

Financial Inclusion: Indian Post & Telegram

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Abstract

Financial inclusion is assumed to be one of the key drivers of our vision of an inclusive society and inclusive growth. Financial inclusion has become critical for achieving inclusive growth, a constraint for economic development. Recognizing the magnitude of economic development in India, efforts are being taken by government to make the financial system more inclusive. Moreover, Indian post is also providing banking service to all sections of society since 1882. Indian post served Indian villagers as banker much before financial inclusion became a buzzword. In this paper an attempt has been made to study the role played by Indian post in financial inclusion and how its role can further be widened and the challenges before the Indian post for its conversion in a full fledged bank as recommended by different commission appointed by the central government and Reserve Bank of India respectively. The study is descriptive in nature.

Keywords: Financial inclusion, banking, Indian post

Introduction

Financial inclusion has recently become a buzzword among policy makers and bankers in academic research. It is considered as an important tool to promote inclusive economic growth. Access to safe, easy and affordable financial services for poor, vulnerable groups, disadvantaged areas and lagging sectors is a sine quo non for accelerated growth and for reducing income disparities and poverty. Without an inclusive financial system, poor and vulnerable sections of the community including small and marginal farmers, small and petty enterprises would not be in a position to take advantage of growth opportunities. In most developing countries, financial services are available only to a minority of the population. The limited use of financial services in developing countries has become an international policy concern.

“The 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”. (Dr. C. Rangarajan).

The secretary General of United Nations has stated,

“The stark reality is that most poor people in the world still lack access to sustainable financial services, whether they are savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector Together we can and must build inclusive financial sectors that help people improve their lives”. Financial Inclusion In India:

The concept of financial inclusion in India was first introduced in 1904 when the cooperative movement took place. However, since the nationalization of banks in 1969, this concept gained momentum. The Reserve Bank of India setup a commission (khan commission) in 2004 to look into the financial inclusion and its recommendations were incorporated into the midterm review of the policy (2005-06). In the report RBI exhorted the banks to achieve greater financial inclusion to make available a basic “no-frills” banking account.

In 2008 the Rangarajan committee report extended the scope of financial inclusion from the traditional definition of opening bank account among the unbanked population, to providing access to financial services at an affordable cost to the vast sections of disadvantaged and low income groups. Commercial banks have been at the vanguard of the financial inclusion crusade by opening no-frills bank accounts for low income group customers. In India financial inclusion first featured in 2005, when it was introduced in Pilot Project in UT of Pondicherry by K.C Chakra borty, the chairman of Indian Bank. Mangalam village became the first in India where all households were provided with banking facilities. In

addition to this, KYC (know your customer) norms were relaxed for people intending to open account with annual deposits of less than 50,000. General Credit Cards (GCC) were issued to the poor and disadvantaged to help them access easy credit. In January 2006, RBI permitted commercial banks to make use of the services of non-governmental organizations (NGO/SHGs) micro finance institutions and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The RBI asked the commercial banks in different regions to start 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or union territories like Pondicherry, Himachal Pradesh and Kerala have around 100% financial inclusion in all their districts. Apart from financial institutions, Indian post offices are also providing banking services to all sections of society since 1882. Indian Post served Indian villagers as banker much before financial inclusion and Indian post claims to be the pioneer of financial inclusion in India with a network of over 155,000 branches is twice as large as the outreach of all commercial banks in India put together.

Importance of the study

Financial inclusion play a vital role for providing financial product, financial services and providing training and awareness to weaker sections, low income groups at an affordable cost at fair and transparent manner by mainstream institutional players. These financial products and services are very useful for the weaker sections or unemployed population. Financial inclusion gives emphasis on financial activities like savings, credit, insurance, money transfer, etc. has been done by service providers or banking industry, insurance industry, Indian postal and telegram department.

Justification of the Study:

Financial inclusion is regarded as the important factor for development and hence policy makers around the world are trying to achieve it. In most developing countries a large segment of society, particularly low income people, has very little access to financial services, both formal and informal. As a consequence many of them has to necessarily depend on their own or informal sources of finance and generally at an unreasonably high cost. The situation is worse in most least developed countries (LDCs), where more than 90% of the population is excluded from access to the formal financial system (United Nations -2006a). Particularly in the context of the feared global slowdown and negative impact of high inflation on the Indian economy. According to World Bank, nearly 65% of Indians aged above 15years do not have access to a formal bank account. Public funds to the poor through social protection system and subsidies have increased, but large scale financial exclusion acts as a barrier to achieving the policy objectives in India. Financial inclusion will help a long way to disparities and building an inclusive society with inclusive economy. Financial inclusion is an important tool to reduce imbalance between rural and urban population and mobilization of public savings for the development of nation.

Review of Literature

(Dipanker Malaker), financial inclusion is assumed to be one of the key drives of our vision of an inclusive society and economy. Indian post offices are also providing banking services to the all section of people of the society since 1882. Indian Post served Indian as banker much before financial inclusion became buzzword and Indian post claim to be the pioneer of financial inclusion in India.

(D.Venkataramarajuet.al), full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at an affordable price, in a convenient manner and with dignity for the clients. Financial services are delivered by a large range of providers, poor, rural and other excluded populations.

