

# ROLE OF INDIA POST PAYMENTS BANK LTD IN FINANCIAL INCLUSION-A CASE STUDY

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**Abstract:** As per the World Bank Report, India is considered to be one of the most developing economies of the world with being adaptable to the changes in various crucial sectors including Banking and Finance. But the flip side of the coin is that, still majority of Indian Diaspora are yet to experience the banking and financial services as per their convenience and requirement. Regardless of location, income, status, education etc. everyone must have the access to the legitimate financial services and transaction. This calls for a clear registration and understanding of the benefits there from the individual as well as to the nation at large for the development of a sustainable economy. Banks play a crucial role in this effort called Financial Inclusion. India Post the only postal service provider to the nation has certain advantages of being functioning as the payments bank compared to the banks providing banking services. Recently, the Government of India has incorporated The India Posts Payments Bank Ltd to provide a platform for better access for financial inclusion. In the present paper, the author has tried to present a critical analysis and evaluation of financial inclusion by taking the role of India Post Payments Bank Ltd. as a case study.

**Keywords:** Financial Inclusion, Inklusix, Financial Interface, Unified Payments Interface

## Introduction

According to World Bank data, only 35% of Indians have an account with a formal financial institution, as compared to Singapore where 98% of the population has access to formal banking channels. According to ratings agency CRISIL, the all-India Inklusix (financial inclusion index) score is relatively low at 40.1 with just one in two Indians having a savings account and only one in seven Indians having access to banking credit. The correlation between inclusive growth and reduction in poverty and corresponding social equality is widely recognised; and financial inclusion is the first step towards attaining this goal. It is and can be seen as a tool for advancing equitable growth for all the economic participants in the society. Products need to be designed keeping in mind aspects of low financial literacy, cyclical income, minimal collateral, lack of credit history, absence of formal and verifiable identity, illiteracy, among others. It is also essential to recognise that earlier efforts of financial inclusion focused primarily on the supply-side aspect i.e. increasing reach and distribution channel); however, for inclusion to be holistic, it is relevant to take care of the demand-side aspect also i.e. credit absorption capacity, financial literacy, among others. The JAM trinity viz. Jan dhan yojana, Aadhaar and Mobile coined under the leadership of revered Modijee is a game-changing reform that plans to fight the problem on a digital battlefield, inaugurating a new chapter in India's governance story.

## Barriers Faced In Implementing Financial Inclusion

Any change for good will implicitly have barriers to change and hence financial inclusion is of no exclusion! Following are the barriers for the implementation of Financial Inclusion.

- Human Barriers: These include limited financial literacy, cost, and lack of legal identity, financial status of the people, age, and gender issues.
- Information Barriers: Due to lack of literacy, the poor and the under privileged usually are less aware about the financial services and the benefits of financial inclusion through financial literacy.
- Infrastructural Barriers: These include location, distance, high cost, time, lack of knowledge about use of technology, lack of ICT based banking transactions and lack of incentives to the backward caste people (BCs including STs and SCs).
- Institutional Barriers: These include lack of coordination between RBI and Government of India, Inadequate client protection, Limited understanding of customer needs, Lack of quality services and inadequate regulatory framework.

Examining these barriers as challenges for the financial inclusion, the post office network can have following feasible opportunities.

**Network Base:** India Posts boasts of one of the largest network in the world. Hence, the post offices location can be used as a piggy back strategy from a supply chain perspective. Compared to banks post offices have more penetration particularly in rural area. Financial inclusion is required more from rural area as compared from the urban area. Thus, the Post Bank can have branches at district headquarters remaining post offices across the country will function as customer access points for Post Bank.

**Long Serving Staff at one Area:** Compared to banks the post office employees are not transferred frequently and practically it can be taken as negligible rate of relocation. This leads to building up of acquaintances resulting strong bondage with the general public particularly by the post man of that area.

**Courteous Staff:** It is a common experience that, in order to deal with rural people postal employees are taken more into confidence by the localities. The post offices at different levels will be the main customer touch points for the bank's services. A close liaison between the bank and DoP staff at the access points can be maintained on a regular basis at the branch level for success of the delivery model. This can be used as a profound basis to convince and serve the people for the financial inclusion.

**Operation of Postal Savings Account and Post Bank Savings Account:** At the time of signing up, customers can clearly be told what the product features are and customers will be able to choose the product of their choice. Given the difference in purpose of the two accounts, the postal savings account customers can be encouraged to open postal bank savings account for managing their fund flow including bill payments, remittances to other family members, businesses etc. depending on their needs. Customers focusing on savings may prefer to have their deposits with postal savings account and transact through their postal bank account as per requirements. Customers will be given the option to channel money from their postal bank accounts to any of the postal savings schemes. For example, a postal savings accounts customer will be able to use money in his account to open and service a RD/ TD/ SSY or any other postal bank account. Thus both postal bank and postal savings bank can synergistically serve the customers.

