

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.

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

INTRODUCTION:

The Reserve Bank of India and the Government of India have been taking many initiatives to promote financial and deepening access to financial services in India . Special scope given to people in rural areas, low-income groups, migrant workers and small businesses. Many initiatives have been launched, such as the Pradhan Mantri Jan Dhan Yojna (PMJDY), the Digital India Campaign, launching of electronic fund transfer mechanisms such as NEFT and RTGS, and promoting mobile payment etc. The setting up of payments banks is the latest initiative taken up by the RBI and the Government of India. The RBI has set up the concept of Payment Banks is drive towards financial inclusion in India, especially in the rural areas, mainly focusing on low-income groups and small businesses. These banks are mainly being set up to focus on low value-high volume transactions.

In Sep 2013 the Reserve Bank of India constituted a committee headed under the chairmanship of Dr. Nachiket Mor to study 'Comprehensive financial services for small businesses and low income households'. The objective of the committee was to propose measures for achieving financial inclusion and deepening

access to financial services.

The committee submitted its report to RBI in January 2014. One of the key suggestions of the committee was to introduce specialised banks or 'payments bank' to cater to the lower income groups and small businesses so that by January 1, 2016 each Indian resident can have a global bank account. With payments banks, RBI seeks to increase the penetration level of financial services to remote area of the country. On 19 August 2015, the Reserve Bank of India gave "in-principle" licenses to eleven entities to launch payments banks out of 41 application.

A new model of banks conceptualised by the Reserve Bank of India (RBI). A payments bank is like any other bank, but operating activity restricted to smaller scale without involving itself to any kind of credit risk. Unlike other banks it can carry out most banking operations but cannot advance loans or issue any credit cards. Presently acceptance of demand deposit is restricted to Rs 1Lakh per customer and may be increased further, it also offers remittance services, mobile payments/transfers/purchases and other banking services like ATM/debit cards, net banking and third party fund transfers etc.

Presently There are six payment banks actively started operating out of given license to 11 payment banks hence, more would be coming up. on Aug 2015 India Post got license to run a payments bank from Reserve Bank of India. On Aug 2016 it was registered as a public limited government company for setting up a payments bank. After the success of pilot project of IPPB was inaugurated on Jan 2017 at Raipur and Ranchi. The first phase nationwide inauguration happened on September 1, 2018 onwards.

India Post Payments Bank has been incorporated as a Public Limited Company under the Department of Posts with 100% Government of India equity. Operating under the Department of Posts, Ministry of Communication, which plans to leverage the unparalleled reach of the India Post network to achieve a Pan India roll out of 650 branches by early next year.

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 (Dr.V. Ramesh Naik, P.Firdous, P.Harika)

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. (Madhavi Damle, Pushpendra Thenuan, Jimit Raval)

Payment bank is a revolutionary step said that, it's important to remember that payments banks are different from commercial banks in a number of ways. And while the Minister of State for Communications claims that this 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.)

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

The study carried out Emphasis on advancement in digitalizing banks, the rural population remained unaware due to unregulated regional rural banks as well as the rural branches of commercial banks. How payment bank will play a role in strengthening and enhancement of financial inclusion and financial

literacy. Payment banks must maintain a fine balance between their costs and benefits (J.Vaishnavi, N.Shruthi)

These type of banks benefit in cash digitisation. Nearly 90% of transactions in India are typically cash based, but demonetisation has given a huge push to payments banks with its emphasis on digital transactions. “We are already witnessing new set of customers, including vendors, grocers and small business owners, opting for cashless payments. The adoption level will only increase going forward, 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, 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.

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 1 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	1.6	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 Department of Posts and the Ministry of Communication with a 100 per cent equity of the Government of India, and governed by the Reserve Bank of India. IPPB will focus on providing banking and financial services to people in Semi urban and rural areas, by linking almost all post office branches . at present it has 650 branches all over the India with 3250 post office and around 11,000 gramin dak sevaks in rural area and postmen in urban area that will provide doorstep banking services comparatively IPPB has 2.5 times network then the normal bank network.

On August 2015 India Post got licence to run a payments bank from Reserve Bank of India. It's a third bank to get license to open run payment bank after Airtel and Paytm .On August 2016 it was registered as a public limited government company for setting up a payments bank. The pilot project been carried out in a two branch on January 2017 at Raipur and Ranchi. Final Indian Post Payment Bank got green signal to launch . The first phase nationwide inauguration happened on September 1, 2018.It is called as India's newest bank and also mother of all banks because it is 2.5 times network then normal baking network . IPPB has permission to link around 17-crore postal savings bank (PSB) accounts with its Payment bank account.

India's new public-sector company, the India Post Payments Bank (IPPB) is set to be the next biggest bank in India with financial inclusion at the helm. It terms of its network size, it's already the largest payments bank in the country with a network that extends into the rural corners of the country. The India Post Payments Bank will use the infrastructure and employees already within the umbrella of the postal network to implement this initiative. It aims to promote financial inclusion by integrating people currently employed in India's informal economy.

IPPB Starting with the launch of 3250 access points, It will be spreading its footprint and leveraging the vast postal network of nearly 1.55 lakh Post Offices and 3.0 lakh postal employees in every district, town and village of the country to serve .The post office already has 34 million savings accounts that will now be able to avail digital banking services such as mobile banking , phone banking direct benefit etc.

The postal network in India is one of the vast and most comprehensive. Using the post offices that are already in place and the postmen familiar with their routes, the IPPB can capitalise on the existing resources

it has on hand. Rather than having to employ and train a whole new workforce, the postal service already has postmen in place that can go door-to-door for customer on-boarding, answering account statement requests, coordinating third-party services and other tasks. Nearly 11,000 postmen have already started on the job across urban and rural areas. And there's no need to construct additional infrastructure either with post offices already established in far-flung corners of the country.

While the IPPB has the same functions as an ordinary bank, it can't issue credit lines via loans or credit cards. But then again, there's no minimum balance requirement either. And, herein lie the biggest boon of the initiative. The bank doesn't rely on fines and loans to generate revenue, but on deposits and transaction charges instead. It means that individuals can be a part of the initiative and have a bank account without necessarily needing a continuous flow of income, making the IPPB an affordable and accessible solution.

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. Currently, the savings account do not provide demand draft facility for regular savings accounts.

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.

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 that will be similar to the regular account. It will have all the features and benefits such as doorstep banking, using of QR Card etc offered by the regular savings account, however, it will allow only four cash withdrawals in a month.

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

- ✚ Manage your account digitally - Anytime, Anywhere
- ✚ No additional investment in POS machines
- ✚ Enabling small merchants/kirana stores/unorganized retail
- ✚ Build transaction history

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. In case

of a lost or stolen QR card, the money will still be safe in your account as each transaction is authenticated through biometrics. IPPB QR is easy to use. Follow these 3 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 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)

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 then Rs.1 lakh deposit in their bank account. Payment bank majorly concentrated on these population .
- The greatest advantage of a 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 unorganised 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 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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