EXPANDING THE SCOPE OF INDIA POST PAYMENT BANK

IN FULLFILMENT OF THE REQUIREMENT FOR THE COURSE

CONTEMPORARY CONCERNS STUDY

Project Report
Submitted to

PROF. M S SRIRAM

BY

UTKARSH | 1511064

VALENTINE FARGOSE | 1511066

INDIAN INSTITUTE OF MANAGEMENT BANGALORE

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2 INTRODUCTION

Finance is an essential component for the development of an economy. A well-developed financial system lays the foundation for sustainable growth. In a developing country like India, bringing the masses into the envelope of financial stability is essential as it is a key step in the development of the society both in terms of human development indices like education and health as well as economic growth.

Let us take a look at the scenario in India currently. As of 2015, we have a bank branch network of 1,25,857 in the country.[i] At the same time, India is home to a startling 21% of the world's unbanked population.[ii] Only 14% of our country's population use financial institutions as a means for savings.[iii] To deliver 1 rupee worth of food, the government spends Rs. 3.65. 57% of this doesn't even reach the end beneficiaries.[iv] These figures bring forth one key question. Is our present financial system catering to only certain sections of the society? In a country of 1.2 billion people, are there segments of the society that are being completely neglected? Is our system of subsidies and inclusiveness flawed? What happens to the money spent on various initiatives for the betterment of the society? These questions have serious implications. Financial access to the lower income strata of the society at an affordable cost is a prerequisite for poverty reduction and social cohesion. It is a key step for progress and growth.

Several initiatives have been taken by the Government of India (GoI), Reserve Bank of India (RBI) and various other agencies to improve the financial inclusion (FI) scenario in the country. Few of the important initiatives are listed below:

- 1969: Nationalization of banks after the commercial banks failed to help the government achieve its social objectives such as social welfare and priority sector lending
- 1976: Regional Rural Banks (RRBs) were set up to primarily serve the rural and semi-urban areas with basic banking/ financial services
- 1982: National Bank for Agriculture and Rural Development (NABARD) was set up to extend easy credit to agriculture and rural development[v]
- 2005: No-frills accounts (renamed as Basic Savings Bank Deposit Accounts in 2012[vi] and now known as Jan Dhan Account) to incentivize the larger section of the society to open bank accounts[vii]
- 2011: 'Swabhimaan' campaign to provide banking facilities to unbanked villages with population of 2,000 and above[viii]. (PMJDY is supposedly a refurbished version of Swabhimaan with additional overdraft facility and insurance benefits[ix].)
- Simpler KYC norms to ensure that people without adequate documentary proofs are not deprived of banking facilities
- 2014: Pradhan Mantri Jan Dhan Yojana (PMJDY) to ensure access to various financial services like a basic savings bank account and remittances facility to the weaker and lower income groups of the society.

Other steps include encouraging banks to open accounts in unbanked areas, the introduction of various alternative channels such as Microfinance Institutes (MFI), Self Help Groups (SHGs) and Business Correspondents (BC). All these help improve the FI scenario in the country. However still more requires to be done to ensure financial inclusion and hence the concept of differentiated banks - payment and small banks, was recommended by the Nachiket Mor committee to RBI.

3 OBJECTIVE

In August 2015, India Post has been given an in-principle approval to set-up a payment bank, named India Post Payment Bank (IPPB). While India Post can leverage its vast network and rural presence, running a payment bank will bring its own set of challenges. The project will investigate what different products and services that can be viably offered by IPPB, what challenges India Post will face during the roll out of the payment bank and what strategies it should adopt.

4 SCOPE

The project scope has been limited to studying only the following aspects. A detailed scope is included in Appendix A.

Project scope:

- Competitive assessment of the present scenario in the payment bank space in India
- SWOT analysis of IPPB
- Study of best practices and learnings from global scan of post banks
- Investigate effective last mile delivery options for products/ services offered by IPPB
- Evaluate various services that can be economically offered through IPPB channel

5 COMPETITIVE ASSESSMENT

A vast majority ~ 61% of the rural population in India is still not covered under the formal banking system. The concept of a payment bank has been coined primarily to address this issue of poor financial inclusion. Since many players from varied backgrounds shown interest in entering the payment bank space, IPPB will face a steep competition from these private players as they will bring with them different set of expertise. Apart from this internal competition, many other parallel credit sources/ mechanisms have emerged over the years which will also pose a significant competition to the nascent payment banks. Hence it is essential to study the competition from both the lenses, internal as well as external, to get an overview of the competition.

5.1 INTERNAL COMPETITION FROM OTHER PAYMENT BANK PLAYERS

On 19th August 2015, the Reserve Bank of India gave 'in-principle' approval to 11 entities out of the 41 applicants to launch payment banks[x]. The details of these 11 entities are captured in Appendix B. Out of these 11 entities, 3 players - Tech Mahindra, Cholamandalam Finance and Dilip Shanghvi-IDFC Bank-Telenor joint venture have already dropped out of the race in May 2016[xi].

In this section, we will analyse the strategies applied by the remaining eight players to establish as a strong payment bank in this competitive market. These players can be broadly categorized into three segments - Telecom majors, Technological players and Conglomerates. This section will also cover some of common reasons leading to the exist of the three players.

5.1.1 Telecom majors – Airtel, Vodafone:

Both the telecom giants have a huge advantage because of their large subscriber base. Out of the total 981 million wireless telecom subscriber base in the country as on 30th June 2015, Airtel and Vodafone accounts for 23.52% and 18.9% market share, respectively[xii]. In addition, they also have well-established distribution channels which can be transitioned to operate as payment bank counters.

Vodafone has a prior experience of providing an alternative of mobile payments to the weakly penetrated banking system in Kenya and other African countries. Using its money transfer service, M-Pesa, Vodafone offered a range of services including money deposits, withdrawals, remittances and bill payments in Kenya. In 2013, 43% of Kenya's GDP flowed through M-Pesa and it has extended financial inclusion to nearly 50% Kenyan population[xiii]. Vodafone will surely try to leverage this experience for its financial venture in India.

In India, Vodafone already has a head start with a pan country distribution network of over 120,000 cash-in points and with more than 5 million M-Pesa customers. Going forward, Vodafone will be synchronizing its payment bank operations with the M-Pesa platform and will be transitioning the existing M-Pesa outlets to payment bank branches. Apart from the mobile outlets, Vodafone has also roped in "Kirana" stores as its BCs which will ensure the last mile delivery of Vodafone payment bank products to the remote places. Vodafone is also searching for eventual partners to divest its shareholding in the payment bank as well as to bring some banking/ financial expertise on the table[xiv].

Airtel has been providing money transfer services since 2011 with its mobile wallet - Airtel Money. It has presence in 800+ towns of India. With the payment bank license, this M-commerce business will be merged with Airtel payment bank. For last mile delivery, the payment bank can leverage on Airtel's existing distribution channel of 1.5 million outlets across the country. They also have a partnership with Kotak Mahindra Bank to deliver financial expertise[xv].

Overall, with their wide distribution network, technology prowess and partnerships with the well-established banking entities both these players are in a good shape to give a healthy competition to IPPB.

5.1.2 Technological players – PayTM, FINO PayTech

PayTM has a strong ecosystem for mobile payments because of its mobile wallet. It has established tie-ups with businesses, even exclusive ones such as Uber for payments. It currently has a consumer base of ~13 million and it can make use of this experience for its payment bank.

Mr. Vijay Shekhar Sharma, founder of PayTM and his team is implementing a dual model for the payment bank; one for rural consumers and other for urban. The rural model will be mainly based on 'feature phones and cards'. The focus will be on digital solutions with minimal infrastructure and on delivering remittances and transfer services to the rural population through its mobile platform. PayTM will try to establish partnerships with businesses to facilitate digital payments to vendors in rural geographies. This would eventually develop a digital payment ecosystem without much need for a supporting physical infrastructure. For urban population, PayTM payment bank will have a physical network of branches in limited number of cities and its activities will be supported by a strong digital backbone. PayTM will be leveraging on its massive consumer base for their expansions into the payments bank space[xvi].

