

# Penetration of Payments Banks: A Case Study of India Post Payments Bank in District Muzaffarnagar of UP



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## ABSTRACT

Rural peoples were dependent on the moneylenders for their financial needs. Government has nationalized the Reserve bank of India in 1949 to regulate the banking sector. In 1955 the Imperial Bank of India was nationalised and named the State Bank of India. This study has been carried out to trace out the penetration of payments bank (A Case study of India Post Payments Bank in district Muzaffarnagar of Uttar Pradesh). Many intense discussions, deliberations and other brain storming sessions were brought in to use to figure out the real picture of impact of IPPB in district Muzaffarnagar. This paper seeks to identify the changes in banking system with the new banking institution i.e Payments bank with the reference to the IPPB in the rural & urban areas of Muzaffarnagar district so that the strong recommendations can be drawn to execute to strengthen the system that will further improve the last mile banking & digital banking. After the demonetization in 2016, it was realized by the government that cash less economy is required. To lower down the dependence on cash, digital banking was the available alternate. Digital banking is also an important parameter of financial inclusion. This study is expected to bring the light on the penetration of payment ecosystem developed by IPPB.

## 1. INTRODUCTION

Banking is considered as the backbone of the nation's economy. In 1947, major share of banking sector was with private ownership. Rural peoples were dependent on the moneylenders for their financial needs. Government has nationalized the Reserve bank of India in 1949 to regulate the banking sector. In 1955 the Imperial Bank of India was nationalised and named the State Bank of India. Fourteen major banks were nationalized in 1969 to serve the needy people of the country. RRB (Regional Rural banks) were formed in 1976 to serve the rural section of the society. After 1991,

the biggest development was the introduction of banks under Private entity in India. RBI gave license to 10 banks under private entity to establish themselves in the country & many foreign banks have started their operation in India.

### a) Challenges faced by the Traditional Banking system:

- There is a need of financial literacy.
- There is a lack of availability of identified documents known as KYC.
- People are not sure about the security and reliability of these newly established

platforms such as mobile banking & other digital mode of financial transaction in Rural heartlands.

- Unavailability of alternate delivery channels at the doorstep of the people & their nearby location

**b) Need of Alternate Delivery channel:** Due to various challenges faced by the banking sector, there was need to identify some alternate delivery channel to cater the financial needs of the society. Alternate delivery channels are:

- Business Correspondents Ex: Kiryana Store, Common Service Centre, Recharge Shop & some retired professionals.
- Business Facilitators Ex: Self Help Groups & Joint liability Groups
- Small Finance Banks
- Small Finance Banks
- Mobile Wallets Ex: Pay TM, Phone Pay & Google Pay

**c) Payments Bank:** In September 2013, a committee which was led by Dr.Nachiket Mor by the central bank to study the financial services for small Business & low income people. The main objective was to provide accessibility to financial services at the last mile. The key suggestion was introduction of the specialized bank or Payments bank. Out of the 41 applicants, the RBI approved license for eleven entities on 19th August 2015. Only seven entities have started their operations. With Aditya Birla Payments Bank, announcing its decision to shut operations in July 2019, the tally is down to six. The operative Payments banks are:

- i) India Post Payments Bank
- ii) Airtel Payments Bank
- iii) Pay TM Payments Bank
- iv) Jio Payments Bank
- v) Fino Payments bank
- vi) NSDL Payments Bank

India Post Payments Bank (IPPB) which was setup under the Department of Post, Ministry of Communication with 100% equity

owned by GOI. IPPB was launched as a pilot project on 30 January 2017 in Ranchi (Jharkhand) and Raipur (Chhattisgarh). It is the only Public sector payments bank & 1st scheduled Commercial bank in the category of payments bank. It has a network of 650 branches across the India & have strengthen its coverage by wide network of Post offices. It has more than 1.5 lac post offices as access point & 3 lac postal staff which includes Grameen Dak Sewak to work for IPPB. It is providing doorstep banking service to the last mile of the country by utilizing the vast network of post offices. It has the Customer base of more than Four Crore & clocked over the Rs.38500 crores in financial transaction since the launch of its operation in September 2018. It is also providing wide range of products & service like AEPS, Digital life Certificate, UIDAI services, Direct Money Transfer, Life Insurance, General Insurance, & many other required services of the society.

**d) Review of Literature:** Dr.J.C.Pande (2015) Reserve bank had formed the niche bank-Payments bank to fulfil the objective of financial inclusion. These banks cannot offer credit facility but can act as a Business Correspondents for other banks to give the same. It will help in providing the access to formal banking for unbanked people.

Madhvi Damle,2016 This Paper focus on achieving the Financial Inclusion with 1.25 Billion of population where many people belong from rural India. Another aspect of Indian system is that the masses majorly deal in cash and this system becomes the pseudo cash handling system and so it is digitally capturing even the smallest transactions.

Dr.G.Sabitha Srinivas (2017) Payments bank are new model of banks conceptualised by RBI. The motto is to provide remittance & payment service to the unorganized sector. This model will be very crucial in financial inclusion due to its easy accessibility & streamlined payment system.

