Payment Bank- A Gateway to Financial Inclusion

Vijetha S. Shetty
Head, Department of Commerce
Valia College, Andheri, Mumbai, India

Abstract
Financial inclusion is a topic of increasing interest on the policy agenda in India. Bringing the larger population within the structured and organised financial system has explicitly been on the agenda of the Reserve Bank since 2005. The present paper is a descriptive study on understanding the role of payment bank in financial inclusion. A detailed analysis of role of Post with special reference to India Post in achieving financial inclusion has been reviewed.

Key words: Payment Bank, Financial Inclusion, India Post, Digital India

1. Introduction
With nearly 112 million Indian households with no access to formal credit, financial inclusion (FI) remains a key policy concern in the country. The challenges to including remote, poor populations within the folds of formal banking and financial services have been manifold. RBI proposed financial inclusion based on the business facilitators/business correspondent model, adapting the Brazilian success story in India. In 2005, efforts were made enabling banking services to reach the rural areas through credit facilities. Financial inclusion formed an important plank of the inclusive growth theme of the Eleventh Five Year Plan. The Twelfth Five Year Plan (2012-17) aims at faster, sustainable and more inclusive growth. There is a two-way relationship between financial inclusion and economic development, i.e., greater financial inclusion leads to higher level of income which, in turn, leads to higher financial inclusion.

The challenge of financial inclusion is challenging, as there are around six lakh villages and only 85,393 branches of commercial banks. In the past, the Commercial Banks, Private sector and Foreign Banks did not find them credit worthy and so unfortunately these under privileged people find themselves in the clutches of moneylenders only to sink into deeper poverty.

Objectives of the study
1. To understand the concept of financial inclusion
2. To understand the concept of payment bank
3. To study the role of India Post as payment bank in financial inclusion.

Methodology
The paper is descriptive in nature. The data is collected from secondary sources. Government website, newspapers, journals, magazines were accessed to collect data.

2. Understanding Financial Inclusion
RBI definition of financial inclusion ‘The process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players’.

The literary meaning of Financial Inclusion (FI) can be simply stated as, 'Everybody having access to financial services'. Financial inclusion is provision of banking services (access to payments & remittance facilities, savings, loans and insurance services) at an affordable cost to the vast sections of the disadvantaged and low income groups those who tend to be excluded from the formal financial system.

A large body of empirical literature suggests that developing the financial sector and improving access to finance may accelerate economic growth along with a reduction in income inequality and poverty. Without an inclusive financial system, poor individuals and small enterprises have to rely on
their own limited savings and earnings to invest in their education and entrepreneurship to take advantage of growth opportunities (World Bank, 2008).

Sustainable Development Goals and Financial Inclusion

On 25th Sept 2015, more than 150 world leaders adopted the United Nation’s 17 Sustainable Development Goals (SDGs) replacing the Millennium Development Goals for transforming the world with an objective to end poverty, fight inequality, protect the planet and ensure prosperity to all by 2030. Financial Inclusion seems to be prominently featuring in these goals. The rationale behind financial inclusion is that no one is left behind in the development process. Financial Inclusion is a means to an end, end of many ends such as poverty reduction, economic growth and jobs, women’s economic empowerment interalia. Many of the goals of SDGs can be achieved effectively only through financial inclusion.

3. Payment Bank - A Clarity

Hitherto, in India, universal banking licensing has been followed; however, it was felt that the basic banking facilities were not available to all. Financial inclusion cannot be achieved if the banking services are for available only for classes than masses. To fill in the gap, there was a need for separate license with specific guidelines for a bank to play active role in lesser banked areas. There was a need to bring the unbanked masses under the ambit of formal banking and also expedite financial inclusion. Separate licensing for banks was raised in a discussion paper on banking structure in India released by the RBI in August 2013, which also voiced the requirement for non-universal banking. The need for starting a payment bank was thus envisaged.

A payment bank is a differentiated bank that will undertake only certain restricted banking functions that the Banking Regulation Act of 1949 allows. These activities include acceptance of deposits, payments and remittance services, internet banking and function as business correspondent of other banks.

