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There are plenty of risks hidden in payment banks: Dhirendra Kumar, CEO of Value Research

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No matter how many of the private sector licensees drop out, the postal department's payment bank seems well on its way to start operating in just about a year from now. It's also a certainty that the postal payments bank will have a huge reach. This is a great opportunity but a recent statement by minister Ravishankar Prasad indicates that this is also a great risk. Let's see where the risk comes from.

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Payment banks will be a limited kind of bank which can take deposits, issue cheque books, facilitate payments, but are limited to taking no more than Rs 1 lakh from each customer. What they can't do is to give loans of any kind -they must keep 75% of their money in government securities and the rest as deposits in normal banks.

THE POST OFFICE

Since public postal services began some 400 years ago, post offices have provided a variety of services. These have ranged from [food](#), medicines and tobacco to boarding and lodging for travellers. The nonpostal service commonly offered has been that of savings and deposits, sometimes extending to being a proper bank.

Indian Post Offices have been running banking services since 1882. From the customer's perspective, the post office has effectively been a bank for 134 years now. Customers can choose from savings deposits, [fixed deposits](#), recurring deposits and many other financial products. And if they have accounts in one of the 25,000 branches that have a live connection to the central system, they can get ATMcum-debit cards too. The postal department's reach is unrivalled.

Last week, according to [news](#) reports, while describing the Postal Department's bank plans, Minister Prasad said the government has cleared a proposal for the bank to have 650 branches. The plan is to use postal workers as mobile access points for the bank. Payment banks will be allowed to sell third party financial services so, this is an amazing opportunity for anyone who'd like to get access to this vast [market](#).

He was also reported as having said that '60 international consortiums' were interested in working with [India Post's](#) payments bank to supply third party [insurance](#) and banking products. "50 top names are here including [Barclays](#) and others. Talks are on and a huge matrix will be created". This enthusiasm is understandable. After all, we take it for granted that the injection of private and foreign expertise is generally a good thing for the market for any kind of product and its customers.

However, the question that he should be asking is whether this is true in financial products. Banks have used the blind confidence that customers have in them to push products that have earned them the maximum commissions while emptying customer's pockets. [Irdc](#) and [RBI](#) have been unable to curb this kind of offensive sales practices.

Therefore it's hardly a surprise that '50 top names are here'. Mr Prasad's new bank can deliver to them a vast generation of victims that must have the 50 salivating. Financial services are not like telecom, and freely allowing private and foreign players to replicate their previous rapacious conduct on a new and less literate market would be disastrous. What these 50 are hoping for must not be allowed to happen. Since the time that payment bank licences were given out, the government has launched schemes that cover basic savings and insurance requirements. The postal payment bank should focus on these rather than delivering its customers to those adept at fleecing customers.

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