

# Impact of Payment Bank in Financial Inclusion: A Case Study of India Post Payment Bank

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## ABSTRACT

Financial inclusion is nothing but providing the banking facilities to all at an affordable cost. It has been a vital challenge for Govt. of India and other financial regulators for a long time in spite of taking many initiatives. Derivation of payment banks emerged with the first budget speech of the Hon'ble Finance Minister; Mr. Arun Jaitley mentioned "RBI to create a framework for licensing small banks and other differentiated banks". Considering socio-economic condition across the length and breadth of the country, Payment banks with special guidelines have been injected in the banking platform to be fully networked and technology driven in order to accelerate the periphery of financial inclusion by providing especially remittance services to the unbanked. This study attempts to review the parameter of financial inclusion and find the impact of India Post Payment Bank (IPPB) in financial inclusion. The present study is exploratory and descriptive in nature based on secondary data. The results show a positive impact on financial inclusion by IPPB as it leverages its Aadhaar enabled Payment System (AePS) services, interoperable doorstep banking services and huge network of postal employees. This can be forecasted that it will ignite the digital financial inclusion drive in isolated areas and erect an economy without cash based.

**Keywords:** financial inclusion, differentiated banks, remittances, ippb, aeaps, interoperable doorstep banking services, less cash economy

## I. INTRODUCTION

Financial inclusion (FI) is nothing but providing the banking facilities to all. It can be explained as the mechanism of delivering of basic economic facilities to all the sections of the society at an affordable cost. The prime goal of "financial inclusion" is to ensure the openness of affordable monetary services to the vulnerable groups of the society. The basic concept of financial inclusion in India is to have a savings account with financial institution. It explores the habits of savings among the deprived section of rural Indians and facilitates economic development by capturing the vulnerable and low-income groups in the orbit of banking.

**"Poverty anywhere is a threat to prosperity everywhere."**

Financial inclusion has been a vital challenge for the country for a long time in spite of putting lots of efforts in form of implementing several policies and schemes. The foremost challenges are to bring financially deprived class into orbit of structured financial system. The perfect way to achieve 100% financial inclusion is through opening the bank account for savings and primary banking services purpose. The Government of India and RBI brought several schemes to bring those unbanked deprived section under the banking orbit.

The Reserve Bank of India has envisaged and erected the FI-Index as a holistic parameter that comprises those key indicators of banking, investments, insurance, postal and pension segments in collaboration with the Central Government and controller as to scale the degree of economic inclusion in terms of Access and Usage as broad parameter.

"Access" can be measured in terms of No. of banking outlets including Business Correspondents (BCs), post offices, banking access points, Point of sales terminals, JAM ecosystems, Pension schemes, Life & Non-life Insurances as a Supply Side of Financial Index whereas "Usages" can be measured in terms of savings and investments habits, use of retail digital payments, remittance facilities, penetration of Insurance, contribution to Pension schemes and availing credits as a Demand side of Financial Index.

## II. LITERATURE REVIEW

**C Gupta (2016)** attempted to study the demonetization of Indian currency, its history, the need for effective payment banking to correlate with this move and the road ahead.

**M Damle, P Thenuan & J Raval (2016)** reviewed the prevailing conditions of monetary situations covering all possible challenges experienced by all monetary organizations and advocated the future prospects of payment banks.

**G. Srinivas (2017)** made descriptive work on the importance of payment banks in financial inclusion and suggested that payments bank will reach the unbanked and under-banked peoples across all sections of the society.

**S Mittal, A Pant, S S bhadauria (2017)** worked to find out the choice of the users to accept facilities rendered by niche banks over the traditional banking services and tried to understand the influential determinants to opt payment bank using their demographic and economic facets.

**S Reddy K & S Babu (2018)** highlighted emergence of niche banks in India and their shocks on the capital market with special reference to banking sectors pricing volatility.

**Kittu R S & Dr. M B Chittawadagi (2019)** highlighted on the role of payment bank in electrical payment facilities with special reference to Paytm and concluded with the encouragement and initiative taken by the govt. to introduce UPI, USSD, BHIM for a cashless payment.