Pallab Sikdar & Amresh Kumar (2017) Despite the exponential growth of Indian banking sector,

it remains a bitter reality that services have not reached to needy ones/weaker section/ under privileged people. This study offers a perspective on the payment banking model and brings out its unique potential towards including the excluded within the purview of financial services.

Naik, Firdous, & Harika, (2018) This paper focused on role of payment banks in financial inclusion & M-Banking. In 2014, RBI introduced two new categories of banks into the Indian financial system, namely Payment Banks and Small finance Banks. Financial inclusion was the main focus of these banks. The payment banks play a significance role in implementing government's DBT schemes, where subsidies on health care, education and gas are paid directly to beneficiaries account.

**2. OBJECTIVES OF THE STUDY:**

- To study the impact of India Post Payments Bank in District Muzaffarnagar of Uttar Pradesh.

**3. RESEARCH METHODOLOGY:**

- **RESEARCH DESIGN:** The research design of the paper is basically descriptive.
- **SOURCES OF DATA:** The study is based on secondary data. Secondary data was collected from Annual Administrative Report, Annual Report and websites of the Department of Post & IPPB. Supporting literature from relevant sources, journals, research reports, websites etc. also forms the sources of secondary data.

**a) Analysis & Interpretation Key Metrics of India Post Payments Bank as of March 31, 2020:**

- Customer Base of 2.36 Crore. More than 50 % accounts are of Women.
- Aggregate Financial Transactions valued at Over Rs. 14,500 crores.
- First Payments Bank to receive Scheduled Bank status.
- Banking Services at 136,000+ Post offices of which 110,000 are in rural India.

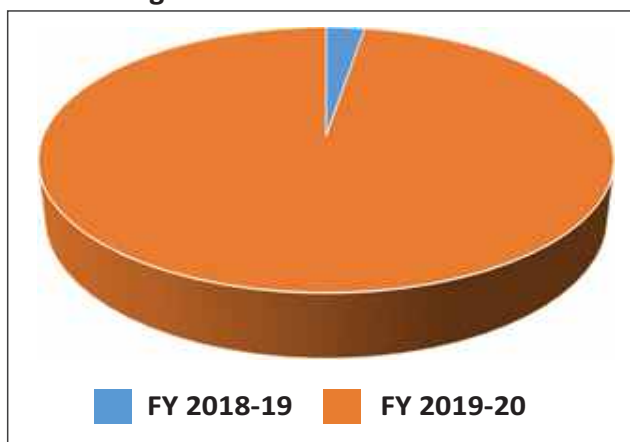
- 174,000 + Postmen & GDS are providing Interoperable Doorstep Banking Services
- All service channels available in 13 languages.

**b) Penetration of India Post Payments Banks in District Muzaffarnagar:**

**Table 1**

Particulars	FY 2018-19	FY 2019-20	% increase
Amount of DBT Credits	12,65,60,708	4,77,65,31,831	3,774
Number of DBT Credits	2,18,055	38,00,032	1,743

**Fig. 1 : Amount of DBT Credits**



**Table 2**

Particulars	FY 2018-19	FY 2019-20	% Increase /Decrease
No. of New Accounts Opened	28,742	31,486	9.54
Aadhar Seeded Accounts	20,665	17,910	13.33
Cash Deposits	24606610	91986162	273.82
Cash Withdrawal	10096916	68828478	581.67
AEPS	4416105	245061350	5449.26
Fund Transfer	17399658	75601107	334.49

AEPS (Aadhar Enabled Payment system) had increased by 5449% in FY 2020-21. Due to COVID 19, this facility had helped the people to withdraw the amount from their account at their doorstep. It was a blessing for DBT holders

