

**IMPORTANCE OF INDIAN POSTAL SERVICES FOR
FINANCIAL INCLUSION**

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Abstract

Financial Inclusion not only has economic implications but also has a huge social impact as it provides an opportunity for achieving social equality. An Inclusive growth aims at efficient allocation of resources. It is helpful in tracking and regulating the flow of money in the economy. It is expected to reduce the informal and exploitative sources of credit like indigenous moneylenders and aims to provide safe venues for parking funds and savings. It promises general welfare and participatory growth of the country.

Postal Department worldwide has emerged as an important player in the quest of fostering financial inclusion goals. The comparative positional advantage that post offices have to reach the rural areas which are excluded from the financial ambit gives postal department an important edge over other financial institutes. Moreover, all other financial institutes are working towards financial inclusion along with a stiff competition that they have with each other whereas Postal department enjoys government patronage. Time to time workshops, seminars and conferences are being held to understand and make the best use of the strength of posts towards the inclusion goals.

Financial Inclusion is a concern for countries all over the world. Various specialized bodies are trying to develop best possible inclusion models with postal department as an epicenter of all. Some countries have resorted to privatization and others have introduced better and innovative regulations. This paper aims at understanding the contribution that postal reforms can provide for Inclusive growth of economy.

Keywords: Financial Inclusion, post office, RBI, Business correspondent, reforms, subsidies, innovation

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Objective: To understand the current and the prospective role that can be played by Indian postal system towards the promotion of Financial Inclusion in the country.

Introduction

India is characterized by its diversity in terms of regions, religions, occupations, income etc. There is low banking penetration and vast credit needs of various categories of borrowers. Therefore it is a challenging task for the policy makers to foster Financial Inclusion in India. Financial inclusion is not only about delivering services, but also about social well being and human touch. With post offices holding the position of a trusted and neutral organization, there is a strong case in their favor for counting on them for financial inclusion.

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Various specialized bodies are trying to develop best possible inclusion models with postal department at the epicenter of all. Universal Postal Union which is a conglomerate of 191 member countries has been actively engaged in devising suitable inclusion models for its member countries. Many stakeholders are coming up with novel ideas to revive the commercial value of post offices along with financial inclusion. These stakeholders include policy makers and regulators like central banks, various development agencies and social contributors like Bill and Melinda Gates foundation.

Financial Inclusion in India

There are many Indian households which face hardships due to financial dependence on informal source of finance. There is lack of awareness and technical literacy preventing people in India from accessing the benefits of internet. Where on one hand countries all over the world are making the best use of financial services available online, Indians still rely on traditional brick and mortar setups.

As per World Bank estimates around 25% of the Indian population suffers from chronic poverty and hunger in 2015. While the need to solve this mammoth problem is great, authorities are unable to reach large numbers of the poor with products, services and information they need to achieve financial security. RBI's national vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states.

Recent data released from World Bank highlights the need to greater efforts to push financial inclusion in India. Following is a statistical comparison between India and the rest of the world in terms of Inclusion parameters. The survey was based on 1,50,000 adults with age 15 years and above representing 140 different countries.

Financial Inclusion in India as compared to rest of the world

Indicators (% population with/using)	India	World
Bank or Financial Institution Account	52.80%	60.70%
Mobile Accounts	2.40%	2%
Debit cards	22.10%	40.10%
Credit cards	3.40%	15.10%
Wages account	4%	17.70%
Account for receiving government transfers	3.60%	8.20%
Account for payment of utility bills	3.40%	16.70%
Savings at Financial Institution	14.40%	27.40%
Online payments and purchases	1.20%	16.60%
Loans from financial Institutions	6.40%	10.70%
Loans from family or friends	32.30%	26.20%
Loans from informal lenders	12.60%	4.60%

(Source: Worldbank database, 2014)

Analysis of the above data shows that Indian figures in terms of financial Inclusion are far below average. Almost 50% of Indian population does not have even a bank account.

As per the Ministry of Finance in India, only 30% of the bank branches operate in the rural areas that house 72.2% of the country's population. Further, rural India accounts for just 9% of total deposits, 7% of total credit, 10% of life insurance and 0.6% of non-life business. Therefore there is an urgent need to fast-track financial inclusion. Various technological and financial service initiatives need to be taken to be at par with the fast developing world.