**S Rani (2020)** examined the affairs and confrontations encountered by the payments banks to achieve differentiated banks' objectives to further the agenda of financial inclusion.

**R.Chanrdasekaran & S.Vinoth kumar (2020)** presented about the framework of the payments banks and the expected benefits from the payment banks and identified its major bottlenecks in the development of such banks.

## III. RESEARCH GAP

After going through the existing literature, it is observed that hardly any specific study has been conducted on newly introduced "niche" or "Differentiated" banks regulated by RBI in form of payments banks in India in furthering financial inclusion in descriptive, analytical and exploratory manner in respect of India Post Payment Bank Limited. Considering this as a significant research gap, this research is conducted to fill up this gap. It has huge socio-economic significance countrywide.

## IV. RESEARCH OBJECTIVE

Based on the above research gap, the sole aim of this work is to know how far the knock of India Post Payment Bank has helped to India's financial inclusion drive.

## V. RESEARCH QUESTION

The prime question which has been triggered by this study to comply with the research objective is how India Post Payment Bank can bring the unbanked deprived sections of the country into the formal banking orbit.

## VI. METHODOLOGY

This research is based on secondary data sources. This study is based on the presentation of available banking data of India Post Payment Bank; these are monthly volume in NEFT transactions, Mobile transactions, Debit card statistics, No. of post offices, No. of banking access points, No. of savings accounts & current accounts, Annual savings bank deposits, etc. have been logically and conceptually discussed and analyzed to meet the research objective. These data have been collected from the annual report of India Post and India Post Payment Bank Limited and from the website of Reserve Bank of India.

## VII. DATA PRESENTATION:

India Post Payment Bank was launched on 1<sup>st</sup> September 2018; hence the data availability is confined to last few years. The following available data have been collected of India Post Payment Bank to check whether its operation helps to further the financial inclusion movement as follows:

**1. Number of post offices,** No. of banking access points, Network of postal employees, Number of doorstep banking agents, number of certified monetary service facilitators, etc. are delivering "Access" to money dealing services.

**Table 1:** Various “Access” Indicators Facilitate “Supply Side of FI”

Indicators	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
No. of post offices	1,55,000	1,55,000	1,56,600	1,56,600	1,55,000
No. of banking access points	3,250	1,36,078	1,36,078	1,41,000	1,36,053
Network of postal employees	3,00,000	3,00,000	4,00,000	4,00,000	4,29,000
No. of doorstep banking agents	2,50,000	1,95,000	1,74,000	1,89,000	1,90,000

Source: Annual Reports of India Post Payment Bank Limited and India Post

In India at present approximately total number of Commercial bank branches (public sector banks-87,860 and private sectors banks-32,375) is 1,20,235, out of which only 35,636 bank branches (Govt undertaking banks-28,800 and Non-Govt undertaking banks-6,836) are located in rural areas. It is around 32.78% of India’s Commercial bank branches mainly catering to the rural banking and financial needs. Private sector Commercial banks are only 21.12% in rural areas whereas public sector Commercial banks are 32.78%. Total regional rural banks in India are approximately 22,042. It is clear that total bank branches in rural India including RRBs (35,636 + 22,042) is 57,678 whereas the number of India Post offices in rural India is approximately 1,36,078 (90% of the total India post offices). There is a huge branch penetration in terms of no. of post offices, banking access points, doorstep banking agents and network of postmen comprising Gramin Dak Sevaks (GDS) which have taken the banking services to the doorstep of rural unbanked masses by leveraging its competitive advantage over others. This stimulates the “Access” parameter of financial index.

**2. No. of savings account,** Amount of savings bank deposits, Customer base, Volume in NEFT transaction, Volume in mobile transaction, No. of outstanding cards, Volume in POS transaction, etc. are facilitating “Usage” banking system.