Some of the highlights of the payment bank:

- They can facilitate money transfers and sell insurance and mutual funds
- They can issue ATM/debit cards, but not credit cards
- They are not allowed to undertake lending activities at all.
- They cannot set up subsidiaries to undertake non-banking financial services activities
- They cannot form subsidiaries to undertake non-banking activities
- Initially, the deposits will be capped at ₹1,00,000 per customer, but it may be raised by the RBI based on the performance of the bank.
- 25% of its branches must be in the unbanked rural area
- The bank should be fully networked from the beginning
- The bank can also apply for license to operate facilities to pay utility bills.
- The bank must use the term "payments bank" to differentiate it from other types of bank.
- The banks will be licensed as payments banks under Section 22 of the Banking Regulation Act, 1949 and will be registered as public limited company under the Companies Act, 2013.

The Reserve Bank of India (RBI) has granted in-principle approval in August this year to 11 entities for establishing payment banks although still not operational now. Aditya Birla Nuvo Limited, Airtel M Commerce Services Limited, Cholamandalam Distribution Services Limited, Department of Posts, Fino Pay Tech Limited, National Securities Depository Limited, Reliance Industries Limited, ShriDilipShantilalalShanghvi, Shri Vijay Shekar Sharma, Tech Mahindra Limited, Vodafone M-Pesa Limited.

One of the objective of the present paper is analysing the role of post as payment bank in financial inclusion.

4. Role of Post in Financial inclusion

The business model of using post (post offices) for distributing financial services is not new, it has been used since 1861 in the post of the United Kingdom. Posts play a leading role in financial
inclusion as their services are used by over million people for savings and deposit accounts especially in rural areas where services of other financial institutions are unavailable. The socio economic background of most of the people using only the postal service tend to be less educated, poor and older.

Posts help in bridging rural urban divide especially the unbanked areas. For centuries the model of post has remained the same, however inorder to avoid redundancy due spread of telephony, internet and modernised banking services, a new level of speed, transparency and quality is expected. This has led to the post rethinking on the strategies to come out with diversified product/service offerings

**Role of Post–Global View**

Some countries have planned to convert their postal savings banks into fully-fledged post banks, posts in other countries, such as Brazil and Indonesia, have chosen to partner with existing financial institutions to offer accounts and savings and credit products. In Brazil, more than 10 million bank accounts were opened between 2002 and 2011 after the post established Banco Postal in partnership with an existing financial institution. Posts have also partnered with other financial service providers, to offer an expanded number of financial services, including insurance (Morocco) and mobile payments (Tunisia).

Posts also often operate as cash merchants for utility and other bill collection, remittance service providers, and government payments. In some countries, such as Benin and Ghana, posts provides a link and acts on behalf of banks and micro-finance institutions (MFI's), both as an access point to deposit and withdrawal from accounts, as well as to disburse and collect repayments on loans.

In high-income economies the most common business model involves a partnership with a financial service provider. In contrast, in developing economies, unlicensed postal savings banks are the most common business model.

The US and Canada abolished their postal savings systems in the 1960s, while many other countries in Europe and Asia have privatized or converted them into banks. Many of the advanced postal administrations such as Duetche Posts, Poste Italiane, SwissPost, etc have inducted IT to modernise their network and thereby improve the quality of services of their core businesses as the first step. These administrations are now successfully innovating and diversifying their products and services and are further leveraging the trust of the customers by entering into new areas such as telephony, financial services, etc.

5. **Role of Post – Indian Scenario**

India has the largest Postal Network in the world with over 1, 54,882 Post Offices (as on 31.03.2014) of which 1, 39,182 (89.86%) are in the rural areas. At the time of independence, there were 23,344 Post Offices, which were primarily in urban areas. Thus, the network has registered a seven-fold growth since Independence, with the focus of this expansion primarily in rural areas. On an average, a Post Office serves an area of 21.22 Sq. Km and a population of 8221 people. (www.indiapost.gov.in)

The Post Office Savings Bank operates Savings Accounts, Recurring Deposit (RD), Time Deposit (TD), Monthly Income Scheme (MIS), Public Provident Fund (PPF), National Savings Certificate (NSC), Kisan Vikas Patras (KVP) and Senior Citizens Savings Scheme (SCSS).

