



A Study on Payment Bank with Reference to Indian Post Payment Banks Revolutionary Step Towards Financial Inclusion

¹V. Balreddy, ²Neeradi Karthik

¹Degree Lecturer in Commerce, S.R. K Degree and P. G. College, Kamareddy.

²Research Scholar, Dept. of Business Management, Telangana University-Dichpally

ABSTRACT

The Indian financial system has witnessed remarkable changes since 1991. The banking sector is one of those that has done really well post liberalization and the success can really be attributed to the major banking reforms that have been done by the RBI, some major technological changes that have happened over the years. In 2014, the RBI introduced two new categories of banks in the Indian financial system, namely payments banks and small banks. The main objective of introducing these banks is to increase financial inclusion, to extend financial products and services to untapped rural areas. A payment bank is a new kind of bank that has the potential with the express purpose of extending the reach of banking to the vast majority of the unbanked and unbanked segments of the population. This article presents the framework for payment banks and the expected benefits of payment banks. How this Post Payment Bank of India will be a remarkable step towards providing financial services to customers, especially migrant workers and those from lower income households, and also bring them into the formal financial system. Is India's Postal Payments Bank the second wave of financial inclusion after the first wave of Pradhan Mantri Jan Dhan Yojana. This article is completely based on secondary data to give an overall idea about Payments Bank and its working mechanism and how the concept of Payments Bank kills two birds with one stone. First, its move towards a financial inclusion initiative by expanding digital payments infrastructure. Second, it promotes a fintech culture in Indian banking. The findings are favorable in deepening financial services and financial inclusion in India, especially in rural areas, focusing mainly on low-income groups and small businesses.

Key words: *RBI, Payment Bank, Financial Inclusion, Indian Post Payment Bank*

INTRODUCTION:

The Reserve Bank of India and the Government of India have taken many initiatives to promote finance and deepen access to financial services in India. A special scope is dedicated to people in rural areas, low-income groups, migrant workers and small businesses. Many initiatives have been launched like Pradhan Mantri Jan Dhan Yojna (PMJDY), Digital India Campaign, launch of electronic fund transfer mechanisms like NEFT and RTGS and promotion of mobile payments etc. Setting up of payment banks is the latest initiative taken by RBI and Government of India. RBI has come up with the concept of payment banks to drive financial inclusion in India, especially in rural areas, focusing mainly on low-income groups and small businesses. These banks are primarily based on low-value, high-volume transactions.

In September 2013, the Reserve Bank of India set up a committee headed by Dr. Nachiket Mor, who was to study "Complete Financial Services for Small Businesses and Low Income Households". The aim of the committee was to propose measures to achieve financial inclusion and deepen access to financial services.

The committee submitted its report to the RBI in January 2014. One of the committee's key proposals was to introduce specialized banks or "payments banks" for lower-income groups and small businesses so that every resident of India can have a global bank account by 1 January 2016. Through payment banks, RBI is trying to increase the level of penetration of financial services in remote areas of the country. On 19 August 2015, the Reserve Bank of India granted "in-principle" licenses to eleven entities to launch payment banks from 41 applications.

A new banking model conceptualized by the Reserve Bank of India (RBI). A payment bank is like any other bank, but the operational activity is limited to a smaller scale without involving any credit risk. Unlike other banks, it can perform most banking operations, but cannot provide loans or issue any credit cards. Currently, acceptance of demand deposit is limited to Rs 1 Lakh per customer and may be increased further; also offers remittance services, mobile payments/transfers/purchases and other banking services such as ATMs/debit cards, internet banking and third party fund transfers etc.

At present, six payment banks have actively started operations outside the granted license to 11 payment banks, so more will be added. In August 2015, India Post received a payment bank license from the Reserve Bank of India. In August 2016, it was registered as a state limited liability company to establish a payment bank. Following the success of the IPPB pilot project, it was inaugurated in Raipur and Ranchi in January 2017. The first phase of the nationwide inauguration took place on September 1, 2018.

India Post Payments Bank was incorporated as a public limited company under the Ministry of Posts with 100% capital of the Government of India.

Operating under the Ministry of Posts, the Ministry of Communications plans to use the unrivaled reach of the India Post network to achieve a Pan India rollout of 650 branches by early next year.