**Table 2:** No. of Savings Accounts Shows “Usage” Indicator Facilitates “Demand Side of FI”

No. of savings accounts	2017-2018	2018-2019	2019-2020	2020-2021
	18,96,410	55,67,594	1,55,00,000	2,47,16,556

Source: Annual Reports of India Post Payment Bank Limited and India Post

From the above table-2, it is clearly understood that over the last 4 years a huge number of savings bank account could be opened by IPPB; hence it is a crucial indicator facilitating “Usage” parameter. This enables digital remittance and DBT transfers in form of MGNREGA, scholarships, social welfare benefits and Govt. subsidies, etc.

**Table 3:** No. of Savings Accounts Shows “Usage” Indicator Facilitates “Demand Side of FI”

Amount of savings bank deposits	2017-2018 (Rs.)	2018-2019 (Rs.)	2019-2020 (Rs.)	2020-2021 (Rs.)	2021-2022 (Rs.)
	1,20,42,943	93,11,63,772	847,30,64,816	2282,53,36,227	3669,88,87,000

Source: Annual Reports of India Post Payment Bank Limited and India Post

There is huge deposit penetration in terms of Amount of savings bank deposits; from table-3 there is clear understanding that huge corpus of funds has been raised from these new savings account by IPPB and facilitating better financial inclusion of those unbanked rural people. It facilitates perfect platform for digital transactions in form of NEFT, Mobile transaction, POS transaction, etc. which is very significant indicator for “Usage” parameter of financial inclusion.

**Table 4:** No. of Customer shows “Usage” Indicators Facilitates “Demand Side of FI”

No. of customers	2018-2019	2019-2020	2020-2021	2021-2022
	55,70,000	2,36,00,000	4,31,00,000	5,26,00,000

Source: Annual Reports of India Post Payment Bank Limited and India Post

IPPB has tapped the rural untapped section with its interoperable Aadhaar enabled Payment System doorstep banking services which became so successful that it gained substantial customer base of 5.26 crore within last 4.5 years. It is another very significant indicator facilitating “Usage” parameter of financial inclusion.

**Table 5:** NEFT, Mobile, POS Transactions and No. of Outstanding Cards Show “Usage” Indicators Facilitates “Demand Side of FI”

