

Payment Bank: A Revolutionary Step of Indian Post Payment Bank towards Financial Inclusion

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ABSTRACT

The Indian financial system has witnessed remarkable changes since 1991. Banking sector is one among which is performing really well after liberalization, and success can truly be associated with major banking reforms taken by RBI some major technological changes that have take place over years . In 2014, RBI introduced two new categories of banks into the Indian financial system, namely Payment Banks and Small Banks. The core objective of introducing these banks to increase the financial inclusion and spreading financial product and services to untapped rural area . Payment banks is a new kind of bank which is potential with the express purpose of extending the reach of banking to vast majority of the unbanked and under banked segments of the population. This paper presents about the framework of the payment banks, and the expected benefits from the payment banks. How this Indian Post Payment Bank going to be remarkable step towards providing financial services to customers, especially migrant workers and those from lower income households, as well as bring them into the formal financial system. Is Indian post Payment bank going to be second wave of financial inclusion after the first wave of the Pradhan Mantri Jan Dhan Yojana. This paper is completely based on secondary data to give overall idea about payment bank and its working mechanism and how the concept of payments bank kills two birds with one stone. Firstly, its movement towards the financial inclusion initiative by widening the digital payment infrastructure. Secondly, it encourages the Financial Technology culture in the Indian banking. Findings are favorable in deepening the financial services and financial inclusion in India, especially in the rural areas, mainly focusing on low-income groups and small businesses.

INTRODUCTION

The concept of financial inclusion, which aims to provide access to basic financial services to all individuals, including the marginalized and underprivileged sections of society, has gained immense importance in recent years. In India, the government has taken several initiatives to promote financial inclusion, including the establishment of the Indian Post Payment Bank (IPPB). This research paper aims to discuss the IPPB, its objectives, functions, and impact on financial inclusion in India.

Indian Post Payment Bank:

India Post Payment Bank (IPPB) is a public sector bank in India that was established in 2018 under the Department of Posts, Ministry of Communication. It aims to provide basic banking and financial services to people in rural and remote areas of the country, where traditional banking services may not be available. IPPB offers a range of services including savings and current accounts, money transfer, bill payments, and other financial products. It operates through a network of post offices across the country, and customers can access their accounts through mobile banking, internet banking, and ATMs.

One of the main objectives of IPPB is to promote financial inclusion in India, particularly in rural areas where a large proportion of the population is unbanked. By leveraging the extensive network of post offices in the country, IPPB aims to reach out to these underserved communities and provide them with basic banking services.

Role of IPPB in Promoting Financial Inclusion:

The IPPB has played a significant role in promoting financial inclusion in India since its launch. By leveraging the extensive network of post offices in the country, the IPPB has been able to reach even the remotest parts of the country. The IPPB offers a range of banking services, including opening of savings accounts, deposit of money, withdrawal of cash, and transfer of funds.

The IPPB has also enabled digital financial services through its mobile banking app and internet banking platform. Customers can access these services from the comfort of their homes, eliminating the need to visit a bank branch. The IPPB has also partnered with several government schemes, including the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the Atal Pension Yojana (APY), to extend the benefits of these schemes to the unbanked and underserved population.

Impact of IPPB on Financial Inclusion:

The IPPB has had a significant impact on financial inclusion in India since its launch. According to a report by the RBI, the IPPB has opened over 1.36 crore accounts since its launch, with a majority of these accounts belonging to women. The IPPB has also facilitated over 16 crore transactions worth over Rs. 8,800 crore. The IPPB has also enabled digital financial services, including mobile banking and internet banking, which have helped in reducing the usage of cash in the economy.

Challenges and Way Forward:

Despite the significant progress made by the IPPB in promoting financial inclusion in India, several challenges remain. Limited access to formal financial services, low financial literacy, and lack of trust in the formal financial system are some of the significant challenges faced by the IPPB. To address these challenges, the IPPB must focus on increasing financial literacy among the unbanked and underserved population and enhancing the trust in the formal financial system.

LITERATURE REVIEW

Payment banks increasing impact of financial inclusion drive by playing significance role in implementing government's direct benefit, transfer schemes, where subsidies on health care , education and gas are paid directly to beneficiaries account .It may lead competition between traditional and payment banks will lead to widening and improvement in quality of banking services are at reduced costs and which may finally leads results in financial inclusion.