Founded in 2007, FINO PayTech has established an extensive network of BCs in more than 499 districts of the country. In fact, it is the only entity amongst the licensees of payment bank that has a corporate BC model. It has developed supporting hardware devices and software applications to effectively acquire micro customers from remote locations. Their business model resides on creating a physical infrastructure and connecting it with the superior digital connectivity. Accordingly, FINO has developed 400+ remittance and bill payment points named FINO Mart and an extensive network of 20,000 BCs and 10,000 retail agents[xvii]. The FINO Marts will be converted to payment bank branches in future. They would be leveraging on their existing network of BCs and the technological solutions to successfully venture into the payment banks space.

FINO has developed a partnership with ICICI bank, 2nd largest private sector bank in the country. This partnership will help FINO develop products and services that otherwise cannot be offered by a payment bank due to regulatory restrictions[xviii].

Thus, while PayTM is relying mainly on its digital platform, FINO Paytech will be extending its current BC model and will be supporting it with a strong physical and digital infrastructure to deepen its routes in the payment banking ecosystem.

5.1.3 Conglomerates – Reliance Industries, Aditya Birla Nuvo

These players bring with them the financial muscle necessary to take up losses in the initial years of the business. As per the preliminary assessment payment banks are not expected to be profitable in the first 3-4 years. Hence the ability to accommodate losses in this phase is very critical.

It is evident that establishing a new physical network of payment bank branches is not going to be economically viable. Accordingly, Aditya Birla Nuvo has formed a joint venture with Idea cellular, a telecom operator under the same Aditya Birla group of companies, to bring down the hassle of creating a pipeline of distribution outlets. The payment bank will be leveraging Aditya Birla group's 45 million digital customers and Idea's 2 million retail distribution channels across 3.9 lakh towns and villages. For financial expertise, it can partner with the financial services arm of the group.

Reliance Industries Limited (RIL) has the reputation of starting it big the first time, be it the Asia's biggest Jamnagar petrochemical refinery or the pan India launch of 4G services. RIL has never shy away from making big investments and it is expected to enter the payment bank space with a huge dent. RIL has already made a joint venture with State Bank of India (SBI), country's largest commercial bank. Thus the payment bank will be leveraging on Reliance Jio's pan India telecom network, Reliance retail's online and offline business model, and SBI's product structuring capabilities[xix]. Together RIL and SBI, can create an extensive distribution network for payment banks in India.

As a result, these conglomerates will gain from expertise of other group companies and use their big financial muscle to take on heavy investment in the initial years of the business.

5.1.4 Players who withdrawn

Many of the players did not quote the real reasons for their withdrawal from the payment bank licensing process. However, lack of proper scrutiny while applying for the license can be termed as the major reason for the back-out after receiving in-principle approval. Some of the other common reasons could be:

- Lack of synergy between payment bank operations and the existing businesses of the players

- Overcrowding of the market which nevertheless offered very less margins
- Competition from players who already have a country wide contact points which can be easily converted to facilities offering cash-in, cash-out services
- Long gestation period given huge initial investment and a thin margin on products and services that could be offered

5.2 External competition from Non-Payment Bank players

In this section, the competition posed to payment banks from other players in the industry will be analysed.

5.2.1 Banks/ NBFCs/ Micro Finance institutions

The traditional banks are not able to fully tap the potential of digital customers and hence this will be a target area for the upcoming payment banks.

The addition of new 8 entities (11 licensees less 3 back outs) will pose additional competition to the fairly competitive banking and finance industry. Using the latest technology solutions payment banks can design their cost structure much more effectively than the existing commercial banks. Unlike these banks, payment banks will not have restrictions such as mandatory physical presence in rural geographies, lending to primary sector, burden of bad loans. Hence payment banks can offer competitive interest rates on the deposits. If this is supported by a good customer service and an easy to operate interface many people will move certain portions of their deposits from their regular bank accounts to the payment bank accounts[xx].

However, there is also another aspect to this competition. Most of the payment bank services will be complementary to the services offered by traditional commercial banks. Given the restriction in offering credit based products, payment banks are extending partnerships with financial institutions. Through these tie-ups, payment banks will be cross-selling the products offered by their partners through their counters. Therefore, while the payment banks will pose some competition to the tradition banking system in terms of attracting short term depositors, they will also offer new opportunities to sell financial products and services to remote areas where traditional banks cannot reach otherwise.

5.2.2 Moneylenders & equivalent

Even after continued efforts from the government for many years, moneylenders continue to dominate the informal sources of credit in rural India[xxi] even though they charge exorbitant interest rates (anywhere between 24% to 48% per annum). Also, due to cash based nature of transactions, the borrowers of these loans never really develop any credit history.

Payment banks can offer a no frills accounts to this population with ATM/ debit cards. Due to various remittances, subsidy transfers and payment services many people are expected to use these accounts for their day-today transactions. This will eventually develop a credit history for the present unbanked population. Though payment banks cannot lend themselves, they will channelize credit products of existing players through their counters. Though in the short run this might not become successful due to minimal credit history of the borrowers, it can have a significant impact in the long run by helping this population develop a credit history and avail much cheaper formal credit.

5.2.3 Mobile wallets

There are 50 entities, including PayTM, Airtel and Vodafone (complete list - Appendix C[xxii]), offering pre-paid payment instruments (PPI) in India. Most of these entities operate as mobile wallets. These wallets allow the user to perform similar actions as physical wallet with more convenience, safety and simplicity. People can pay for their grocery to utility bills to movie tickets to car rentals using these wallets without swiping their credit/ debit cards.

In addition to the services and convenience offered by mobile wallets, payment banks can offer the following additional services:

- Provide interest on the parked money
- Cash out facility; hence user can park more money than their immediate consumption need
- Offer wider range of financial services/ products to invest into
- Perform high value transaction, as pre-paid wallets cannot do more than Rs. 10,000 worth of transactions without KYC norms in a given month

Given these benefits, if the payment banks develop a user friendly interface, shifting the consumers from mobile wallets to payment banks will not be very difficult.

5.2.4 Unified Payment Interface (UPI)

UPI is designed by the National Payment Corporation of India (NPCI) with the core objective of integrating various retail payment systems with a uniform and standard interface. It will work as a central repository which will facilitate transactions between different counter parties through their Payment Support Providers (PSP) – refer Appendix D for the architecture of UPI. This new technology will bring down the cost of transaction to as low as Rs. 0.45[xxiii]. This technology is based on virtual addresses and will be linked to the mobile numbers/ Aadhar cards of the users. Hence users will not have share their bank account details with anyone. Using this technology, PSPs (typically banks) will be able to offer similar services as that of mobile wallets and hence UPI possess a threat to mobile wallets. But the primary revenue for payment banks will come from offering remittances and transfers and by cross-selling third party products. Hence the reduced cost of transaction and safe connectivity between different PSPs will only bring positive value to the payment bank services.

6 PROPOSED STRUCTURE & OBJECTIVE OF IPPB

IPPB will be established as 100% subsidiary of the Department of Post (DoP). It will leverage the widespread network of DoP, its local knowledge and deeper customer awareness. The dak sevaks will work as BCs for IPPB to provide doorstep delivery of its services. Overall, it will strengthen the financial services offered through the postal network by adopting new age technologies such as mobile and internet banking, micro ATM, mPOS, digital wallets and improved customer service through doorstep banking, service agents, voice banking services.

IPPB's objective is to provide easy to use and trustworthy financial services and products to the unbaked and under-banked populace of the country. The target segments for IPPB include migrant labourers, daily wage earners, blue collar workers, housewives, pensioners and micro/ small & medium enterprises.

In order to achieve this objective, government has proposed to open 650 branches of IPPB to cover all the districts of the country by 2018. These branches will be linked to the post offices, which will operate as customer access points for the payment bank. IPPB will ensure the delivery of all types of government to citizen payments like subsidy payments, MNERGA wages and DBT through the postal network and its own branches.

