requirements
  - **Minimum Paid-up Capital:** The **minimum paid-up equity capital** has been fixed at **Rs 100 crore**.
    - The promoter's minimum initial contribution to the paid-up equity capital shall be at least **40% for the first 5 years.**
  - **Prohibited Services:** They are prohibited from conducting lending operations or issuing credit cards.
    - Therefore, they are also exempt from [priority sector lending regulations](#) that typically apply to traditional banks.
  - **Rural Outreach Requirements:** At least 25% of a Payments Bank's physical access points have to be in rural centers.
- **Major Activities Performed by Payment Banks:**
  - Accepting deposits from individuals and small businesses, up to a certain limit (currently set at Rs 2 lakh per account).
  - Providing remittance services, and facilitating domestic money transfers.
  - Issuing [ATM/debit cards](#), prepaid payment instruments, and other electronic payment methods.
  - Offering internet banking services, including online fund transfers and bill payments.

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System	Access Deposit	Advance Loan	Make Payment
Commercial banks like SBI, PNB	YES	YES	YES
Payments network operators(Master card, VISA)	NO	NO	YES
Payments bank	YES	NO	YES