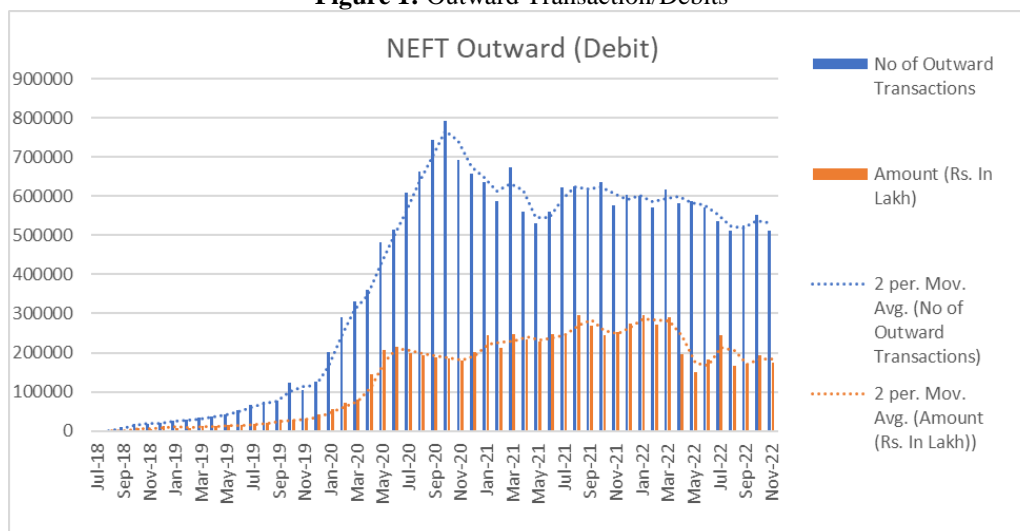
Period	Total Outward /Debits		Total inward /credits		Mobile banking transaction		No of outstanding cards at end of month	Point Of Sales	
	No of Outward Transactions	Amount (Rs in Lakh)	No of Inward Transactions	Amount (Rs in Lakh)	Volume (Actual)	Value (in Rs ‘000’)		No. of transaction	Amount of Transaction (in lakh)
Jul-18	529	6.9	152	1.3	1	0.3	533	18	0.0
Aug-18	819	106	298	103	169	453.55	322	24	1.76
Sep-18	10877	2844	4600	327	141926	253606.66	00	0	0
Oct-18	18489	5834	5377	581	223907	870821.97	00	0	0
Nov-18	17956	5575	4993	724	211114	944512.73	00	0	0
Dec-18	20695	12070	5943	2019	260270	381402.80	00	0	0
Jan-19	25817	7836	7820	4189	255906	511070.16	00	0	0
Feb-19	28306	8064	10167	3604	327183	2452826.91	00	0	0
Mar-19	33889	12975	13565	5020	436124	3042697.9	00	0	0
Apr-19	36394	11420	15740	3789	458369	3692097.49	00	0	0
May-19	43438	14174	17526	5223	577662	4544981.64	00	0	0
Jun-19	52865	15641	20078	3551	721222	5015512.42	00	0	0
Jul-19	65185	18219	30274	3999	824689	6003710.63	00	0	0
Aug-19	74842	20623	36486	4514	977159	6781958.64	00	0	0
Sep-19	77475	27354	37820	5366	1030561	6934758.24	00	0	0
Oct-19	122072	29521	81408	7522	1290162	9239003.5	00	0	0
Nov-19	105223	31683	74492	7018	1413736	9871347.96	31	12	0
Dec-19	127102	41658	65445	13384	1612565	11062177.0	30	0	0
Jan-20	201757	56926	107307	19223	1639267	11557476.2	30	9	09.1
Feb-20	290539	70467	129142	23551	2759301	13785893.1	30	0	0
Mar-20	331512	80375	135828	16924	2139711	14468026.2	30	0	0
Apr-20	361665	145684	206707	37700	2091192	14642960.6	30	0	0
May-20	481674	208052	198623	67348	2889095	18998038	30	0	0
Jun-20	514305	214235	188960	81271	2811419	19771333	30	0	0
Jul-20	608182	198799	257436	99954	3238939	22244810	30	0	0
Aug-20	662367	193444	244965	88245	142803	708310	30	0	0
Sep-20	743857	189101	265246	96186	3850832	23116391	30	0	0
Oct-20	791715	184884	329633	113821	27544345	25328521	228	13	0
Nov-20	692068	179676	298007	106135	3852201	16454848	1157	42	0
Dec-20	658784	202371	318855	116731	5391058	21232758	411217	115675	46300
Jan-21	637055	243413	326747	125446	9693625	13556046	665469	166552	78300
Feb-21	587693	212642	334158	119095	4044687	19358646	902539	185727	99600
Mar-21	674318	247674	415327	136003	8282643	37804820	1112166	235098	150100
Apr-21	559516	234739	412392	156126	36075152	37847418	1275898	256897	128200
May-21	530483	228236	357448	136139	8254095	36084411	1441767	227443	123800
Jun-21	561186	247231	402963	132700	9697828	37979586	1651606	270348	156100
Jul-21	621967	244619	450978	151528	11874126	39662670	1926239	307816	211300
Aug-21	624825	296960	479763	188307	1421693	46300210	2219968	361699	222415
Sep-21	614711	269408	534246	179424	1593641	45016913	2557228	390781	241581
Oct-21	635340	244829	639622	182206	5201345	19178073	2855522	467689	265000
Nov-21	577644	253347	548542	177463	5212864	19638821	3167068	423274	220600
Dec-21	604157	275470	650286	188301	5408433	19808858	3563334	381355	236900
Jan-22	600588	296218	713666	181763	5439217	21021414	4075835	447247	242600
Feb-22	571006	271390	697896	173964	4765642	19674907	4496253	393292	211900
Mar-22	615812	291657	864434	185026	5784606	21510252	4788986	389128	240571
Apr-22	581679	194649	818083	102743	5435568	22658475	5112794	447729	247186