7 SWOT ANALYSIS OF IPPB

This section will analyze the readiness of India Post to handle the new responsibilities of IPPB. While the inherent strengths of the post will provide it certain advantages in terms of rolling out the new services, a set of new challenges will emerge when it has to assume new responsibilities and at the same time compete with the established private players.

7.1 STRENGTHS

- **Rural network of India Post:** With nearly 90% of its branches in rural areas, India post's rural network is larger than all the commercial banks put together. Hence IPPB can leverage on India Post's vast network of post offices to reach out to the rural and semi-urban unbanked population.
- **Government of India support:** Among all the payment bank players, IPPB will be the only entity with complete stake of the government. This relation will be mutually beneficial for both, with government achieving its financial inclusion agenda and IPPB receiving strong regulatory and financial support.
- **Country wide presence:** In addition to the last mile presence through the postmen/ women working as BCs, IPPB also has plans to set up 650 branches to manage and control its operations. It will help IPPB to deliver its services seamlessly in all the parts of the country.

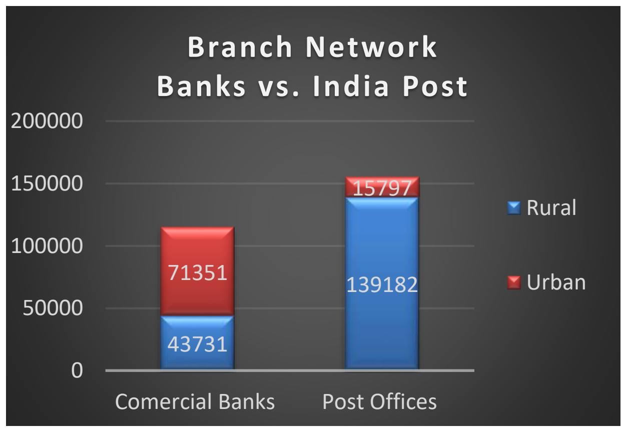


Figure 1: Branch network comparison of Commercial Banks & India Post

- **Customer connect:** Traditionally, postmen are well respected across communities. When they work as BCs for IPPB, it will naturally alleviate the agency risk in the financial transactions and will help IPPB acquire customers with ease.
- **Experience of providing financial services:** India post has an experience of providing savings products, payment and remittance services, insurance and third party products such as mutual funds. In fact, it has one of largest deposit base in this country, second on to SBI[xxiv]. This will provide an edge to IPPB over all its competitors.

7.2 WEAKNESSES

- **Human resource capabilities**: Dak sevaks are the backbone of the doorstep delivery system of postal services. Their customer connect and local knowledge will be very crucial to IPPB for initial customer acquisition. However, there are significant differences between the delivery of postal services and the financial services. In order to comfortably deliver these new products and services, dak sevaks will need to have a proper understanding of all the products and at the same time they should be able to communicate the benefits of these services to the rural populace. In addition, the upcoming technological devices such as microATMs, mobile POS will substantiate investment in training of the dak sevaks. Analysis of the current age and educational profile of the grameen dak sevaks from Karnataka circle illustrates that nearly 24% of the dak sevaks are above the age of 55 and only 5% are graduates and above. Given these characteristics, it will be very difficult to implement the proposed plan if IPPB wants to predominantly rely on dak sevaks for the last mile delivery.

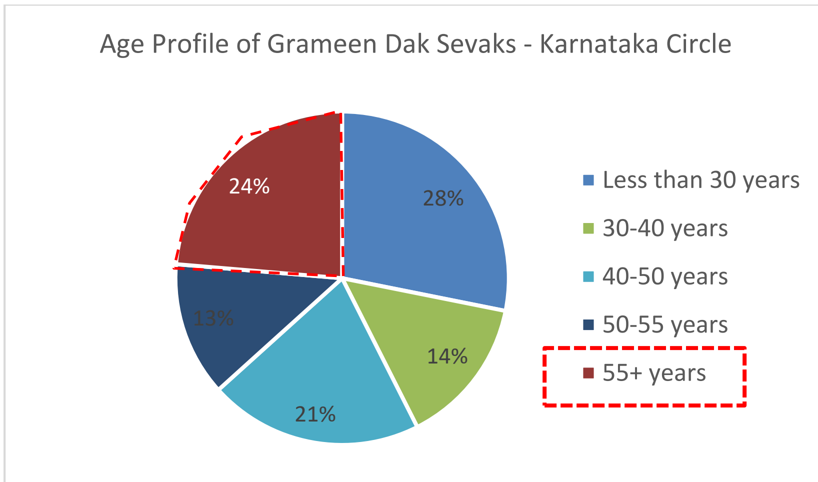


Figure 2 Age Profile of Grameen Dak Sevaks from Karnataka circle

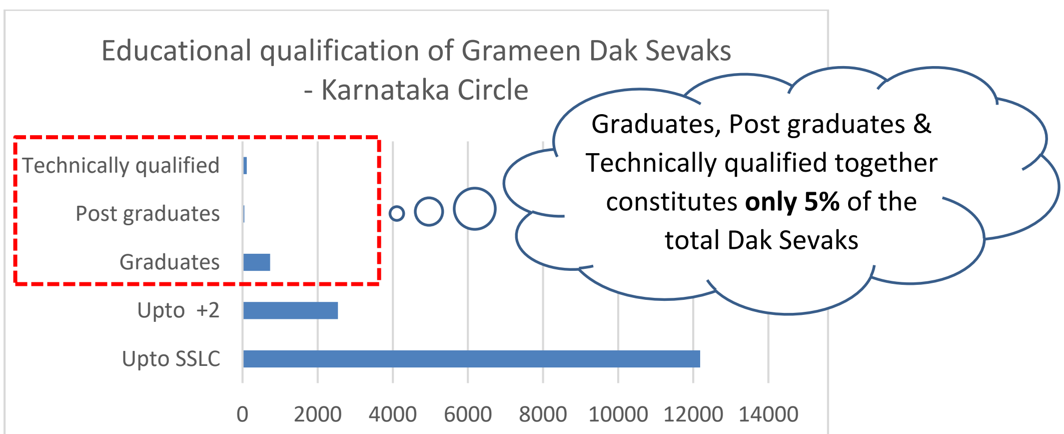


Figure 3 Educational profile of Grameen Dak Sevaks from Karnataka Circle

- **Expenditure revenue gap**: DoP has been suffering from the revenue deficit since mid-sixties. The net deficit of the department has grown from Rs. 5,473 Crore in FY 14 to Rs. 6,259 Crore FY 15, reflecting a growth of 14.35% y-o-y[xxv]. High dependence on human capital and lower technology substitution has resulted in higher costs due to pay hikes effected by the government. Also, the irrational expansion of the infrastructure and manpower has resulted in the gross expenditures growing faster than the growth of the revenues. The payment bank will have to borne additional capital expenditures to build the required infrastructure and bring in the necessary technology in the initial years. As per the industry experts, the payment banks would take at least 3-4 years to break even. So given the history and the impending massive expenditures, managing the finances in a cost effective way will be a challenge in front of IPPB officials.

7.3 Opportunities

- **Independent identity:** In the proposed structure, IPPB will be set up as a subsidiary of DoP. The products and services offered by POSB are currently administered by the Ministry of Finance and the role of POSB is limited to operationalising these services. However, with the autonomy IPPB can put its entire management force behind the roll out of innovative services and can create an impact in the potential banking landscape of the country.
- **Collaborations with private players**: India post has successful collaborations with private players like Western Union Financial Services for providing money transfer services[xxvi]. With many players showing interest in partnering with the India Post for payment bank[xxvii], IPPB can leverage the expertise of these incoming players to bring maximum synergies to the business.
- **Large unbanked population**: India still has a large unbaked population of 233 million[xxviii]. Also, many of the account holders don't transact even once after opening the account due to multiple reasons such as proximity of bank, illiteracy about the financial services. If IPPB is able to reach out to these unbanked and under-banked population and able to address their concerns, it can untapped a huge potential business opportunity.