Scope of Payment banks are a good way of reaching the masses for the even the smallest of payment at the odd hours, which defiantly makes the payment systems viable for the masses. Also as Indian system is that the masses majorly deal in cash and this system becomes the pseudo cash handling system and so it is this that digitally captures even the smallest transactions.

Overall, the literature review provides a comprehensive overview of the key concepts and initiatives related to financial inclusion in India and the role of the IPPB in promoting financial inclusion. The literature review highlights the significant impact of the IPPB on financial inclusion in India and its potential to continue playing a crucial role in promoting financial inclusion in the country.

OBJECTIVES OF THE STUDY:

- ☐ To study the emergence of Payment bank in India .

- ☐ To study how Payment banks differ with traditional banks.
- ☐ To study the role of Indian post payment banks in financial inclusion.

METHODOLOGY:

This is a conceptual and descriptive research paper based on secondary source of data. The data is collected from national and international journals, published government reports, RBI report, News paper, websites etc. secondary research involves re-analysing, interpreting, or reviewing past data. Help in understanding what happened and what happening at present.

HOW PAYMENT BANKS WORK :

Reserve Bank of India conceptualised a new model of bank known as payment bank unlike traditional banks. This type of banks, which are expected to reach customers mainly through mobile phones rather than traditional bank branch. Major initiation towards financial inclusion and increase the financial services to unbanked population of 233 million especially in the rural areas, mainly focusing on low-income groups and small businesses. The rural population remained unaware due to unregulated regional rural banks as well as the rural branches of commercial banks. In order to counter this problem and to strengthen the enhancement of financial inclusion and financial literacy. 40% of the population still do not have access to formal financial services. Reserve bank of India and government of India took initiative and formed the committee on comprehensive financial services for small businesses and low income households having objective to design principle that will guide and development of institutional framework and regulation for financial inclusion and deepening the financial services the committee headed under the chairmanship of Dr.Nachiket Mor on Sep 2013 . The final reported submitted on Jan 2014 gave recommendation to form new model of bank known as payment bank .On July 2014: The RBI issued the draft guidelines for the payment banks, inviting suggestions comments from interested entities and the general public.On November 2014: RBI released final guidelines for payment banks. In February 2015, RBI released the list of entities which had applied for a payment banks license. There were 41 applicants. It also announced that an external advisory committee(EAC) headed by the Dr. NachiketMor would evaluate the license applications. 28 February 2015:During presentation of the budget it was announced that Indian post will use its large networks to run the payment banks. On 6 July 2015: the external advisory committee submitted findings. The applicant entities were examined for their financial track record and government issues. 19 August 2015: The RBI of India gave “in-principle” licenses to 11 entities to launch payment banks out of

these 3 were surrendered . According to the RBI, the 'in-principle' approval granted will be valid for a period of 18 months, during which time the applicants have to comply with the requirements and fulfill the other conditions stipulated by the guidelines. The RBI will grant full licenses under Section 22 of the Banking Regulation Act, 1949, after it is satisfied that the conditions have been fulfilled and will be registered as public limited company under the Companies Act, 2013. A payments bank is a differentiated bank with the specific objective of catering to the unbanked and under banked. whereas Some of the functionalities not allowed for the payment banks but are a tool in other traditional public and private banks. payment bank can accept the deposit up to the limit of 1 lakh per individual and further may increase according to RBI guidelines and it cannot issue any loan or credit facilities etc.

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RBI have been laid down the guidelines for payment bank:

- Credit Cards cannot be issued by payment bank.
- It cannot accept any type of NRI deposits .
- Not allowed to set up subsidiary institutions .
- Non-banking financial activities cannot be undertaken .

The Following Criteria Needs to be Fulfilled by Owner of a Payment Bank:

- The minimum equity capital for Payment Banks should be INR 100 Crores .
- For the first 5 years, the owner or promoter's share should be at least 40% . Foreign share in the entity should follow the FDI rules for Banking institutes.
- 25% of the branches must be in Unbanked rural areas.
- Payment bank required to invest minimum 75 per cent of its "demand deposit balances" in Government securities and hold maximum 25 per cent in current and time/fixed deposits with other scheduled commercial banks .
- The bank and its operations should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms.
- It must have Customer Grievances Cell to handle customer complaints.

