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Post office solutions

The new India Post Payments Bank can hasten financial inclusion, but detailing is key

Amidst some fanfare, Prime Minister Narendra Modi launched the India Post Payments Bank (IPPB), a financial service provider that will operate under the country's age-old postal department. The government-owned payments bank will be able to accept deposits of up to ₹1 lakh from customers but without the rights to use these funds to advance risky loans at higher interest rates. It, however, plans to offer a variety of other financial services to people, including the holders of postal savings accounts that are worth over ₹85,000 crore. The primary rationale behind the public payments bank idea is to help in the government's goal of achieving financial inclusion by providing savings, remittance, and payments services to the rural and unorganised sectors of the economy. It is also hoped that the payments bank idea will help reinvigorate the postal system, which has a wide network of branches across India. All the 155,000 post offices in the country are expected to be linked to the IPPB system as early as in December this year. The payments bank will also have a digital platform that is expected to make financial services more accessible even from remote locations.

A big challenge facing the new public payments bank is whether it can manage to earn the profits required to survive as a standalone business entity. Given the severe restrictions imposed by the Reserve Bank of India on how payments banks in general can employ their funds, the odds seem to be stacked against the IPPB at the moment. The first wave of new payments banks that commenced business last year – Airtel, Paytm and Fino – have not exactly set the market on fire. (The payments bank model, it should be noted, is still untested even though prominent private companies such as Airtel and Paytm have shown interest in the space.) Banks have traditionally stayed away from the business of pure deposit banking, unless customers have been willing to pay for these services, for a good reason. The IPPB promises to pay an interest rate of 4% to its savings account customers. To generate revenues, it plans to charge fees on money transfers and other financial services while investing idle customer deposits in safe government securities in order to earn interest. Whether this will be sufficient to cover interest and operational costs remains to be seen. Meanwhile, the IPPB is also likely to face stiff competition from private companies, which are generally more nimble in adapting to business realities and far more customer-friendly compared to the government-owned behemoths. And with increasing competition, the IPPB's revenues and margins are also likely to come under pressure. Yet, if it succeeds, the new payments bank could usher in a new era of rapid financial inclusion across rural India.