LITERATURE REVIEW

Payments banks are driving the impact of financial inclusion by playing a significant role in implementing government direct benefits, transfer schemes where subsidies for healthcare, education and gas are paid directly into the account of beneficiaries. It can lead to competition between traditional and payment banks, which will lead to expansion and improvement in the quality of banking services at a reduced cost, which can ultimately lead to financial inclusion (Dr. V. Ramesh Naik, P. Firdous, P. Harika)

Payment range banks are a good way to reach the masses even for the smallest payments at odd hours, defiantly making payment systems viable for the masses. Also the Indian system is that the masses mostly trade in cash and this system becomes a pseudo cash handling system and so it is this that captures even the smallest transactions digitally. (Madhavi Damle, Pushpendra Thenuan, Jimit Raval)

Payment bank is a revolutionary step said that it is important to realize that payment banks differ from commercial banks in many ways. Moreover, while the Minister of State for Communications claims it will launch the "second wave of financial inclusion", the first wave of the Pradhan Mantri Jan-Dhan Yojana is yet to be effectively implemented. (Major Sinha,)

This is a high-volume, low-margin play, and the key is to use scalable technology to reduce customer acquisition and service costs. Payments banks need to adopt a nimble cost structure to make this business viable in the long run (Anand Ramachandran, CFO, Paytm)

Study Conducted With the emphasis on the progress in digitization of banks, the rural population remained unaware due to unregulated regional rural banks as well as rural branches of commercial banks. How the Payments Bank will play a role in strengthening and improving financial inclusion and financial literacy. Payment banks must balance their costs and benefits (J. Vaishnavi, N. Shruthi)

These types of banks benefit from the digitization of cash. Almost 90% of transactions in India are typically cash-based, but demonetisation has put huge pressure on payments banks with emphasis on digital transactions. "We are seeing a new group of customers, including retailers, grocers and small business owners, opt for cashless payments. The level of adoption will only increase in the future and payments banks will facilitate this digital transformation," says Gupta.

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, Newspaper; websites etc. secondary research involves re-analyzing, interpreting, or reviewing past data. Help in understanding what happened and what happening at present.

HOW PAYMENT BANKS WORK:

The Reserve Bank of India has conceptualized a new model of bank known as payments bank as opposed to traditional banks. This type of banks expected to reach customers through mobile phones rather than a traditional bank branch. A major initiative towards financial inclusion and increasing financial services for the 233 million unbanked population, especially in rural areas, focusing mainly on low-income groups and small businesses. The rural population remained unaware due to unregulated regional rural banks as well as rural branches of commercial banks. In order to face this problem and strengthen the strengthening of financial inclusion and financial literacy. 40% of the population still does not have access to formal financial services.

The Reserve Bank of India and the Government of India have taken the initiative to form the Committee on Comprehensive Financial Services for Small Enterprises and Low Income Households to propose a principle to guide and develop the institutional framework and regulation for financial inclusion and deepening of financial services. September 2013 headed by Dr. Nachiket Plague.

A final report presented in January 2014 recommended the creation of a new bank model known as a payments bank. July 2014: RBI issued draft guidelines for payments banks and invited comments from stakeholders and the public. In November 2014: RBI issued final guidelines for payments banks. In February 2015, the RBI published a list of entities that had applied for payment bank licences. 41 interested parties applied. She also announced that an external advisory committee (EAC) headed by Dr. Nachiket Morem will evaluate license applications. February 28, 2015: During the budget presentation, it was announced that India Post will use its extensive network to operate payments banks. On July 6, 2015: the external advisory committee presented its findings. Applicant entities were screened for their financial performance and government affairs. August 19, 2015: India's RBI granted 'in-principle' licenses to 11 entities to launch payments banks, of which 3 surrendered. According to the RBI, the 'in-principle' approval granted would be

valid for a period of 18 months, during which the applicants have to comply with the requirements and fulfill other conditions laid down 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 met and it will be registered as a public limited company under the Companies Act, 2013.

Payment bank is a differentiated bank with a specific goal to cater to the unbanked and the less banked. While some features are not enabled for payment banks, they are instrumental in other traditional public and private banks. A Payments Bank can accept deposit up to a limit of one lakh per individual and further increase as per RBI guidelines and cannot issue any loans or credit facilities etc.