May-22	586407	149285	826155	59861	5782485	21561873	5878842	467252	256728
Jun-22	569995	183814	828069	62913	6780919	22365344	5912564	521574	321567
Jul-22	537014	243415	912197	77442	6532585	21997356	6116946	557270	334071
Aug-22	511941	166986	1028527	76368	7295102	20652033	6558032	415821	282806
Sep-22	524366	172571	1148419	78806	8279170	22036269	7037102	472358	300856
Oct-22	550966	193168	1339835	89288	6875147	23585211	7763562	385968	277667
Nov-22	510815	173790	1287230	86677	6931635	24074937	8264248	367737	270778

Source: <https://www.rbi.org.in/Scripts/NEFTUserView.aspx?Id=163><https://www.rbi.org.in/Scripts/ATMView.aspx?atmid=128>  
<https://www.rbi.org.in/Scripts/ATMView.aspx>

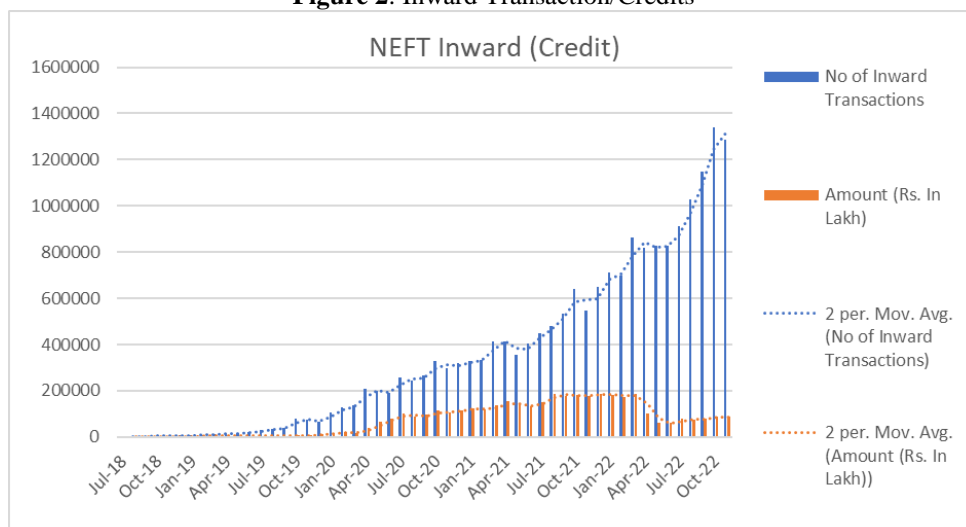
Based on the above table-5, it is vivid that there is gradual hike in the volume of of NEFT, Mobile transaction, POS transactions as well as in Number of NEFT, Mobile, POS transactions and in the Value of digital transactions which talk about the “Usage” parameter of financial index. No. of inward, Mobile, POS transactions have an upward trend indicating greater usages of these remittance facilities through IPPB even in rural segment of deprived banking sectors as IPPB caters to mostly rural financially excluded masses.