COMPARISON OF PAYMENT BANK WITH OTHER COMMERCIAL BANK:

Feature	Payment bank	Traditional bank
Making deposit	YES	YES
Deposit limit	RS.1 LAKH	NO LIMIT
Withdrawal facility	YES	YES
Interest on loan	YES	YES
Availing of loan	NO	YES
Credit card	NO	YES
Debit card /ATM facility	YES	YES

These payment banks provide all basic banking services and allow cash deposits of up to Rs 1 lakh per account. Since these banks primarily target low-income groups, they offer a minimal fee for every transaction. Additionally, few of them offer a higher interest rate in the range of 4% to 7% on the money deposited compared to the interest rate of 3 to 4% offered by most commercial banks. It reaches out to the migrant laborers and lower income groups by providing all services on mobile phones and issuing a very low transaction fee for every service.

FINANCIAL PRODUCTS OFFERED

Here, we look at the three different kinds of IPPB savings accounts - regular, digital and basic saving account.

REGULAR SAVINGS ACCOUNT :

The account can be opened with zero balance and there is no requirement to maintain a monthly average balance in the account like any other commercial bank. Anybody above 10 years with KYC can open this account. One can make unlimited cash deposits and withdrawals in this account. Demand deposited restricted to Rs.1 lakh and an individual cannot allowed to have more than one account . The account does not come with a debit card or cheque book only the current account has the cheque book facility instead a QR card is provided. It provides a unique, secure and convenient way to access your account without the hassle of remembering your account number. The transactions can be initiated by using biometric authentication. scan the code and authenticate through biometric verification. One cannot open a joint regular savings account since the account can be held only under a single person's name. The nomination facility is, however, available for a regular savings account.

DOORSTEP BANKING:

Gramin Dak Sevak (GDS) or the postman will be there to fulfil the doorstep banking of IPPB. One may ask for doorstep banking (non-cash as well as cash transactions) at their doorstep. At no cost, one may ask

for the opening of the account at the doorstep. Once opened, one may even ask for these - transfer funds, deposit and withdraw cash, recharge or pay bills through the doorstep banking services, at nominal charges.

Third-party Service :Insurance Loan Investments.

DIGITAL SAVINGS ACCOUNT:

The third type of savings account that can be opened in IPPB is the digital savings account that can be opened from the IPPB Mobile App available on Android phone. Anyone above the age of 18 years, having Aadhaar and PAN card, can open this account. The total cumulative deposit permissible in the account is Rs 2 lakh a year. For unlimited access, one needs to undergo full KYC using biometric based Aadhaar verification to upgrade the digital savings account. There will not be any QR card in case of this account.

CURRENT ACCOUNT :

IPPB offers the facility of a Current Account to the small merchants/ kirana stores and individual businessmen. IPPB's Current Account gets you started on the road to digital transactions for your business needs. Along with this, IPPB also offers a Merchant App for meeting business requirements. The current account can be opened at the Post Office Counters or at your doorstep through our Postman/GDS. Nominal monthly average balance required to be maintained The account can be opened with zero balance Simplified banking services through QR card Nominal monthly average balance required to be maintained Instant credit of customer payments into your account Simple and secure cashless transactions.

VARIOUS OTHER KINDS OF FINANCIAL SERVICE OFFERED:

MOBILE BANKING :

IPPB offers a state-of-the-art, simple, secure and easy-to-use Mobile banking service through a Mobile app to access the IPPB account and carry out transactions from the convenience of their mobile phone.

SMS BANKING :

India Post Payments Bank, provides the facility of SMS banking so that customers can quickly access the account details on their mobile phones, simply by sending an SMS to the IPPB's SMS Banking number 7738062873. MISSED CALL BANKING :To add to their convenience of banking with IPPB, can get their account information without any hassles, through the facility of missed call banking. Should register their mobile number for IPPB's missed call banking service and start availing the benefits.

PHONE BANKING :

IPPB's phone banking provides the convenience to access bank account from the comfort of their home, while at work or on the move. You can get information on their bank account, IPPB's products & services and resolve queries. To avail these service should call toll-free number 155299. Depending on the type of transaction, phone banking services could be a combination of IVR (Interactive Voice Response) and interaction with a teleoperator (agent assisted). Transactions that cannot be completed through IVR will be assisted by a dedicated phone banking officer.

QUICK RESPONSE CARD :

IPPB QR card redefines the way banking is done. It provides a unique, secure and convenient way to access their account without the hassle of remembering your account number. Do not need to remember any PIN/Password, as transactions can be initiated by using biometric authentication. They can do cash transactions, money transfer, bill payments, or cashless shopping using this card.