Fig.2 : Cash Deposit/Withdrawl & Fund Transfers

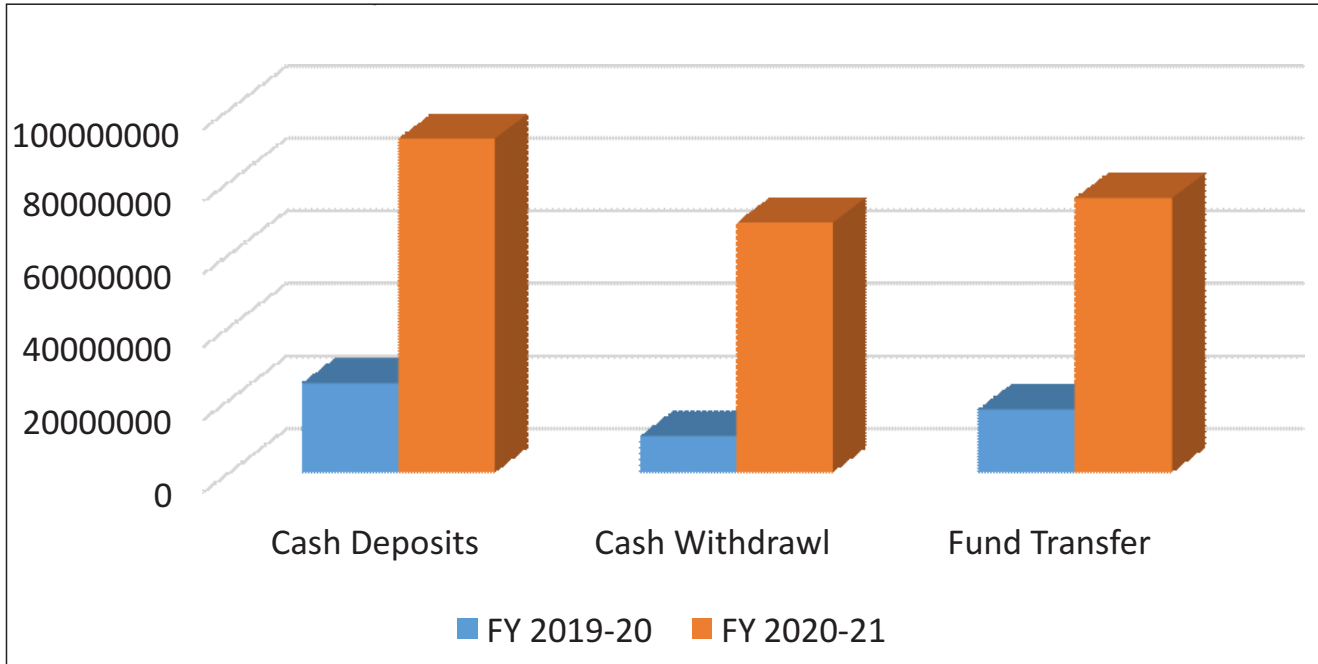


Fig. 3 : No. of New Accounts Opened

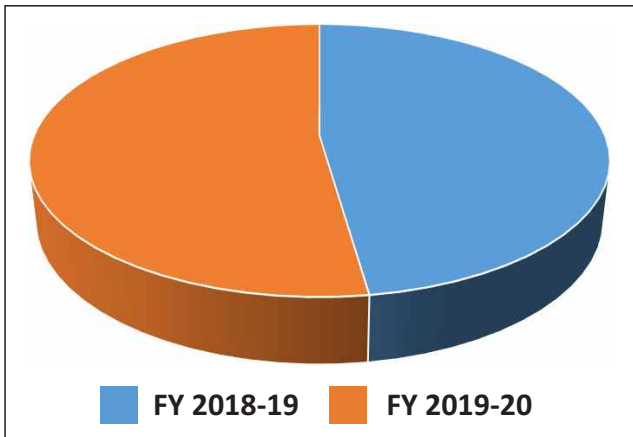
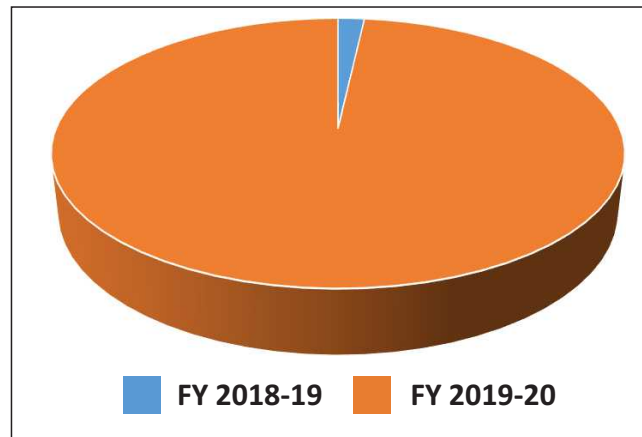


Fig. 4: Aadhaar Enabled Payment System



& labourers. Postmen's had worked in line with local administration in the pandemic to serve the people at their doorstep.

India Post Payments Bank has opened 60228 accounts in last two years which shows the increasing Impact of India Post Payments Bank in District Muzaffarnagar.

Cash Deposit/Withdrawal and fund transfer is the basic need at the rural heartland of the district. The increase in the transactions is visible through above data.

4. CONCLUSIONS

As far as the findings & result of this study are concerned, it can be easily concluded that India Post Payments bank has helped in achieving the financial inclusion at the last mile of the District Muzaffarnagar and played a vital part in achieving the digital banking campaign of the government. The presence of local people (Postmen) at the doorstep has been the upselling point which has resulted in improving the socio-economic status of the people in the district of Muzaffarnagar. Easy accessibility, Local availability & Door step service are the

important factor due to which services of Payments banks are being used in the district of Muzaffarnagar. With the arrival of the India Post Payments bank, the visit to universal bank has gone tremendously down. Presently, it is safe to say that payments banks are in uncharted territory. Since their conception, mobile accessibility has become cheaper, rural connectivity has improved under the “Digital India” initiative, and the Pradhan Mantri Jan Dhan Yojana (PMJDY) has pushed for greater

and greater numbers of the unbanked to be brought into the ambit of the formal financial system. All of these developments play arguably complementary roles for the purpose that payments banks are looking to serve. It is well evident & concluded that the presence of local personal has made very easy & friendly to transact with the Payments bank & these banks are the face of new banking era and resulted in achievement of the financial inclusion. ●

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