7.4 Threats

- **Competition from private players:** IPPB will need to establish various competencies in order to set up a successful payment bank. Most crucial competencies will be technological sophistication, last mile delivery and cost-effectiveness. While IPPB can emerge winner on the last mile delivery, almost all the other private players will have an upper hand in technology and cost effectiveness. These private players are also trying to firm up their last mile presence by tying up with retail /kirana stores, mobile recharge points. In addition, most of these players have deep pockets and can easily sustain short term losses to capture long term business opportunities. Hence overall, the competition is going to be very fierce in this space.
- **High customer demands:** The technology is advancing at a rapid pace. IPPB will need to constantly innovate its offerings to fulfil the growing demands of its customers.
- **Autonomy of IPPB:** Postal department was earlier fully reliant on the Finance Ministry for its treasury operations. With the independence, IPPB will have to manage its own treasury operations. As per the RBI regulations, 75% of the deposits needs be invested in government securities. While this will prevent any riskier investments by the payment banks, IPPB will have to be very efficient in its investment decisions to maintain low risk and at the same time get higher returns. Since postal department does not have any prior experience of such investing activities, handling such the deposit base in an efficient manner will be a challenge in front of IPPB.

8 Best practices/ Learnings from global scan

Postal services have long been used globally for improving financial inclusion. More than a billion people use postal services globally and the reach of postal services in rural and poor areas makes it ideal for advancing financial inclusion. According to a report by World Bank[xxix], there are certain challenges which are associated with the same however. Despite a large rural presence what is also to be considered is that Posts have little or no expertise in providing financial services through postal network. The report further claims that in general poor adults and women in developing economies have their account at India Post.

Historically delivering financial services through post offices has been in practice since 1861 when UK post savings account were initiated. However, it is in the recent times that the idea has been into vogue in many countries. Indonesia, Brazil, Japan and South Korea, all have benefitted immensely in terms of financial inclusion due to their investments in setting up a postal bank.

Presented below is a quick overview of various financial services being offered by Post banks of other countries:

8.1 South Korea Post Bank

South Korea Post offers deposits/ withdrawal services, bank transfers, saving deposits products including subscription, and also a broad range of other financial services which include insurance cards, utility bill payments, merchant check and management fees payment services as well.

8.2 Japan Post Bank

Japan post bank is a retail financial institution which provides financial services through a network of local post offices and ATMs throughout Japan. The financial services provided include time deposits of money, remittances transfer and international money transfer. It also offers insurance services.

8.3 Brazil Post Bank

Brazil post bank offers savings account, loans and credit card services, remittances transfer and payment of social security benefits, receipts of taxes, fees and social security contributions via its branches.

Thus, the broad spectrum of services is almost similar for these post banks. However, which of these services will be relevant in the Indian context and most importantly, how these services are to be brought to the rural areas will be a tough question to answer.

9 Last mile delivery

To ensure financial inclusion last mile delivery of services is crucial. A recent report by an RBI panel stresses on the importance of focusing on mobile technology for delivering last mile services. The delivery should consider the following stages of banking:

- Financial literacy
- Savings deposit and remittance
- Mobile book keeping
- Community led micro insurance model

This section shall focus on identifying most economic and effective mechanisms for delivering financial services in rural India via IPPB. Several innovations in this field will be studied and best practices will be recommended.

India post already offers nine different savings products, remittance services, third party products and insurance services through Post Office Savings Bank (PoSB). It has a widespread network of 1.54 lakh post office branches through the country most of which are located in rural areas. With the added advantage of the payment bank license, India Post is in a great position to further the objective of financial inclusion.

With hardly any lack of differentiation in terms of product offerings, IPPB needs to be clear on its target segment and then the last mile connectivity can be built in accordance. Also the last mile connectivity should be based on India Post's strengths.

9.1 Target Segment

India Post has the largest penetration and reach to the rural customer which is almost three times as large as the banks. The recognition factor is high and India Post already delivers to the doorstep of the customer which no other payment bank rival can compete with. Hence India Post should target the marginalized and underbanked population with financial inclusion being the primary objective.

The target customer base for IPPB should comprise of rural populace, low income households, migrant labourers, unorganized sector workers, artisans, MSMEs, SHGs, housewives, village panchayats, and those living in underbanked areas. It should specifically target the agricultural wage labourers and daily wage labourers, whose bank penetration rate stands below 20% - Appendix .

9.2 Current Scenario for Remittances

Especially for migrant labourers remittances can be an important service which IPPB can focus upon. Currently remittances by migrant labourers are channeled through both formal and informal markets. The "tatkal service" was the most popular for the migrants and factory workers, also maids, rickshaw pullers and construction workers who could not leave their day's work to go to the bank. The tatkal money operators took the money and then deposited into the recipient's account for a fee. Also sometimes the operators deposited money into the customers' own accounts. Tatkal operators' modus operandi is also interesting. Tatkal operators are open till late in evenings and on weekends unlike the banks. Thus the accessibility of tatkal operators for remittance transfer is far more than banks and other sources. Also they get a printed receipt for the deposited amount and the bank details. The tatkal operator transfers the payment online on subsequent day and the recipient receives an SMS intimation regarding receipt of payment. The cost of this service is cheaper than what is charged by India post for money orders.

9.3 Lessons for India Post

Based on the above sections it can concluded that for developing the remittance service for the migrants or unbanked population, convenience and speedy transfer are key.

IPPB needs to consider a two pronged strategy for last mile delivery of services. On one hand to attract remittance customers, last mile connectivity via branches, ATMs, BCs and tie-ups with merchants can also be thought of. While ATMs & BCs do require a certain investment, tie-ups with merchants can be inked with the use of technology so that money can be received from customers for remitting in safe locations.

For recipients of remittances, this is where the India Post's current model can be best leveraged. With the current BC network as well as the postal delivery service men and women India post boasts a huge reachability and can deliver the remittances at the doorstep of recipients. This shall be a key differentiation for India Post.

10 Evaluation of various Products/ Services

This section will cover the analysis of various financial and ancillary services/ products that can be offered by IPPB. The products/ services are evaluated based on their revenue generating ability, cost-benefit and India Posts history of handling such products in the past.

10.1 Lessons learned from the past

India post has been offering financial products as agency service for the Finance Ministry. Various savings, recurring and time deposit products are offered through the postal networks which are mentioned in Appendix E. The Post Office Savings Bank (POSB) is widely successful in attracting deposits from various strata of the society, as shown in Figure 4. However, these products are not very successful in terms of their unit contribution to POSBs bottom line. Figure 5 depicts that no offerings of POSB are making any profit on a marginal level. Rather it is only widening the gross deficits of India Post, Figure 6.

Hence, IPPB will need to design its products by not just considering their demand, but a proper cost benefit analysis of every product should be conducted before rolling out a product/ service.