INDIA POST PAYMENTS BANK (IPPB) PAYMENT SERVICES :

BILL PAYMENT : All the billers that accept payment through Bharat Bill Payments system will be available.

THE DIRECT BENEFIT TRANSFER (DBT):

Scheme was launched in 2013 by the Government of India with an aim to reduce leakages by cutting out middlemen and transferring benefits/subsidies directly to the beneficiary's bank account. With IPPB, utilizing the benefits of DBT has been made easier. As a DBT beneficiary, all that you have to do is link your Aadhaar number with their IPPB savings account for receiving their DBT money. They will get the DBT money directly credited to their IPPB account, maintained at your neighborhood post office.

REMITTANCE AND FUND TRANSFER :

India Post Payments Bank (IPPB) customers can choose from a variety of payment options to transfer money to their family and relatives. Customers can enjoy IPPB's economic and hassle-free services for sending money anywhere, anytime, across India. service such as Immediate Payment Service (IMPS) , National Electronic Funds Transfer (NEFT) and real time gross settlement (RTGS).

How has IPPB improved financial inclusion in India through a differentiated banking approach?

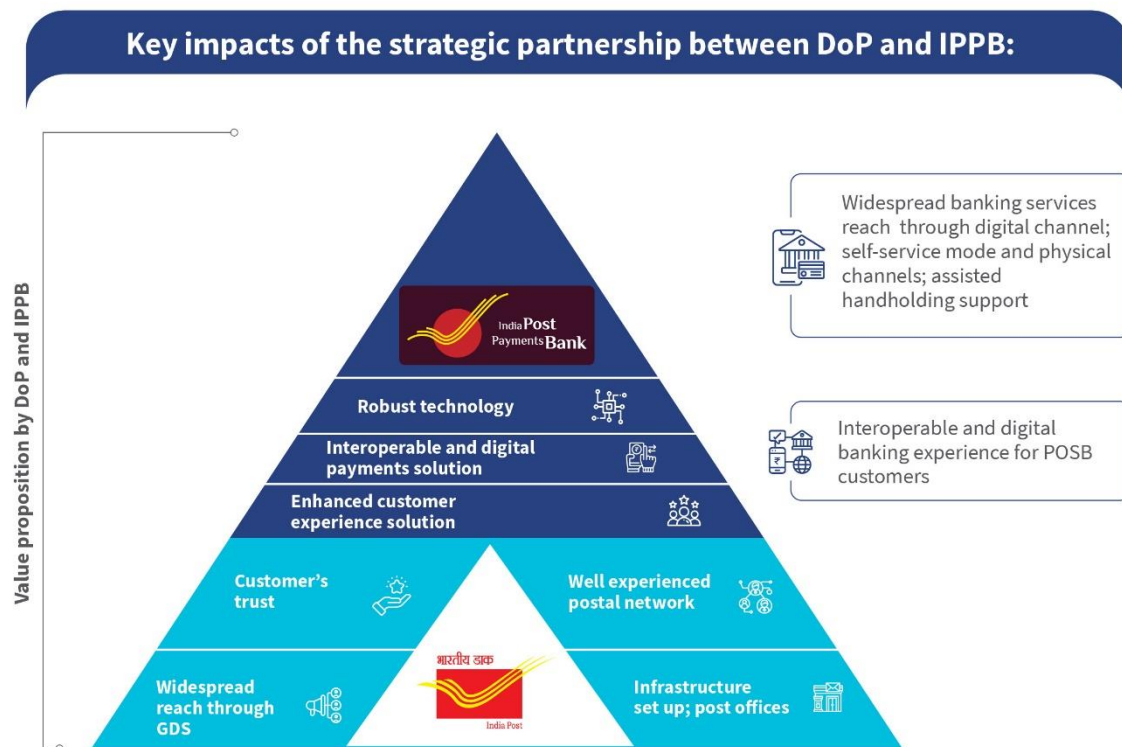
India Post Payments Bank is one of the most successful payments banks in India. Its collaboration model has created a positive impact to bridge the financial inclusion gap. This blog offers lessons for financial institutions across the globe that want to build robust strategies, launch new lines of pro-poor products, and unlock efficiencies in distribution through capacity-building initiatives.