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.

Once above all condition are fulfilled the banks will be licensed as payments banks under Section 23 of the [Banking Regulation Act, 1949](#), and will be registered as [public limited company](#) under the [Companies Act, 2013](#).

BACKGROUND REASON FOR LIMITING one LAKH DEPOSIT:

According to RBI Statistical report, around 70% of the bank accounts in India have less than Rs 1 lakh deposits.

SIZE OF DEPOSITS	INDIVIDUALS		OTHERS		TOTAL	
	Number of accounts (%)	Amount (%)	Number of accounts (%)	Amount (%)	Number of accounts (%)	Amount (%)
Less than ₹25,000	31.5	2.4	36.6	0.3	32.0	1.4
₹25,000 to ₹1 lakh	36.4	13.1	29.5	1.8	35.7	7.7
₹1 lakh to ₹15 lakh	31.3	55.7	28.7	7.6	31.0	33.0
₹15 lakh to ₹1 crore	0.8	15.9	4.0	13.7	1.1	14.9
₹1 crore and above	0.0	12.9	1.2	76.8	0.1	43.0
TOTAL	100	100	100	100	100	100

Source: RBI's latest report on Basic Statistical Returns, 2016

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. This scheme has already been introduced worldwide and has been a groundbreaking success in Kenya.

INDIA POST PAYMENTS BANK (IPPB)

IPPB is a public sector company under the Ministry of Posts and Ministry of Communications with 100% capital of the Government of India and is managed by the Reserve Bank of India. IPPB will focus on providing banking and financial services to people in semi-urban and rural areas by connecting almost all post offices. currently it has 650 branches across India with 3250 post offices and about 11000 gram dak sevaks in rural areas and postmen in urban areas who will provide door to door banking services with IPPB having 2.5 times the network of a normal bank.

In August 2015, India Post received a payment bank license from the Reserve Bank of India. It is the third bank to get a license to open a payments bank after Airtel and Paytm. In August 2016, it was registered as a state limited liability company to establish a payment bank. The pilot project was conducted in two branches in January 2017 in Raipur and Ranchi. Final Indian Post Payment Bank has been given the green signal to launch. The first phase of the nationwide inauguration took place on September 1, 2018. It is called India's newest bank and the mother of all banks as it is 2.5 times larger than a regular roaster. IPPB has permission to link approximately 17 million Post Office Savings Bank (PSB) accounts with its payment bank account.

India's new public sector company, India Post Payments Bank (IPPB), is set to be the next largest bank in India with financial inclusion at the helm. In terms of network size, it is already the largest payments bank in the country with a network that reaches the rural corners of the country. India Post Payments Bank will utilize the infrastructure and staff already covered by the postal network to implement this initiative. It aims to promote financial inclusion by integrating people who are currently employed in India's informal economy.

Starting with the launch of 3,250 access points, IPPB will expand its footprint and leverage the vast postal network of nearly 1.55 lakh post offices and 3 lakh m postal staff in every district, town and village of the country to serve. has 34 million savings accounts that will now be able to enjoy digital banking services like mobile banking, direct phone banking benefits, etc.

The postal network in India is one of the most extensive and comprehensive. By utilizing pre-existing post offices and postmen familiar with their routes, the IPPB can utilize the existing resources at its disposal. Instead of having to hire and train an entirely new workforce, the Postal Service already has postmen available to go door-to-door to receive customers, answer requests for bank statements, coordinate third-party services and other tasks. Almost 11,000 postmen have already started working in urban and rural areas. In addition, there is no need to build additional infrastructure even with already established post offices in remote corners of the country.

While IPPB has the same functions as a regular bank, it cannot issue lines of credit through loans or credit cards. But on the other hand, there is no minimum balance requirement either. Moreover, this is where the biggest benefit of this initiative lies. The bank does not rely on fines and loans to generate income, but on deposits and transaction fees. It means that individuals can be part of the initiative and have a bank account without necessarily needing a continuous stream of income, making IPPB an accessible and affordable solution.

FINANCIAL PRODUCTS OFFERED

Here we look at the three different types of IPPB Savings Accounts – Current, Digital and Basic Savings Account.