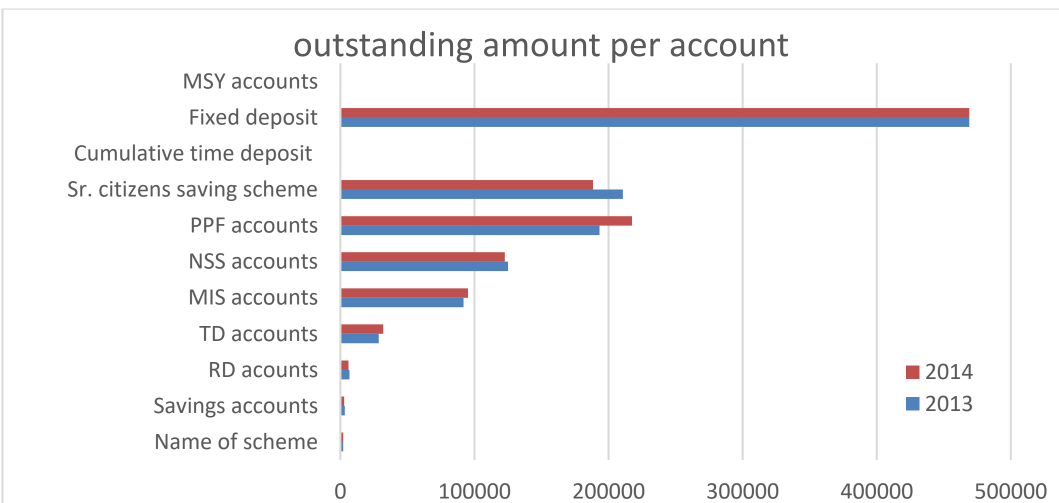


Figure 4 Average outstanding per account under different products offered by POSB

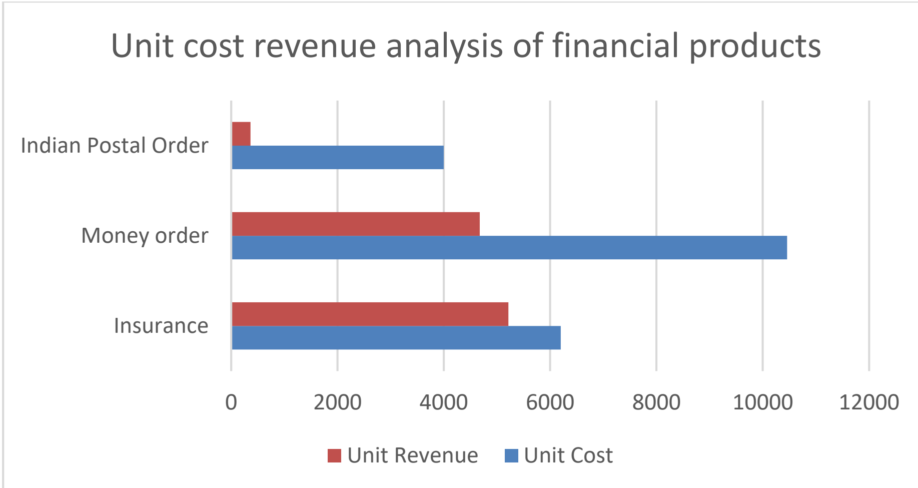


Figure 5 Unit cost analysis of POSB products

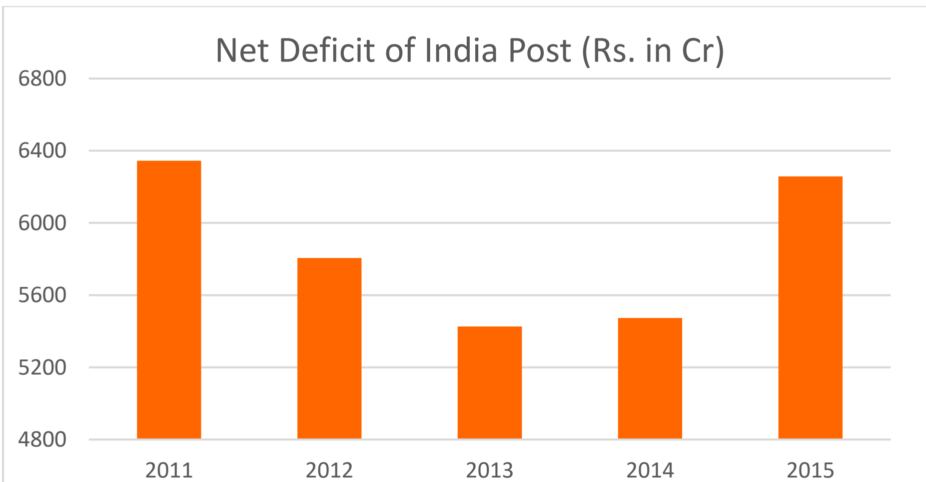


Figure 6 Overall Deficit of India Post

10.2 Proposed Financial services under IPPB

The product portfolio of the financial services could be huge and for analysis purpose it is divided into three broad categories – terminating transactions, relationship products and passive products.

10.2.1 Terminating transactions

These transactions are typically sold once, and are most likely third party products like gold coins, annual life insurance policy, savings certificates, vehicle insurance, micro credits etc.

There is large demand for emergency loans in our country, especially amongst the lower income population. Most of these emergency loans arise from the medical or financial emergency for the lowest income quartile population. These loan requirements are typically of small amounts and most of these loans are serviced by informal players such as moneylenders, friends and Self Help Groups, Appendix . It is observed that half of these loans are serviced with an interest of 36% per annum. The attitude of the formal sector lenders and a long gestation period are the root causes why these borrowers prefer informal source over the formal credit sources.

In order to capture these segment of customers, IPPB can become a facilitator for such micro loans by bringing the customers and formal creditors under one platform. IPPB would be able to mitigate risks associated with such transactions by enabling the credit scoring for such customers using his account history with IPPB. The risk can be further reduced by capping the maximum amount under such facility to a small amount, say Rs. 500/ 1000. In order to speed up the process these loans can be offered for a short tenor and can be offered without any underlying security. A detailed architecture for these loans is captured in Figure 7[xxx].

Similar opportunities can be analysed for vehicle insurance and for other third party products.

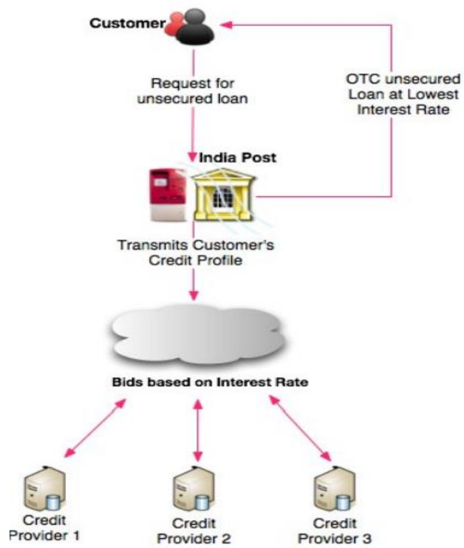


Figure 7 Modus Operandi of micro loans through IPPB

10.2.2 Relationship products/ services

These are typically long term services such as life insurance (endowment type), accumulating savings or Recurring Deposits etc.

Insurance are a typically 'push products' and selling these type of products requires special skill sets. While selling such products it needs to be clarified that IPPB will only act as a facilitator and is not responsible for any liability arising out of these transactions. This way the risk under such policies will remain on the books of the insurance providers. Also, in order to mitigate any reputation risk due to non-settlement of claims of such insurance products, IPPB should selectively tie up with only reputed companies. These products can be a significant source of revenue for IPPN given they fetch a strong commission of 10-22% of the premium collected[xxxi].

The savings account for IPPB can in particular be fundamental to Government's efforts for financial inclusion of the unbanked. This would require setting up of no-frill, lightweight accounts which offer defined services to a very large customer base which have low savings capacity. This would in turn require utilization of tailor made technology for the rural or the unbanked segment characterized by low cost of transactions.

The Expert committee report of India Post recommended a private-public partnership between India Post and a technology services vendor in this regard. The IT service provider can either be paid a fixed annual fee per account or a minimal fee per transaction. The report suggests that the recommended model shall lead to rapid deployment without any technology risk for India Post. A ubiquitous India Post Payment Bank which can be accessed not only via the Post Office or the postman but also the local Kirana shop and the mobile can lead to huge benefits. Besides ease of accessibility for customers, barriers to entry for financial services provider like credit, insurance and pension shall be lowered. Government services can also be easily transferred to the account.

10.2.3 Passive products/ services

In these products/ services IPPB will be a pipeline for providing services such as government to citizen (G2P) payments, business to customer (B2C) payments, peer to peer (P2P) payments etc.

