



India Post Payment Bank (IPPB)

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Why in News?

- The Prime Minister launched India Post Payments Bank (IPPB) on September 1, 2018.
- It is an initiative of the government aimed at making **banking services available at people's doorstep**.

What is IPPB?

- IPPB is a **wholly-owned subsidiary** of Department of Post, with 100 percent Government of India equity.
- It is a payments bank of the Indian postal department which will work through a network of post offices and nearly 3 lakh postmen.
- IPPB's Vision
 1. Building most **accessible, affordable and trusted** bank for common man.
 2. Spearheading **Financial Inclusion**- agenda for under-banked populace.
- It will be governed by Reserve Bank of India (RBI).
- While its services will be available to all citizens, the IPPB will primarily focus on serving social sector beneficiaries, migrant labourers, un-organised sector, Micro Small and Medium Enterprises (MSMEs), Panchayats, low-income households, in rural areas and the **unbanked and under-banked segments** in both the rural and urban areas.
- IPPB will offer services through a mix of **physical and digital platforms**.
- Channels for delivering services will include:
 1. Counter operations
 2. ATMs/micro ATMs
 3. Doorstep, mobile and internet banking
 4. Pre-paid instruments such as mobile wallets, PoS, MPoS, etc.
- It will initially have 650 branches and 3,250 access points in post offices across the country.
- All the 1.55 lakh post offices in the country are targeted to be linked to the IPPB system by December 31, 2018.

Functions of IPPB

- It will accept **deposits**, offer **remittance services**, **mobile banking** and **third-party fund transfers**.
- It offers 3 types of saving account:
 1. Regular Account – Safal,
 2. Basic Savings Bank Deposit Account (BSBDA) – Sugam and
 3. BSBDA Small – Saral
- The maximum limit on deposits for current and savings account is Rs 1 lakh.
- The bank offers a 4 per cent interest rate on savings account.
- They can issue debit cards and ATM cards, but they cannot issue credit cards and cannot loan money.
- It will provide social security payments like MNREGA wages, direct benefit transfer and give access to third-party services insurance, mutual funds.
- IPPB account holders will be issued a QR Code based biometric card with a unique QR code.

What is Payment Bank?

- Payments banks were part of the Reserve Bank of India's strategy of offering **differentiated banking licences**.
- A committee headed by **Dr. Nachiket Mor** recommended setting up of 'Payments Bank' to cater to the lower income groups and small businesses.
- A payments bank is a differentiated bank, offering a limited range of products.
- It can accept demand deposits only that is savings and current accounts, not time deposits.
- Payment banks are restricted to holding a maximum balance of Rs. 100,000(Rupees one lakh only) per individual customer.
- Payment Banks cannot accept Non-Resident Indian (NRI) deposits.
- The Payment Banks cannot set up subsidiaries to undertake non-banking financial services activities.

Potential of IPPB

- There are currently about 50,000 bank branches in rural India. Whereas the Department of Post alone has almost 1,30,000 service points in rural India – which if converted into points of banking service, can extend presence of banking services in rural India by 3.5 times.
- It will allow leveraging the trust which the India Post enjoys in the minds of the public, coupled with the simple, affordable and convenient digital solutions.
- A large number of the 3,00,000 employees of the postal services would also be equipped with biometric and handheld devices to provide doorstep banking services.

- Due to failure of rural banking in past years due to mounting Non-Performing Assets (NPAs), banks are over-burdened with the task of recovery of credit, rather than expansion of banking services – possible through IPPB.
- Tapping of savings of the rural people through IPPB may help increase per capita income of rural people through domestic savings.
- Money lenders in rural areas try to exploit people under financial aid, IPPB will help to reduce such exploitation and provide effective financial services.

Benefits of IPPB

- **Expansion of Rural Banking-** IPPB will help reinvigorate the postal system, at the same time expanding Rural Banking through its wide network of branches across India.
- **Access to Diversified Services** - Post Office savings Bank (POSB) accounts linked to IPPB will allow lakhs of POSB accounts access to banking thereby enabling them to enjoy internet banking, mobile banking, electronic fund transfers, online bill payments, digital payments etc. across the spectrum of banks 24x7. Facilities such as third-party payment, insurance and mutual funds etc will provide financial accessibility to diverse financial services.
- **Social & Financial Inclusion** - IPPB can act as a catalyst for social and financial inclusion through the vast network of post offices throughout the nation. Last mile delivery of services through the postman - and 'Grameen DakSewaks' acting as Mobile bankers – providing "banking at doorstep."
- **Push to MSMEs** - Rural MSMEs will benefit from financial services offered by IPPB.
- **Effective DBT** - IPPB will enable better penetration of schemes and better delivery of benefits. Banking through IPPB would give a boost to Government's initiatives like promoting digital transactions and Direct Benefits Transfer (DBT).
- **Employment** - IPPB will generate employment opportunity for more than 3500 banking professionals, who will be engaged in propagating financial literacy across the country.
- **Credibility** - It will also not have to gain the trust of customers like its competitors, especially in the rural areas, as the local postman is still an integral part of the day-to-day lives of the rural populace.

Challenges

- **Low Awareness** - Due to low financial and digital literacy among rural masses, they might be discouraged to opt for formal financial services under IPPB.
- **Strict Regulation** - Given the severe restrictions imposed by the RBI on how it can employ its funds, the odds seem to be stacked against the IPPB at the moment.
- **User Charges** - To generate revenues, it plans to charge fees on money transfers and other financial services – which may act as a disincentive for rural customers.

- **Competition** - The IPPB is also likely to face stiff competition from private companies already given Payment Bank licenses.
- **Lack of Infrastructure** - Lack of 24/7 electricity, internet services and infrastructure in rural areas is another constraint.
- **Human Resource** - The staff needs extensive training in handling the banking products - especially insurance and pension products - as they are different from the current financial products in India Post's portfolio. The real success will depend on the implementation of technology and staff's adaptation to new technology.
- **Technology** - The post office payment bank will have to quickly move to an online platform to make it easier for customers to access their accounts and conduct transactions. With existing infrastructure and resources it is a challenge.

Way Forward

- While the advantages enjoyed by IPPB are undeniable, it needs to cross over these two hurdles — financial and pricing — to prevent itself from becoming another Air India.
- In order to make IPPB a game changer and to sustain in competition it requires efficient infrastructure, autonomy in funds management, training and skilling of the postal employees and promoting use of cashless transactions among rural masses.