Indian Government has been on its toes to ensure Financial Inclusion. A major step towards the same was undertaken in the form of bank nationalization in 1969. Subsequent years witnessed more phases of nationalization. In addition to its existing bank nationalization policy, government established Regional rural banks in 1975. NABARD was also established as an apex body for credit for agriculture and rural development in 1982.

In the recent years a lot of focus has been directed towards Inclusive growth and many countries all over the world have realized its importance and put it on their policy roadmap. Indian government's initiatives like "Rural Employment Guarantee Scheme", "Bharat Nirmaan Scheme" and "Sarva Shiksha Abhiyan" were designed to align the left behind rural India citizen with the overall economy. To address the central issue of financial inclusion a formal committee under the chairmanship of Dr. C. Rangrajan was constituted in the year 2006. This committee defined Financial Inclusion as "a process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

To ensure that a large number of potential entrepreneurs get a proper and equitable access to organized and structured financial system, RBI has put Financial Inclusion on its agenda since 2004.

Many bank and government initiatives have been targeted towards the inclusion of rural India in the financial system of the country. One of the most prominent programs that have come into limelight is Government's "Jan Dhan Yojna" (2015) which provides for easy and faster opening of bank accounts especially in rural India. Under this scheme bank accounts are being opened with minimum formalities and KYC requirements. Having a bank account was a distant dream for vast section of population which was of migratory nature. With "Jan Dhan Yojna" one can open a small bank account even without submitting address or id proof. In a very short span of time this has become one of the most successful and popular programs for financial inclusion in India. Through this program within a period of one week 1.80 crore bank accounts have been opened, making a world record for maximum number of bank accounts being opened in minimum time. (Guinness book of world records).

Government has linked its LPG subsidy with the bank accounts of consumers. To avail subsidized rates one must have a bank account. This is an indirect effort to foster the growth of bank accounts forcing every household to have a bank account.

Still a lot has to be done in the financial domain to uplift the conditions of the vast bottom of the pyramid. The widening gap between the rich and the poor has to be lessened to include social and economic equality in the system.

Strategic Importance of Department of Post for Financial Inclusion

Since their very inception Post offices in India have been dedicatedly working to connect each and every corner of the country. The concept of including or connecting everyone is the very basic service that they have been rendering even before independence. Postal department has been providing savings facility since 1882, Insurance facilities since 1884 and money remittance since a long time. After independence Post offices formed a very crucial part of the basic infrastructure of the country. The expansion and development of Post offices in the rural areas was accorded a high priority in the five year plans. Therefore the concept of financial Inclusion is not new for post offices. All over the world, post offices have set themselves targets to deliver banking and other financial services in the rural areas. In the year 2006 Reserve bank of India also outlined a similar role for Post offices declaring them to be eligible business correspondents for banks.

In this context National Postal Policy of India also stressed the importance of computerization and strong interconnection of various post offices throughout the country. It also saw the opportunity that lay in the rural areas for increasing the number and volume of saving accounts. As per a data collected in 2012-13, approximately 90% of the total post offices are in the rural areas of the country. India has approximately 6,00,000 villages and there is at least one post office for every four nearby villages. The average area served by each post office is 21.23 sq. km. indicating a very close knit network. This provides a very strong platform for promoting financial inclusion.

Contribution of India Post in Financial Inclusion

While efforts are being made to increase the role of post offices in financial inclusion, their contribution so far cannot be ignored. Post offices have already been involved in financial services touching the lives of rural India. It has made significant funds mobilization through money transfers, payment gateways, savings accounts etc. As per 2012 data India post held more

than 220 million saving accounts and more than 11 million insurance accounts. On average 100 million money orders per year are used mostly by small workers to remit money to their villages. So post offices are already existing service providers for the purpose of financial inclusion. The time is best now to understand and capitalize the significance of the extraordinary trust and outreach of post offices.