Currently India Post offers Money order services (MO). However, the MO has been a loss making proposition and remittance services can be utilized faster via the existing technology. The India Post experts' committee has already recommended creation of low cost payments platform. A low cost, high volumes but low tickets payment platform can be envisaged as part of IPPB which can play a huge role in financial inclusion for non-banked population. Both UIDAI's vision document "From exclusion to inclusion with micropayments" and Inter-Ministerial Group's report on "Framework for delivery of Basic Financial Services using Mobile Phones" have both called for the existence of an "India Post Payments Network" which has the capability of electronically transferring money. Thus India Post Payments Bank can have a ubiquitous payment platform where customer may send or receive payments (cash/ in accounts) via channels like post office, postman, tie up with kirana shops, mobile phone or internet.

India Post through its reach and available infrastructure for managing Money orders across even the most inaccessible rural regions of the country can be utilized to develop a low cost, high volumes and low ticket size money transfer platform focused on retail transactions. It would require the platform to be ubiquitous and equipped with a capacity to manage high volumes. Many services can be envisaged to be a part of this platform:

- P2P payments
- G2P payments
- Micro finance, micro insurance and micro pensions
- Mobile prepaid top-ups
- Railway tickets
- Recurring bill payments
- Other merchant transactions

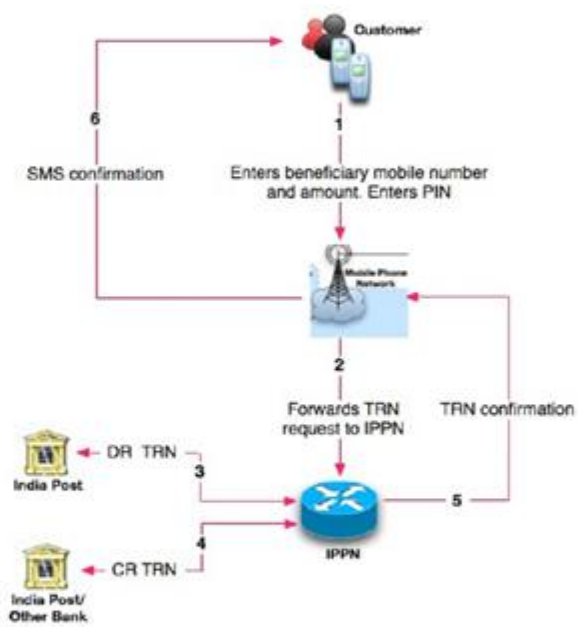


Figure 8 Envisaged mobile transaction on India Post Payment Bank Network

India Post can have a significant role to play via the payment bank in each of the services, especially for P2P transfers and for G2P payments. India Post Payment bank money transfer platform should be such that it can be integrated with other public & private enterprises. Mobile operators, Indian Railways, MFIs and a plethora of other businesses can be partnered with and the services be provided to unbanked rural population via the India Post Payment Bank money transfer platform.

10.3 Proposed Ancillary services for IPPB

IPPB can leverage its scale to generate adjacent revenues by facilitating customer's participation in larger transaction ecosystem. It can explore the possibility of offering products which are adjacent to core banking system[xxxii].

10.3.1 Payment bank counters as collection & distribution center

The payment bank counters can be used as collection centers for various payments such as utility bill payments, NBFC/ MFI loan repayment centers. They can also use these counters to sell other third part products.

10.3.2 Assisted e-commerce

Payment banks can use its BC network to offer assisted e-commerce by facilitating purchase and delivery of products through online marketplace. It can have partnerships with leading e-commerce players of the country like Flipkart, Amazon and Snapdeal.

10.3.3 Data analysis and business insights

IPPB can use the generated data of various individual and merchant transactions to deliver business insights for `different purposes. A detailed analysis of this data will open opportunities to monetize the key insights.

10.3.4 Creating alternate models for credit history

Many unbanked/ under-banked customers are not able to access the formal banking credit due to no history of financial transactions or no proofs of stable income. IPPB due to close interaction and long involvement with such customers can come up with innovative ways to measure the credit ratings of such customers. Such models can be sold to NBFCs/ MFIs/ Banks for a potential business opportunity.

The commission on these services should be calculated considering the fixed and the variable costs associated with these services and by keeping a fair share of the profits with IPPB.

11 RECOMMENDATIONS

In conclusion, payment bank is a great initiative which has the long-term potential of transforming our financial inclusion scenario. It will open up plethora of opportunities for Department of Post. However, the competition from prominent private players would compel IPPB to continuously renovate its offerings. IPPB can no longer rely only on its age-old wisdom of widespread distribution network, but has to upgrade its resources and capabilities to remain competitive in the marketplace. This will lead to major financial costs on its balance sheet in the initial years, however if coupled with strategic business decisions can outweigh the costs in the longer run.

Based on our analysis in the all the previous sections we recommend the following:

1) **Smart product offerings**: As per our analysis current product offerings from financial institutions including POSB fail to meet the requirements of immigrants and daily wage labourers. Thus IPPB should customize its offerings to ensure that the needs of these unbanked segments are covered. The product offerings being served through IPPB should serve all kinds of needs of these segments like micro-loans, micro insurance and no frills savings account.

2) **Collaboration with multiple partners**: IPPB should ensure profitability of its operations unlike India Post itself which remains majorly loss making. For this, it needs to leverage its scale of operations and IPPB should sell and provide services of other banks and financial institutions besides collaborating with Central and State governments as well as mobile services provider, Indian Railways and

Electricity boards for the utilization of IPPB's platform for payments of services by customers and money transfers. Carriage of third party services shall help IPPB become profitable in the short run.

3) **Technology partnership with IT services provider under PPP model**: Instead of developing technology for payment bank ground up, IPPB should partner with an IT service provider (to be identified via a competitive process under a PPP model) to create a lightweight platform. India Post can then focus only on provision of services smoothly and pay an annual fee per user or a minimal per transaction fee to the IT partner. This shall lead to rapid deployment of IPPB across India without the associated technology risk for India Post.

4) **Innovative last mile delivery of services:** IPPB should target rural populace, low income households, migrant labourers, unorganized sector workers, artisans, MSMEs, SHGs, housewives, village panchayats, and those living in underbanked areas for financial inclusion. To attract remittance customers, last mile connectivity via branches, ATMs, BCs and tie-ups with merchants should be ensured. Tie-ups with merchants can be inked with the use of technology so that money can be received from customers for remitting in safe locations. For recipients of remittances, the current BC network as well as the postal delivery service men and women can be used to deliver the remittances at the doorstep of recipients.

5) **Demarcation of roles and responsibilities with India Post**: IPPB is to be launched as 100% subsidiary of India Post. However, the roles and responsibilities need to be clearly demarcated between the officials of the two entities. With the current model there may be overlap and hence clear SOPs need to be defined for handling the services throughout the entire value chain.

12 Appendix

12.1 Appendix A

A detailed scope of the project as approved by different stakeholders is mentioned below:

Sr. No	Scope of study	Deliverable	Illustrations/ Example / Segments
1)	Evaluating various services that can be offered through IPPB channel	• Identifying various services that can be offered under the IPPB roof • Evaluating and establishing feasibility for various products/ services Note: The focus will be on remittances side and not so much on the savings side of the functions	• **Financial services** – **Terminating transactions**, typically sold once, and are most likely third party products like gold coins, annual life insurance policy, savings certificates, vehicle insurance etc. – **Relationship products**, typically long term services such as life insurance (endowment type), accumulating savings or RDs etc. – **Passive products,** where IPPB will be a pipeline for providing services such as DBT • **Ancillary services** – Payment of utility bills – Assisted e-commerce
2)	Competition Assessment	• Analysing the strengths & weaknesses of major players competing for the payment banks license • Assessing the competitive advantage of the players because of their existing business set-up & their prior experience • Assessing the competition from non-payment bank players and informal channels	• **Payment Bank competitors** – Telecom player: Airtel, Vodafone – Technological players: Paytm, FINO PayTech – Big industrial players: Reliance, Aditya Birla • **Non Payment Bank competition** – Formal players: Western Union/ Money gram, banks – Informal channels: Moneylenders
3)	Best practices & learnings from global scan	• Understanding payment bank equivalent mechanism in other countries • Analysing reasons behind their success/ failures • Deriving insights for IPPB	• **Global post bank players** – Japan Post Bank – South Korea Post Bank
4)	Last mile delivery	• Evaluating options for last mile delivery of services on the basis of technology, manpower and financial assessment • Recommending appropriate channels to sell different services	• **Doorstep banking** through Gramin Dak Sevaks/ Business Correspondents • **Local touch points** such as local kirana (mom and pop stores) and prepaid mobile recharge outlets