**Unified Payments Interface (UPI):** The post office can ensure that the banking and payments services offered through the postal network are well integrated and completely interoperable with the rest of the banking and payments ecosystem and will leverage new age technology in line with key technological advances in the banking sector such as unified payments interface (UPI).

**Utility Bill Payments:** The Post Bank will not only drive revenues for DoP but also help in maintaining DoP's brand image and relevance in the current financial landscape that is evolving rapidly. For e.g. Utility bill payments services of the Post Bank as a Bharat Bill Payment Operating Unit (BBPOU) will help DoP in increasing its market share in the utility bill payments space and provide technology driven services to customers. New age technology will enhance customer experience, provide more options and help in serving the larger cause and vision of the GOI i.e. to bring about financial inclusion for the vast unbanked and underserved population.

### The Genome & The Genesis

The idea of setting up of a postal bank in India was first conceived during the 11 th five year plan (FYP 2007-12) in the lines of the services offered by Poste italiane SpA is an Italian postal services provider with its headquarters base at 190 viale Europa, [Rome, Italy](#) with a view to have financial literacy and inclusion for the untapped segment of Indian geo-demography. Ernst & Young world's largest and reputed professional consultancy services provider based in London, U.K. was entrusted the job of preparing a feasibility report for such a massive project. In due course of time, the Planning Commission of India, kept the idea aside in August, 2013 stating the paucity of fund to implement the project. Added to that, in October 2013, the Union Cabinet made a bold statement quoting the lacuna of expertise in Department of Posts to run the show. But India Post against all odds promulgated that; it would open ATMs across the nation. True to the declaration country's first ATM by Department of Posts opened in Chennai on February 27, 2014. It is interesting to note that, India Post could not manage to get banking license and out of 26 applicants only two namely Infra Structure development Finance Company (IDFC) and Bandhan Financial Services were declared winner. However, India Posts being the only Government Applicant, RBI said that it would examine the proposal separately in consultation with the government.

Things took a radical turn after Mr Narendra Modi took charge as the 14 th Prime Minister of India. He opened the file and appointed a Task Force headed by T S R Subramanian in September. Consequently, the report clearly recommended that, the services in the area of Banking, Insurance and e-Commerce by the government should be increased for maximum access by all walks of life and submitted to the Ministry of Information & Communication Technology (M o ICT) on December 04, 2016. Then a series of developments took place; First, it was declared in December 2014, that all the account holders of India Post would get the [ATM-cum-debit cards](#). Next, In January 2015, the government declared that an Act would be promulgated to make India Post eligible by the Reserve Bank of India (RBI) to open for banking operations across nation. In the Union Finance Budget presentation on February 28, 2016 it was declared that, the vast network of India Posts would be used for banking operations and a payments bank in line with the Postal Department would come into existence and operation very soon in the forthcoming Financial Year, i.e. the current financial year. It is worthwhile to note in this context that, with 1, 55,015 Post Offices, the Department of Posts (DoP) has the most widely distributed postal network in the world. Thus, The India Post Payments Bank (IPPB) came to life on August 17, 2016 as a Public Limited Company under the Department of Posts with 100% Government of India (GoI) equity.

### Strategic Goals of IPPB

The bank was formed with the following strategic goals. They are:

- ✓ To Achieve the long term goal of financial self-sufficiency by generating surpluses from services (existing & new) outside the universal service obligation
- ✓ To Develop, implement and operate a system of standards with accountability for performance
- ✓ To Develop a scalable and flexible technology infrastructure to support the operations
- ✓ To Be the preferred, trusted and reliable service partner for all types of customers
- ✓ To Ensure that India Post acquires all required people capabilities to deliver its chosen services portfolio
- ✓ To Be the interface between citizens and the government