Indian post saving certificates which are issued on behalf of the ministry of finance in India is a popular investment option. The rate of interest received on these saving certificates is on competitive level with that of banks and other investments. India post acts as an agent on behalf of ministry of finance for various investment schemes. It also acts as a business correspondent for banks. It has tie ups with various mutual fund and insurance providers. So in practice India post is already an important player in financial domain of the country. Its own money remittance through instant money order scheme and International money transfers have grown sustainably since 2006.

In quest to hold competitive grounds in financial sector Post office is coming up with novel expansion plans. The norms for issue of new banking licenses in 2013 require the new entrants to have at least 25% of their bank branches in the unbanked rural areas with population upto 9,999. This is perceived as a huge bottleneck for the new banks as it is very difficult to maintain profitable operations with such conditions. With approximately 90% of branches in rural areas postal department seems to be the most suitable partner for RBI to fulfill this cause. RBI had introduced the business correspondent model since 2006 for banking penetration. Post offices are one of the most important partners in this scheme. In fact post offices have also benefited largely with this role. In 2008-09 Postal department bagged the CNBC financial advisor award.

Need for Postal Reforms

In order to be of use to the economic goals of the country, the system of post office must be redesigned or reformed. Indian postal system has been in a state of neglect since long. It is natural that it has become inefficient. Railways, roadways and post offices play the crucial role of connecting one corner of the country with another. In order to improve the connection the railway and roadway plans and policies have been under a constant vigilance and are updated time and again. Every year the union budget and state budget is designed to improve the condition of railways and roadways, but Postal department has been always ignored despite its giant size.

Postal services are highly subsidized in order to make them accessible and affordable for all. These services have been used by the government of India to attain social objectives. Heavy subsidies have been provided on postal products and services. The department works on the principle of providing products and services for “the greater good”. The price of postal products and services is kept low enough for the affordability of low income groups. This keeps adding to the losses and growing deficit. If the trend continues heavy losses will have to be borne in future. This makes the department more of a philanthropic organization and reduces its commercial prospects.

Therefore there is a serious need to rationalize subsidies through reforms. The department must be run on business standards with a greater autonomy to take its decisions. The items to be subsidized must be carefully chosen to provide maximum social benefits. Unnecessary products

and services must be kept out of subsidy umbrella. Moreover the amount of subsidies should be planned to be the minimum most.

Countries all over the world have designed various reform formulas to get past the sickness of post offices. Some of them have resorted to privatization; others have introduced better and innovative regulations. Postal department all over the world has been remodeled to suit the needs of their countries.

Postal department has a huge workforce comprising of in house agents as well as extra departmental agents. Postal department is already bearing the load of many dormant employees and pensions of those retired. Postal department is carrying a load of workforce which is not enough skilled to meet the technical changes. Many of them cannot even be honed or trained to deliver on future expectations. Therefore optimization of the prevailing workforce must be done and further agent recruitment must be rationalized or frozen. Pruning of the extra manpower load may be done by providing golden handshake or giving VRS option.

One of the reforms in postal system which is being proposed again and again is issuing banking licence to post office making it a complete postal bank. The latest on this front is the sanction of payment banking license to India post.

Optimist see postal bank as an answer to the growing need of Financial Inclusion in the country. They believe in achieving twin benefits by adopting the strategy of utilizing Indian Post for Financial Inclusion. The first benefit is faster, deeper and stronger Financial Inclusion in the country. The second benefit is the development and revival of the biggest dormant service Industry of the country i.e. India Post.

But, on the flip side pessimist doubt the success of putting tremendous time, effort and massive manpower in this option.

Conclusion

Many suggestions for postal reforms like harnessing the vast infrastructure, use of high technology plans, making use of their extensive payment networks, etc. are being evaluated to change the outlook and profitability of the institution. Innovative ideas and products are being sought which may redesign the organization at the same time retain the position of the institute as a public service provider. These calls for a right mix of public –private partnership which may drive financial Inclusion and at the same time increase the organization’s own profits.

Therefore considering the invaluable experience that India post has in delivering quality financial services to the maximum areas of the country it seems the most important institute to bank upon for the achievement of financial Inclusion goals in India.

Limitation: The study is based only on secondary data sources.

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