**Figure 1: Outward Transaction/Debits**



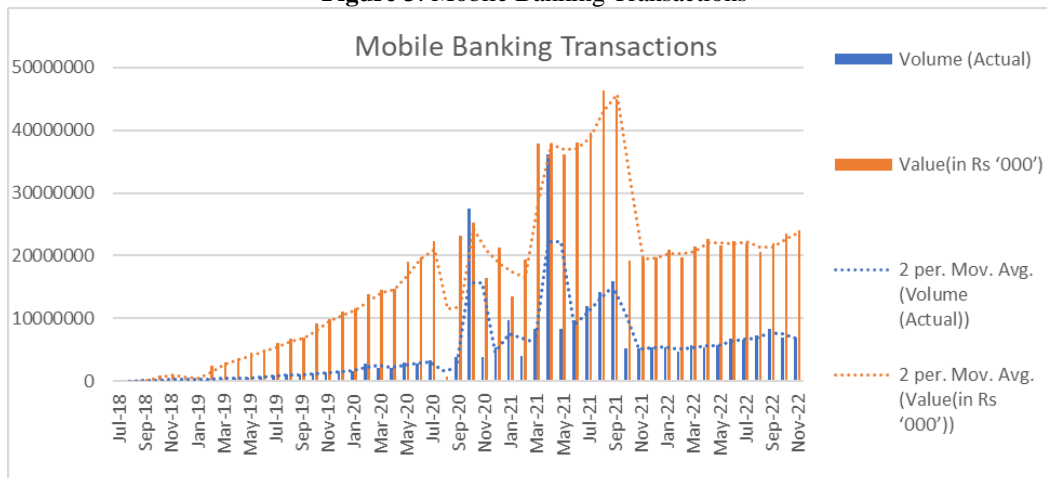
Source: Researcher’s own presentation

**Figure 2: Inward Transaction/Credits**



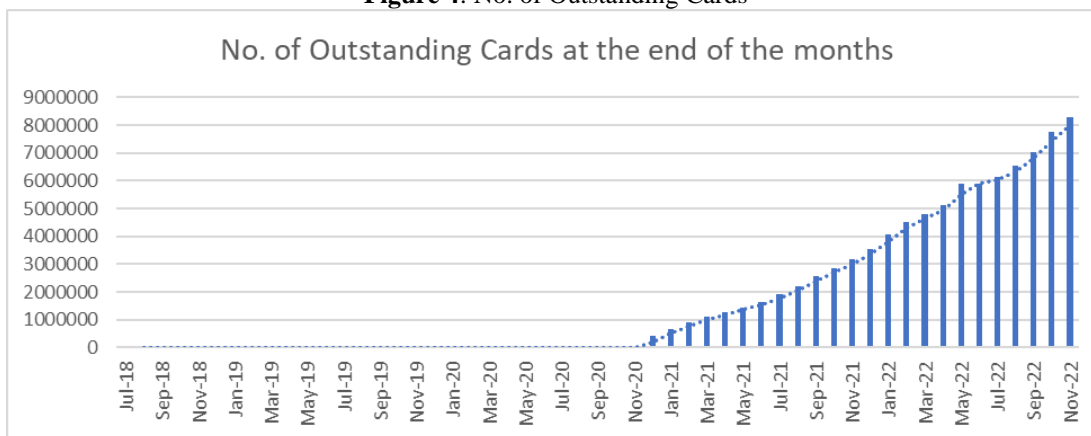
Source: Researcher’s own presentation

**Figure 3: Mobile Banking Transactions**



Source: Researcher’s own presentation

**Figure 4: No. of Outstanding Cards**



Source: Researcher’s own presentation

Besides this, IPPB has collected premium amount in collaboration with Bajaj Alliance Life Insurance Co. Ltd worth Rs 5,43,00,000 approx. as life insurance and it has issued more than 8,47,236 digital life certificates at the doorsteps of the people for the year ending 31/3/2022. Notably more than 4.76 Crore DBT transactions have been transacted to disburse worth Rs 5,106.52 Crore. IPPB has also disbursed more than Rs 18,608.79 Crore to “customer of other banks” using “Aadhar enabled Payment Services” by executing 6.8 crore settlements.

## VIII. DISCUSSION AND CONCLUSIONS

India Post Payment Bank has tried to comply with “Accessibility”, “Affordability”, “Digital ecosystem”, and “Financial literacy” in the following ways:

### Accessibility

It has launched Aadhaar enabled Payment System (AePS) making it exclusive greatest channel to facilitate interoperable doorway monetary facilities to any subscriber capitalizing the last leg extraordinary capacity of postal structure. Using AePS, any user with a bank account synchronized with Aadhaar Number can execute primary banking facilities like deposit & withdrawals of cash, checking of bank balance etc. regardless of the bank the subscriber carries his or her account on. Mean distance to reach a banking place has been reduced from 5-6 Km (as 57,678 banking access point in agricultural India) to 2.5Km (mean distance to a post office i.e., 1,41,001) by India Post Payment Bank which is further reduced to 0 Km by 2,80,000 certified banking services providers through Aadhaar enabled interoperable doorstep banking facility. Thus, truly

justifying the caption “Aapka bank Aapke dwar”. It provides instant A/c opening, multilingual support, paperless banking, banking services to non-IPPB customers.