### Services of IPPB

- Acceptance of demand deposits, i.e., current deposits, and savings bank deposits from individuals, small businesses and other entities, as permitted. The Postal Payments bank will be restricted to holding a maximum balance of Rs. 1, 00,000 per individual customer.
- Issuance of ATM / Debit Cards. Postal Payments banks, however, cannot issue credit cards.
- Postal Payments and remittance services through various channels including branches, Automated Teller Machines (ATMs), Business Correspondents (BCs) and mobile banking.
- Issuance of Payments Protection Insurance (PPIs ) as per instructions issued from time to time under the Payments & Settlement Systems Act, 2007 (PSS Act-2007).
- The Postal Payments bank is expected to leverage technology to offer low cost banking solutions through Internet and mobile banking.
- Functioning as Business Correspondent (BC) of another bank – a Postal Payments bank may choose to become a BC of another bank, subject to the RBI guidelines on BCs.
- As a channel, the Postal Payments bank can accept remittances to be sent to or receive remittances from multiple banks under a payment mechanism approved by RBI, such as RTGS (Real Time Gross Settlement)/NEFT (National Electronic Funds Transfer)/ IMPS (Immediate Payment Service or Instant Payment Service).
- Postal Payments banks can also be permitted to handle cross border remittance transactions in the nature of personal payments or remittances on the current account.
- Postal Payments banks can undertake other non-risk sharing simple financial services activities, not requiring any commitment of their own funds, such as distribution of mutual fund units, insurance products, pension products, etc. with the prior approval of the RBI and after complying with the requirements of the sectorial regulator for such products.
- The Postal Payments bank can also undertake utility bill payments etc. on behalf of its customers and general public.

### Features of IPPB

1. **Financial Literacy:** Wealth creates wealth. Even a little saving can go a long way if channelized correctly. With trustworthy advice and services designed to include everybody, income can be invested correctly, more can be saved, and people can start moving forward, faster. IPPB aims to make India prosperous by ensuring that everyone has equal access to financial information and services, no matter who they are, what they earn and where they live.
2. **Streamlining Payments:** Beneficiaries can access income from government's DBT (Direct Benefit Transfer) programs like MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act, 2005 wages, Social Security Pensions and scholarships, directly from their IPPB bank account with near zero friction. They can also pay their utility bills, fees for educational institutions and many more from the same IPPB account. It ensures that wherever they are, they can make the most of financial opportunities available to them.
3. **Financial Inclusion:** Millions of Indians don't have access to banking facilities. They cannot avail of government benefits, loans and insurance, and even interest on savings. IPPB will reach the un-banked and the under-banked across all cross sections of society and geographies. Services offered by IPPB will help them take the first step towards prosperity.
4. **Ease of Accessibility:** IPPB is powered by the very postmen who deliver our letters. With over 1.55 lac post offices across the country, India Post enjoys the trust of Indians everywhere. The postal delivery system will make IPPB, India's most accessible banking network. IPPB will also offer services through internet and mobile banking, and prepaid instruments like mobile wallets, debit cards, ATMs, PoS (Point of Sale) and MPoS (Mobile PoS) terminals etc.

### The Way Forward

A vast majority of the rural population (over 60%, as per RBI), is still unbanked or under banked. An easily accessible payments network and universal access to savings is fundamental to financial inclusion. At the same time, several non-banking entities such as the Department of Posts (DoP), prepaid payment instrument companies, business correspondent companies, etc., have had reasonable success in facilitating payments and other select financial services in urban areas. Their customers, however, face several limitations and difficulties arising out of their nonbanking status. In this context, the Department of Post with its vast network and experience in handling transaction can be the best fit between the Public and the Ex-Chequer for financial inclusion.

Recently, In order to meet the requirements of the services to be offered by the IPPB, it has released a recruitment notification for 1710 number of posts in Scale III, Scale II, and Scale I Officers cadre and closed for online application on November 07, 2016. It had also advertised for recruitment to the 3 Scale IV, 7 Scale V, 2 Scale VI Officers.

Further, the government has asked for the entries to create a logo with caption for the bank and also suggest a punch line from the general public. About 3 lac entries had been submitted and the Department of Posts soon would adopt the selected for its wings to spread across all corners of India. However, just for operational purpose it has taken as IPPB-Financial Inclusion Accessibility in postal red colour background.

Revered Prime Minister Shri Narendra Modi Jee, Union Telecom Minister Shri Manoj Sinha Jee, Shri B V Sudhakar IAS(1981), Secretary of Department of Posts, and Shri A N Nanda, Post Master General-Kerala have very high opinion on the prospects and success of the India Post Payment Bank.

### Conclusion

In order to establish financial inclusion, a holistic approach is needed in creating awareness about various financial products, its benefits to the account holders, advice on money management, debt counseling and savings. The importance of transfer transactions

through accounts should also be explained in a user friendly manner. Use of technology should be very simple. for example, The ATMs so called cash dispensing machines can suitably modified for the use of rural poor and under privileged by making it user friendly who are either illiterate or less educated or do not know how to understand ATM instructions through pictures or regional languages. The India Post Payments Bank is in its nascent stage. But it has many advantages which will offer ample opportunities to explore services predominantly aimed at financial inclusion. With all the support from the Government and its Goodwill among the 'to be financially included public' it has a long way to go in developing Indian Economy.

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