The Reserve Bank of India (RBI) constituted a committee in 2014 to bridge the financial inclusion gap in the country and design a plan to improve access to banking services for customers like Basant. The committee floated the idea of creating a new category of financial institutions called payments banks (PBs). RBI envisaged PBs as a path to building a financially inclusive and digitally empowered country. India Post Payments Bank (IPPB) was among the 11 entities to which the RBI gave in-principle approval to set up a PB. While there were many challenges with, and questions about, the model, it was broadly seen as an important and norm-challenging approach to achieving full financial inclusion.



Why did IPPB and DoP collaborate?

The collaboration between IPPB and the DoP created a win-win situation for both organizations through their shared vision of improving financial inclusion in India. Below is a glimpse of how this partnership has built a thriving ecosystem for each other.



Distribution and trust: The DoP was established in 1854 when letters delivered by the GDS were the only source of information that brought people closer to their loved ones. The deep-rooted trust in the postal network forms a crucial pillar of IPPB's vast distribution network. IPPB uses DoP's giant network of 189,000 GDS to deliver financial products and services at the convenience of the customers' doorstep. Further, the trusted network of GDS offers handholding support to customers to bring low- and moderate-income (LMI) people into the fold of digital payments. Around 90% of IPPB's 43.1 million customers live in rural areas.

Infrastructure and technology: IPPB uses post offices spread across the country to serve walk-in customers. This helps IPPB reduce capital expenditure on constructing physical touch points or branches. So far, IPPB offers banking services through more than 136,000 post offices. Out of these, around 90% are in rural areas, which has increased India's entire rural banking network at least 2.5 times. IPPB's banking services allow customers to digitally transact for the various small savings schemes of the Post Office Savings Bank (POSB).



Branding and product sales: IPPB enjoys widespread support from the DoP's postal network. It helped IPPB establish itself and reach 50 million customers within just three years. Out of the total 50 million account holders, around 48% are women. Thanks to the GDS network, about 98% of women opened accounts at their doorsteps. Trust in the DoP and IPPB's technology-first approach convinced customers of different age groups to open their bank accounts with IPPB. While the DoP already had the confidence of millennials, IPPB's doorstep banking (DSB) and handholding services encouraged other vulnerable segments, such as women and the elderly, to start using banking services.

What does this collaboration mean for the customer?

This collaboration is ubiquitously associated with improved access to digital financial products for customers. The digital transformation drive initiated by the DoP and IPPB will improve process efficiency, enhance scalability, and introduce sustainability. The collaboration has improved access to basic banking products and services through doorstep services. This allowed more usage of accounts—such as cash-in, cash-out, and payments—the lack of which remains a common problem for low-value accounts.

The widespread access to affordable and convenient financial services coupled with handholding support motivates LMI customers to use formal financial channels. This in turn has immense potential to improve customers' financial health and safeguard them against financial shocks.

Due to limited digital and financial literacy, most rural customers feel intimidated by digital interfaces. They require strong social proof to use formal financial channels and generally exhibit status-quo bias. Despite these challenges, IPPB retains a robust, rural customer base, whom it has offered doorstep banking to help kick-start its formal financial journey. IPPB has influenced a behavioral shift among the rural segment—another feather in its cap.

IPPB—the digital engine of inclusive growth

IPPB is on a path to revolutionizing the digital banking experience for customers through the unprecedented reach of the postal network. The innovative steps that IPPB has taken, such as DSB, distributing digital life certificates, and paperless transaction receipts, have paved the way for a digital transformation even in the country's hinterlands. Between 2019 and 2021, IPPB processed 48 million doorstep transactions and mobilized social security payments worth USD 0.39 billion for rural customers. Extensive handholding support through the trusted GDS network paved the way for affordable and accessible financial services for millions of customers, especially women and senior citizens. These milestones signify that IPPB has immense potential to turn digital India's dreams into reality.

CONCLUSION

Payment banks are becoming the most popular medium of digital transactions. India is moving towards a cashless and digital economy, which is more feasible and adaptable in relation to the recent technological and economic trends. It viewed as a wise strategy towards financial inclusion, The process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. However, the competition between traditional and payment banks will lead to widening and improvement in quality of banking services are reduced costs and which may finally leads results in financial inclusion. On comparison, it's too early to judge the competency of Payment banks with respect to, well established banks .There are numerous bottlenecks that need to be addressed before the real benefits of payment banks. There are millions of Indians don't have access to banking facilities. They cannot avail of government benefits, loans, insurance and even interest on savings. Payment banks, IPPB, will reach the unbanked and the under banked across the all cross section of society and geographies. Innovation and improvisation of the business could be the key elements of success of Payment banks.

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