REGULAR SAVINGS ACCOUNT:

The account can be opened with zero balance and there is no need to maintain an average monthly balance in the account like any other commercial bank. Anyone above 10 years with KYC can open this account. This account can make unlimited deposits and cash withdrawals. Deposited demand is limited to Rs.1 lakh and an individual cannot afford to have more than one account. The account does not come with a debit card or check book, only a current account has a check book function, instead a QR card is provided. It provides a unique, secure and convenient way to access your account without having to remember your account number. Transactions can be initiated using biometric authentication. Scan the code and verify with biometric verification.

A joint regular savings account cannot be opened as the account can only be held in the name of one person. However, the nomination facility is available for current savings account. Currently, savings accounts do not provide a draft option for regular savings accounts.

HOME BANKING:

Gramin Dak Sevak (GDS) or postman will be there to fulfill IPPB door to door banking. One can apply for door-to-door banking (cashless as well as cash transactions) at their doorstep. You can request to open an account at the door free of charge. Once opened, you can even apply for them - transfer funds, deposit and withdraw cash, recharge or pay bills through door-to-door banking services for nominal fees. Third Party Service: Investing Insurance Loans.

India Post Payments Bank savings accounts Doorstep Banking Service Charges	
Particulars	Cost
Opening of account	NIL
Transaction other than cash deposits and withdrawals	Rs. 15 per Transaction
Cash Transaction: Cash Withdrawal, Cash Deposit	Rs. 25 per Transaction

BASIC SAVINGS ACCOUNT:

The second type of savings account that can be opened in IPPB is the Basic Savings Account, which will be similar to a current account. It will have all the features and benefits like door-to-door banking, QR card usage, etc. that a regular savings account offers, but will only allow four cash withdrawals per month.

DIGITAL SAVINGS ACCOUNT:

The third type of savings account that can be opened in IPPB is a digital savings account that can be opened from the IPPB mobile app available on an Android phone. Anyone above 18 years of age who has Aadhaar card and PAN can open this account. The total permissible cumulative deposit in the account is Rs 2 million per annum. For unlimited access one needs to undergo full KYC using Aadhaar biometric verification for digital savings account upgrade. There will be no QR card for this account.

CURRENT ACCOUNT:

IPPB offers current account facility to small traders/Karana shops and individual entrepreneurs. A .IPPB Current Account will get you started on the path to digital transactions for your business needs. Along with this, IPPB also offers a business application to meet business requirements. A current account can be opened at post office counters or at your doorstep through our postman/GDS. Nominal monthly average balance required to maintain Account can be opened with zero balance Simplified banking services via QR card Nominal monthly average balance required to maintain Immediate crediting of customer payments to 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 application to access their IPPB account and transact from the comfort of their mobile phone.

SMS BANKING: India Post Payments Bank provides SMS banking service so that customers can quickly access their account details on their mobile phones by simply sending an SMS to IPPB SMS Banking number 7738062873.

MISSED CALL BANKING: To add to their convenience of banking with IPPB, they can get their account information without any hassle through the missed call banking feature. They should register their mobile number for IPPB missed call banking service and start availing the benefits.

PHONE BANKING: IPPB Phone Banking provides the convenience of accessing your bank account from the comfort of your home, work or on the go. You can get information about their bank account, IPPB products and services and solve queries. To avail these services, call the toll-free number 155299. Depending on the type of transaction, telephone banking services may be a combination of IVR (Interactive Voice Response). and interaction with the teleoperator (using an agent). Transactions that cannot be completed via the IVR will be assisted by a dedicated telephone banking employee.

QUICK RESPONSE CARD: The IPPB QR card redefines the way banking is done. It provides a unique, secure and convenient way to access their account without having to remember their account number. You don't need to remember any PIN/Password as transactions can be initiated using biometric authentication. They can use this card to make cash transactions, money transfers, bill payments or cashless purchases. If the QR card is lost or stolen, the money will still be safe in your account because every transaction is verified by biometrics. IPPB QR is easy to use. Follow these three simple steps:

1. Scan the code
2. Authenticate through biometric verification
3. Complete the transaction



INDIA POST PAYMENTS BANK (IPPB) PAYMENT SERVICES:

BILL PAYMENT: All billers accepting payments through Bharat Bill Payments will be available.