12.2 Appendix B

List of players who received in-principle approval for payment bank

#	Player Name	Partnership/ Joint Venture	Current Status
1	Aditya Birla Nuvo Ltd	Idea Cellular	
2	Airtel M Commerce Services Ltd	Kotak Mahindra Bank	
3	Department of Posts		
4	FINO PayTech Ltd	ICICI Bank	
5	National Securities Depository Ltd		
6	Reliance Industries Ltd	State Bank of India	
7	Shri Dilip Shanghvi (Founder of Sun Pharmaceuticals)	IDFC Bank and Telenor	Withdrawn
8	Shri Vijay Shekhar Sharma (Founder of PayTM)		
9	Tech Mahindra Ltd		Withdrawn
10	Vodafone m-pesa Ltd		
11	Cholamandalam Distribution Services Ltd		Withdrawn

12.3 Appendix C

List of pre-paid payment instrument providers in India:

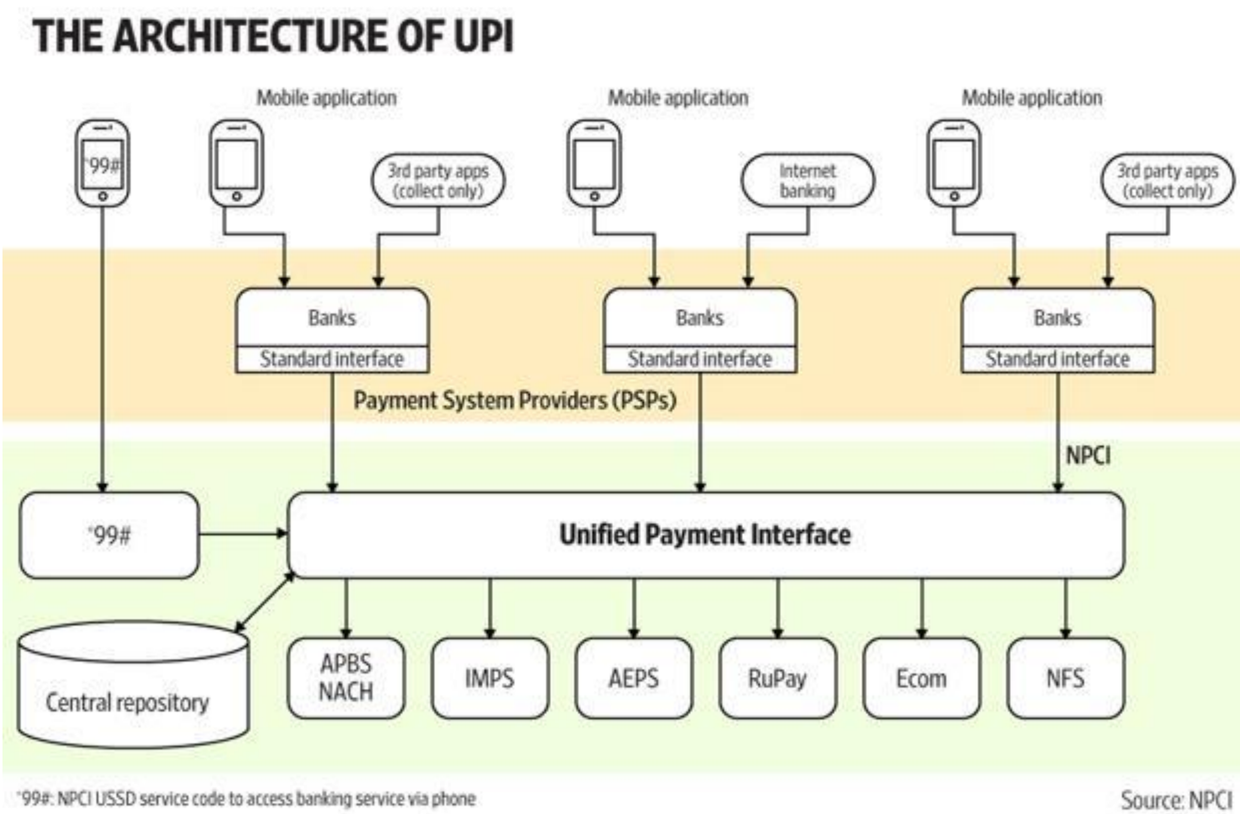
Sr. No.	Entity Name	Description
1	Aircel Smart Money Limited	Prepaid Payment Instruments (PPI)
2	Airtel M Commerce Services Ltd.	PPI as Stored Value Card Wallet (SCW) 'Airtel Money'
3	Atom Technologies Limited	PPI as 'Atom Wallet' and 'Aquapay'
4	Card Pro Solutions Pvt. Ltd.	PPIs
5	Citrus Payment Solutions Pvt. Ltd.	PPI as 'Citrus Cash'
6	Delhi Integrated Multi-Modal Transit System Limited	PPI
7	DigitSecure India Private Limited	PPI e-wallet known as 'HotRemit'
8	Edenred (India) Private Limited	Meal and gift paper vouchers, meal and cafeteria cards, gift cards. The products are mainly under the brand name 'Ticket/Ticket Restaurant/Ticket Compliments'
9	Eko India Financial Services Private Limited	PPI
10	Fino Paytech Ltd.	PPI
11	FX Mart Pvt. Ltd.	PPI as 'PhonePe'
12	GI Technology Private Limited	PPI Card known as 'I Cash'
13	Idea Mobile Commerce Services Ltd.	PPI as 'Idea Money'
14	India Transact Services Limited,	PPI as 'Ongo'
15	Itz Cash Card Ltd.	PPI as 'Pay on web', 'Mobile Wallet' and 'Itz Cash BSNL trust Card'
16	Kedia Infotech Ltd.	PPI as 'Etran Wallet'
17	MMP Mobi Wallet Payment	PPI as 'mRupee'

	Systems Limited	
18	Mpurse Services Pvt. Ltd.	PPI as ‘mpurse wallet’
19	Muthoot Vehicle & Asset Finance Ltd.	PPI e-wallet known as ‘Muthoot Money’ and m-wallet known as ‘Muthoot wallet’
20	My Mobile Payments Limited	PPI as ‘MOM’
21	One97 Communications Ltd.	Mobile based PPPI m- Wallet known as ‘Paytm wallet’
22	One Mobikwik Systems Private Limited	PPIs known as ‘Mobikwik Wallet’
23	Oxigen Services (India) Pvt. Ltd.	PPI as ‘Oxigen Wallets’
24	Paul Fincap Pvt. Ltd.	PPI
25	PayMate India Pvt. Limited	PPI known as ‘Paymate Wallet’
26	Pay Point India Network Private Limited	PPI known as 'Pay Pointz'
27	Premium eBusiness Ventures Private Limited	PPI
28	Pyro Telecommunications Ltd.	PPI m-wallet known as ‘SpeedPay’
29	QwikCilver Solutions Pvt. Ltd.	PPI, Co-branded gift card known as ‘Issued by QwikCilver’
30	Reliance Payment Solution Limited	PPI known as ‘Jio Money’
31	Smart Payment Solutions Pvt. Ltd.	PPI known as ‘PayCash’
32	Sodexo SVC India Pvt. Ltd	Paper based vouches known as Meal, Catering, Gift Gold, Gift Exclusive and Gift Advantage. Electronic based vouchers, gift passes known as Meal Card, Premium E Gift Exclusive E gift and Say Rewards
33	Spice Digital Ltd	PPI
34	Tech Mahindra Limited	PPI (m-wallet) known as ‘MoboMoney’
35	Transaction Analysts (India) Private Ltd.	PPI known as ‘Transaction Assured’
36	TranServ Private Limited	PPI
37	UAE Exchange & Financial Services Ltd.	PPI m-wallet known as ‘X-Pay
38	UTI Infrastructure Technology and Services Ltd.	PPI known as National Common Mobility Card (NCMC)
39	Vodafone m-pesa Limited	PPI known as ‘Vodafone M-pesa’
40	Weizmann Impex Service Enterprise Limited	PPI
41	Y-Cash Software Solutions Private Limited	PPI m-wallet known as ‘Y-Pay Cash’
42	ZipCash Card Services Pvt. Ltd.	PPI known as 'ZipCash Coupons'
43	AGS Transact Technologies Ltd.	Installation and operation of WLAs
44	BTI Payments Pvt. Ltd.	Installation and operation of WLAs
45	Hitachi Payment Services Pvt. Ltd.	Installation and operation of WLAs as ‘Money Spot’
46	Muthoot Finance Ltd.	Installation and operation of WLAs

