

India Post Payments Bank

Why in news?

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India Post Payments Bank (IPPB) was recently launched by the Prime Minister.

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What is IPPB?

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- India Post Payments Bank (IPPB) is a financial service provider that will operate under the country's postal department.

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- The government-owned payments bank will be able to accept deposits of up to Rs. 1 lakh from customers.

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- But they do not have the rights to use these funds to advance risky loans at higher interest rates.

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What are the features?

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- **Accounts** - India Post Payments Bank (IPPB) offers three types of savings accounts—regular, digital and basic.

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- A digital savings account can be opened through the IPPB mobile app.

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- However, it is valid only till 12 months.

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- Within this, it has to be converted into a regular savings account by providing biometric data to the postman.

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- A regular and basic account can be opened either through the post office or the postman.

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- **Balances** - All three accounts are zero-balance accounts, with no minimum balance rules.

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- However, RBI has directed all payments bank account holders to hold not more than Rs 1 lakh in any account at a given point of time.

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- So the moment an IPPB account crosses Rs 1 lakh limit, the transaction will be rejected automatically.

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- To handle this, IPPB suggests linking a post office savings account with the IPPB account.

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- So, any balance in excess of Rs 1 lakh will be transferred to the post office account.

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- **Interest rate** - All IPPB accounts attract an interest rate of 4% per annum.

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- Calculated on the daily closing balance, the interest rate is paid quarterly.

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- **Deposit & withdrawal** - In regular and digital savings accounts, one can withdraw or deposit any number of times.

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- In case of a basic savings account, there is a restriction of 4 cash withdrawals monthly.

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- For cash deposits and withdrawals, one can approach the nearest post office where the IPPB service is available.

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- IPPB accounts do not come with an ATM card and so one cannot withdraw cash from ATMs.

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- **Doorstep banking** - Consumers can also call the postman or Grameen Dak Sevaks (GDS) home and make transactions.

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- This is done using the QR card that is received with the IPPB account.

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- Doorstep banking from IPPB comes at a cost of Rs 25 for cash transactions and Rs 15 for digital transactions.

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What is the significance of IPPB?

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- The primary rationale is to help in the goal of achieving financial inclusion.
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- India's age-old postal department has a wide network of branches across India.
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- All the 1,55,000 post offices in the country are expected to be linked to the IPPB system soon.
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- IPPB can thus offer savings, remittance, and payments services to the rural and unorganised sectors.
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- IPPB's digital services are expected to make financial services more accessible even from remote locations.
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- There is also a hope that the payments bank idea will help reinvigorate the postal system.
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What are the challenges?

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- A key challenge is if it can manage to earn the profits required to survive as a standalone business entity.
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- Besides, there are severe restrictions imposed by the RBI on how payments banks can employ their funds.
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- The first wave of new payments banks that commenced business last year (Airtel, Paytm and Fino) have not made any significant changes.
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- Banks have traditionally stayed away from pure deposit banking, unless customers have been willing to pay for these services.
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- The IPPB promises to pay an interest rate of 4% to its savings account customers.
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- To generate revenues, it plans to charge fees on money transfers and other financial services.
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- It also plans to invest idle customer deposits in safe government securities in order to earn interest.

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- However, if this will be sufficient to cover interest and operational costs or not remains uncertain.

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- Besides, the IPPB is likely to face stiff competition from private companies.

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- With increasing competition, the IPPB's revenues and margins are also likely to come under pressure.

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- Despite these, if it succeeds, the new payments bank could usher in a new era of rapid financial inclusion across rural India.

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Source: Livemint, The Hindu

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