DIRECT BENEFIT TRANSFER (DBT): The scheme was launched in 2013 by the Government of India to reduce leakages by cutting out middlemen and transferring benefits/subsidies directly to the beneficiary's bank account. With IPPB, reaping the benefits of DBT has become easier. As a DBT beneficiary, all you have to do is link your Aadhaar number with their IPPB savings account to receive their DBT money. They will get the DBT money directly credited to their IPPB account held at your neighborhood post office

MONEY AND FUNDS TRANSFER: Customers of India Post Payments Bank (IPPB) can choose from various payment options to transfer money to their family and relatives. Customers can use IPPB's economical and hassle-free services to send money anywhere, anytime across India. Service like Instant Payment (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS)

FINDINGS:

- The programme of "Digital India" which initiated by the Government of India(GoI) is still in the nascent stages. However Indian Post Payment bank can help create greater utility as they have already established their prominence.
- Formal banking or financial system is not addressing the financial of backward people living in remote corners across India. Payments banks will open branches in these areas.
- On an average 70% of population, have less than Rs.1 lakh deposit in their bank account. Payment bank majorly concentrated on this population.
- The greatest advantage of an Indian post payment banks is the convenient in carrying out transactions at the customer's doorstep .Neighborhood postman is about to become a banker.
- This study proves that payments banks will increase financial inclusion by providing small savings accounts and payments/remittance services to migrant labourers, low-income households, small businesses and other unorganized sector entities Indian post payment bank is 2.5 times then comparatively normal bank network . The payments bank will gradually link all 1.55 lakh post offices in the country to offer the service out of which 1.30 lakh post offices in the rural area. That will have at least one branch in every district and focus on financial services in rural areas.
- IPPB will offer a range of products such as savings and current accounts, money transfer such as RTGS, NEFT, IMPS, direct benefit transfers, bill and utility payments, and enterprise and merchant payments.

CONCLUSION:

Payment banks are becoming the most popular medium for digital transactions. India is moving towards a cashless and digital economy that is more viable and adaptable to recent technological and economic trends. It considered this a wise strategy towards financial inclusion, the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as the weaker sections and low-income groups, at an affordable price, in a fair and transparent manner by the major institutional players. However, competition between traditional and payment banks will lead to the expansion and improvement of banking services, lower costs and may ultimately lead to financial inclusion. In comparison, it is too early to assess the competence of payment banks with respect to well-established banks. There are a number of bottlenecks that need to be addressed before the benefits of payments banks are real. There are millions of Indians who do not have access to banking facilities. They cannot use government benefits, loans, insurance or even interest on savings. Payments Banks, IPPBs, will reach the unbanked and underbanked across all cross-sections of society and geographies. Innovation and business improvisation could be key elements of success for payment banks.

Bibliography

1. Dr. Martin Patrick (2015) Payment Banks: A Case of 'Banks For The Unbanked' Centre for Public Policy Research
2. Dr. Nachiket Mor, "Committee on Comprehensive Financial Services for Small Businesses and Low Income Households," Reserve Bank Of India, Govt Report, 2013'
3. Dr.V. Ramesh Naik, P.Firdous, P.Harika(2017) .A Study On Role Of Payment Banks In India – Financial Inclusion : International Conference On Recent Advance Engineering Science Management.
4. Madhavi Damle, Pushendra Thenuan, Jimit Raval (2016) .Genesis of Payment Banks: It's Stimulus on the financial inclusion in India:International Journal of Scientific & Engineering Research, Vol 7, Issue 3, pp 783-791
5. Vaishnavi J., Shruthi N. Payment Banks – An Innovative Initiative by RBI :IOSR Journal of Business and Management (IOSR-JBM), Vol-7 ,PP 60-66.
6. <https://www.moneycontrol.com>
7. <https://www.livemint.com>
8. <https://www.businesstoday.in/>
9. <https://ippbonline.com>
10. https://en.wikipedia.org/wiki/India_Post_Payments_Bank
11. <https://economictimes.indiatimes.com>
12. <https://bijlipay.co.in/blog/need-payment-banks-india/>
13. <http://rbi.org.in>
14. <http://pib.nic.in>