### Affordability

IPPB uses interoperable public technology infrastructure to offer affordable distribution of financial services at the last mile whereas traditional banks carry transit cost, fees charged by BCs, loss of wages.; thus, IPPB’s doorstep banking facilities become economical and cost effective.

### Digital Ecosystem

IPPB’s platform facilitates Cashless, Paperless and Presence less transactions. It works on open mobile technology. It is linked payment and settlement system (NEFT, RTGS, UPI, and IMPS), Bharat bill payment services, Govt subsidies (PFMS, ABPS, and NACH).

### Financial Literacy

IPPB has supervised 6,000 financial literacy camps across India in collaboration with National Bank for Agriculture and Rural Development along with Investor Education and Protection Fund Authority. Rural people without Smartphone can also bank with IPPB as trusted postman and GDS provide financial literacy to the unbanked rural masses. Certified banking service providers even train and educate the rural unbanked people on how insurance secures the unsecured ones etc. IPPB has conducted over 1,00,000 Man-hours to train the post office staff and GDS on banking. IPPB has monitored the customer safety and satisfaction level by enabling vigilance on complaints lodged by its customers. It has redressed 25,376, 73,731, 14,323 and 20,158 complaints for the year 2018-19, 2019-20, 2020-21 and 2021-22 against 26,719, 72,969, 13,992 and 20,170 complaints lodged during the 2018-19 and 2019-20 respectively.

Besides these, IPPBs have taken some significant initiatives which are effective in furthering financial inclusion by making alliance with third party to provide home loans, crop insurance, term and annuity products, non-life insurance like motor and two-wheeler insurance to its 5.26 Crore customers through its extensive network.

**Table 6:** Strategic Alliances of India Post Payment Bank Limited

year	Alliance partner	Purpose
14/01/2020	FSS (Financial software and systems)	To use Aadhaar enabled Payment System to facilitate interoperable doorway monetary facilities.
20/10/2020	Agriculture Insurance Company of India	To provide agricultural product under insurance coverage.
24/11/2020	PNB Metlife India Insurance Company Limited	For launching Pradhan Mantri Jeevan Jyoti Bima Yojna for its customers.
24/05/2021	Mahindra Rural Housing Finance limited	To facilitate cash management and collection services through access points.
07/09/2021	LIC Housing Finance Ltd.	To facilitate home loan plans towards 5.26 crore subscribers.
14/09/2021	Tata AIG General Insurance Co. Ltd. & Bajaj Allianz General Insurance	To launch general insurance plans to the existing users.
11/11/2021	Bajaj Allianz Life Insurance Company	To launch term and annuity plans to the existing users.
09/12/2021	NPCI Bharat Billpay Ltd.	Enabling bill payments at the doorstep through trusted postmen or by visiting the nearest post offices.
27/12/2021	HDFC Bank	For offering various banking products and services to IPPB customers in semi-urban and rural areas.

Source: Researcher’s own presentation

Since 1<sup>st</sup> September 2018, India Post Payment Bank has been significantly contributing the rural unbanked Indians by providing digital banking products and services which range from Deposits, Money Transfer, DBT, and Distribution of third-party products to Bill and utility payments. It can be profoundly said that IPPB has very significantly impacted the financial inclusion process and has been an effective vehicle for financial growth especially in rural economy.

## IX. LIMITATIONS AND FUTURE RESEARCH SCOPE

This research is purely based on conceptual study of the available data, secondary in nature, of India Post Payment Bank. This study is mainly judging the available data with the financial inclusion indicators to understand its impact of IPPB on financial inclusion. Hence it is important to say that suitable statistical tools can be applied to analyze the inputs gathered from structured questionnaire to find empirical conclusions.

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13. Appendix Table IV.7: Branches and ATMs of Scheduled Commercial Banks date on 24<sup>th</sup> December 2019.
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