47	RiddiSiddhi Bullions Limited -	Installation and operation of WLAs
48	SREI Infrastructure Finance Ltd.,	Installation and operation of WLAs
49	Tata Communications Payment Solutions Ltd.	Installation and operation of WLAs
50	Vakrangee Limited	Installation and operation of WLAs

Source: RBI website https://rbi.org.in/Scripts/bs_viewcontent.aspx?Id=1902

12.4 Appendix D



Source: Livemint article http://www.livemint.com/Industry/bTGwxmykXhSKX5Vf8050NI/How-UPI-works.html

12.5 Appendix E

List of products services offered through the Post Office Savings Bank counter:

- Savings Accounts
- Recurring Deposits (RD)
- Time Deposits (TD)
- Monthly Income Scheme (MIS)
- Public Provident Fund (PPF)
- National Savings Certificate (NSC)

- Kisan Vikas Patras (KVP)
- Senior Citizens Savings Scheme (SCSS)
- Sukanya Samridhi Accounts (SSA)

Summary of accounts and outstanding amount under different products (2013-14 & 2014-15):

Name of Scheme	Number of Accounts		Outstanding Balance (₹in crore)	
	2013-2014	2014-2015	2013-2014	2014-2015
1. Savings Accounts*	133501670	165968186	42959.01	46847.59
2. RD Accounts	110599553	122938104	74150.81	74515.26
3. TD Accounts	14246320	16238903	40712.21	51755.12
4. MIS Accounts	22017179	21073808	202083.60	200555.35
5. NSS Accounts (87 & 92)	331869	320174	4149.48	3924.30
6. PPF Accounts	2411817	2424984	46607.65	52747.56
7. Sr. Citizens Saving Scheme (SCSS)	1067752	954177	22491.36	17974.64
8. Cumulative Time Deposit	269446	181634	6.69	6.69
9. Fixed Deposit	516	516	24.20	24.20
10. MGNREGA **	62689394	64884602	0.00	0.00
11. MSY Accounts	2000651	1847916	3.10	2.98
12. Sukanya Samridhi Accounts		2486005		521.69
13. Total (1 to 12)	349136167	399319009	433188.10	448875.38
14. NSC VIII			75075.89	85597.59
15. KVP			106757.58	84844.47
16. Total (14+15)			**181833.47**	**170442.06**
17. Grand Total (13+16)			**615021.56**	**619317.44**

Source: Annual report 2014-15, Department of Post

12.6 Appendix F

REVENUE AND EXPENDITURE DURING 2013-2014 AND 2014-2015 (₹in crore)			
Particulars	**Actuals 2013-2014**	**Actuals 2014-2015**	**% age Inc(+)/ Dec(-) over previous year**
Revenue			
Sale of Stamps *	670.67	576.18	(-) 14.09
Postage Realised in Cash	3161.71	3240.10	2.48
Commission on Money Orders and Inland Postal Orders, etc.	606.89	641.98	5.78
Remuneration for Savings bank/ Saving Certificates work	5915.27	6670.03	12.76
Other Receipts **	375.88	507.69	35.07
Total Revenue	**10730.42**	**11635.98**	**8.44**
Expenditure			
General Administration	942.08	1043.54	10.77
Operations	10242.51	11191.01	9.26
Agency Services	472.29	536.82	13.66
Others ***	5139.82	5785.19	12.56
Total Gross Expenditure	**16796.71**	**18556.56**	**10.48**
Less Recoveries	593.19	661.98	11.60
Net Expenditure	**16203.52**	**17894.58**	**10.44**
Deficit (Net Exp – Revenue)	**5473.10**	**6258.60**	**14.35**

* Sale of stamps includes sale of Postage stamps and, service stamps.

** This includes service charges retained by the Department of Posts from sale of Passport Application Form, Passport Fee Stamps, Central Recruitment Fee Stamps, receipts from other Postal Administrations etc.

*** This includes expenditure on Audit and Accounts, Civil Engineering, Amenities to staff, Stationery and Printing, etc.

Source: Annual report 2014-15, Department of Post

12.7 Appendix G

AVERAGE COST AND AVERAGE REVENUE IN VARIOUS POSTAL SERVICES DURING 2013-2014 AND 2014-2015 (Figure in Paise)					
Sl. No.	Name of Services	2013-2014		2014-2015	
		Cost	Revenue	Cost	Revenue
1	Postcard	753.37	50.00	905.04	50.00
2	Printed Postcard	740.30	600.00	845.07	600.00
3	Competition Postcard	741.62	1000.00	846.67	1000.00
4	Lettercard(Inland Letter)	748.39	250.00	885.39	250.00
5	Letter	826.19	924.94	1005.31	1396.98
6	Registered Newspaper-Single	913.45	41.00	1045.92	44.00
7	Registered Newspaper-Bundle	1483.13	97.00	1705.59	90.00
8	Book Post, Book Pattern & Sample Packets	806.15	685.65	1096.95	739.46
9	Book Post-Printed Books	1312.18	272.37	1352.12	206.04
10	Book Post-Other Periodicals	1263.57	1265.25	1471.22	1235.86
11	Acknowledgement	691.87	300.00	778.04	300.00
12	Parcel	5197.52	3645.90	7137.00	4845.53
13	Registration	4253.73	1700.00	4838.93	1700.00
14	Speed Post	5249.67	3710.04	5884.67	3688.31
15	Value Payable Post	2465.90	352.40	3033.45	364.44
16	Insurance	13805.84	4823.31	6201.24	5215.43
17	Money Order	8638.19	5464.86	10457.08	4677.65
18	Indian Postal Order	3159.99	393.20	3998.67	364.92

Source: Annual report 2014-15, Department of Post

12.8 APPENDIX H

Loan sources	Percentage of persons in income quartile who have taken loan from these sources in the last 2 years: Lowest income quartile	Second income quartile	Third income quartile	Highest income quartile
Relatives / friends	39.2	34.4	33.2	32.0
Moneylenders	39.8	33.2	25.8	14.8
Banks	9.6	20.7	33.3	45.8
Self help groups	9.7	8.4	3.3	3.4
Co-operative societies	5.4	4.9	6.5	7.4
Chit funds / NBFC	1.6	1.9	1.5	1.2
Microfinance Institutions	1.1	1.4	1.2	0.9
Others	1.0	0.9	0.8	1.4

***Source*:** Committee on Financial Sector Reforms (Invest India Incomes and Savings Survey 2007)

12.9 APPENDIX I

Penetration rate of Banks among India's paid working population:

Workforce Category	Total	Rural	Urban
All earners aged 18-59 years	**45%**	**38%**	**62%**
Shopkeepers	72%	65%	79%
Dairy farmers	59%	59%	62%
Traditional farmers	45%	45%	51%
Street vendors	39%	35%	45%
Semi & skilled wage labourers	34%	32%	37%
Artisans & craftsmen	26%	22%	37%
Home-based workers	25%	20%	38%
Agricultural wage labourers	14%	14%	12%
Other daily wage labourers	18%	15%	26%

Source: *Invest India Incomes and Savings Survey, 2007* (IIISS07)

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