**India Post: The new messiah of financial inclusion**

For any bank, microfinance institution, or branchless banking effort, reaching customers in these remote areas is an expensive proposition. In remote rural areas, the only extensive network with enough experience in financial matters is the network of post offices and postmen. As against a total of less than 40,000 branches of all scheduled commercial banks, DoP (Department of post) has a network of 140,000 post offices in rural areas. On an average, a post office serves 8,100 persons six days a week. In the case of financial services, or any service for that matter, this extensive and intensive network is the absolute last mile to deliver any financial service.

India post provides last mile delivery to important government schemes such as Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA), UIDAI related services, old age pensions, scholarships to weaker sections. The following table shows the amount disbursed through...
Mahatma Gandhi National Rural Employment Guarantee Scheme, thus contributing to inclusive growth.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of MGNREGA Accounts (in million)</th>
<th>Amount disbursed during the Year (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-2009</td>
<td>29.21</td>
<td>38632.51</td>
</tr>
<tr>
<td>2009-2010</td>
<td>42.50</td>
<td>79002.42</td>
</tr>
<tr>
<td>2010-2011</td>
<td>48.97</td>
<td>91791.83</td>
</tr>
<tr>
<td>2011-2012</td>
<td>53.84</td>
<td>78650.56</td>
</tr>
<tr>
<td>2012-2013</td>
<td>57.47</td>
<td>120141.21</td>
</tr>
<tr>
<td>2013-2014</td>
<td>64.23</td>
<td>114033.77</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>522252.30</td>
</tr>
</tbody>
</table>

Source: India Post Annual Report (2013-14)

Having achieved about 18.86 crores accounts been opened with deposits of nearly 25,700 crores through PradhanMantri Jan DhanYojana, the next logical step towards financial inclusion is to focus on financial literacy so that they develop the habit of banking. It is essential that financial underprivileged to take the benefit of schemes under the MUDRA Yojana envisaged and established for their upliftment. India Post can play an ultimate role to deliver the financial services such as the MUDRAYojana, PradhanMantri Jan DhanYojana, social security programmes such as PradhanMantriSurakshaBimaYojana, PradhanMantriJeevanJyotiBimaYojana and Atal Pension Yojana directly to the needy and the poor. (ET, Oct 2015).

The purpose of granting the status of payment bank to India Post by establishing ‘India Post Payments Bank’ (IPPB) with an initial capital of rupees 300 crores is to utilize the services of postmen to teach people in rural areas how to use banking services and access various state sponsored financial inclusion schemes (Economic times dated 7th Nov, 2015). If implemented effectively, this will turn the post office into a financial literacy hub and can serve as a critical building block for broadbased financial inclusion on a pan India basis.

**Challenges Ahead**

1. Digitizing India’s postal network is of paramount importance. Although efforts has been undertaken through Rural Information and Communication Technology (RICT) for payment of various social security pension schemes solution for the Post Offices Direct Benefit Transfer (DBT) through post offices. Accounts in post offices were not connected to the core banking server (CBS), making it a closed-loop system. Recently, the postal department embarked on several technological solutions to modernize and create links to the core banking system, one of the largest digital projects in the world. Beginning has been made although a lot remains to be done in implementing technological upgrade.

2. Total computerisation of the India Post should lead to reduction of leakages, increase transparency and achieve financial inclusion.

3. Training post office employees on financial literacy for upgrading their financial skills and knowledge is crucial. Postmasters need to be paid monetary incentives for undertaking new workload delivering the financial payments.

4. Facing competition from other financial institutions by leveraging the present distribution network and devising new and cost effective ways of penetrating the rural population will remain challenge in future.

5. A business model involving partnership with a financial service provider, revamping corporate structure needs to be developed for running the payment bank with cost efficiency and commercial viability with success.

**The Road Ahead**

An organization like the India Post with access to the vast network of post offices play a larger, direct role in addressing the national goal of financial inclusion. Payment banks will make the financial system more accessible to the underserved and help in progress. It will help navigating
the last mile. Recognising post office to establish payment bank will help in innovation and lead to transformational financial inclusion. The technology is there, institutions are being set up, regulations are being made, what is required is the effective implementation which will help to steer the country to achieve its sustainable growth.

References
1. www.indiapost.gov.in