M B Anand, "Indian post provides accessible and affordable service to the people of India through its unparallel network of post offices. Mailes, POSB, PLI and parcel are the mainstay of post offices with several new services like money transfer, EMO and distribution of mutual funds taken successfully in the last decade.

Dr.JojiChandran, “India is having the most widely distributed post office system in the world. With 1, 55,333 post offices, the India post comes under the Department of Posts, which is a part of the Ministry of Communications and Information Technology under the government of India. The wide distribution network of India post is one important factor that favors’ India post as a channel for financial inclusion in India.

Objective of the study

The following are the objectives of the study.

1. To analyze the concept of financial inclusion.
2. To examine the types of financial services provided by Indian Post Office

Methodology

The research paper is descriptive one. The purpose of paper is to highlight the importance of post office in financial inclusion. While preparing the paper only secondary data was collected. The data was collected from journals, annual administrative reports, annual reports, research papers, website of the Indian post and on internet. On the basis of given data, conclusions are drawn and depending on the conclusion some suggestions were made.

Limitations of the study

Though India post is providing two vital financial services of storage of cash through different banking facilities and payments through remittance services, it does not yet deliver credit. As per the report of the committee on financial Sector Reforms (CFSR) established by the planning commission, over70% loans taken by those in lowest income quartile in India are from informal sources – money money lenders, relatives, and friends. Agricultural laborers and other marginal primary producers in rural India account for around 60%of all debtors.

Medical and financial emergencies are the main reason of household borrowings. The formalities of loan process and the time taken to issue loans of formal sector lenders are important factor that cause the low income earners to be driven into the arms of the costly informal credit providers – especially for emergency loans. This often creates an unsustainable amount of debt for these people. Financial capacity can be another limitation as Indian Post like posts in many countries is operating at a loss in its core mail business. This is due to several factors like decline in the mail business, lack of market orientation, inefficiencies, fraudulent and corrupt practices and so on. While private sector provides focus on urban areas. Moreover postal operators are not striving for clients given the history of monopolies; therefore the idea of adapting the services and products to the needs of the different segments of the population is a challenge. IP’s capacity to deliver financial inclusion depends upon the quality of staff –which can be measured on the criteria of computer literacy levels, training, financial incentives, willingness to accept change and result oriented performance and so on.

Different Saving Product of India Post Office

India Post has been offering a host of financial services to the citizens of the country for several decades. They are

(A) Banking Services: Access to banking services that permits citizens to receive and make payments in a secure environment is the first step towards financial inclusion. The saving schemes offered by IP are very popular among the people and especially as a retirement option. There are number of schemes under the small saving category to suit the various needs of the investors.

1. **Post office saving account:** It offers a nominal rate of 4% per annum on individual and joint accounts which is comparable to the Saving Bank interest offered by commercial banks and the minimum investment limit is Rs.50/= which is much lower than that of commercial banks. These accounts also handle a large volume of government benefit payments.

2. **Recurring Deposit Account:** This account is for a period of five years with a minimum deposit of Rs. 10 without any maximum limit. This account carries a rate of interest of 8.4% . Maturity value of a 5 years RD account and opened on or after 01-04-2012 with monthly deposit of Rs.10/= shall be Rs.746.51 and it can be continued for another 5 years on year to year basis.
3. **Post office time deposit scheme:** An investor can invest a minimum of Rs. 200 or any multiple thereof in this scheme. There is no maximum limit for investment. The interest is payable annually, but is calculated on a quarterly basis. The rates vary from 8.2% to 8.5% per annum according to the period for which the sum is deposited. The rates are as follows:

1 Year TD – 8.2%	2 Years TD - 8.3%
3 Years TD -8.4%	5 Years TD -8.5%
4. **Post office monthly income scheme (MIS) account:** It offers an interest rate of 8.5% payable monthly with effect from April 1, 2012. The maturity period is 5 years but no bonus is available on maturity with effect from 1st Dec 2011. There is tax deduction at source and no tax rebate is applicable. The minimum investment amount is Rs.1, 500/= and in multiples thereafter with a maximum of amount of Rs.4.5lakh in a single account and Rs. 9 lakh in joint account. The scheme is suitable for retired employees/senior citizens and for all who need regular monthly income.
5. **Public Provident Fund (PPF) Account:** like SBI and select branches of nationalized banks, posts offer public provident funds where deposits are payable on maturity after 15 years along with interest rates compounded annually. It carries an interest rate of 8.8% and loan can be availed from 3rd financial year. The minimum deposit is fixed at 500/= in a financial year. The maximum number of deposits is Rs.12 in a financial year. Income tax rebate is available on the deposits under section 80 of Income tax Act. as amended from time to time.
6. **Senior Citizens Savings Scheme:** Post offices offer 9.3% per annum on this scheme from the date of deposit on quarterly basis with effect from 1st April 2012. The minimum deposit is Rs.1000/- and multiplies thereof and the maximum limit is Rs. 15 lakh, the maturity period is 5 years and can be extended for a further period of 3 years. The seniors should be 60 years or more while the scheme is applicable for the age group of 55 to 60 for those who have retired under a voluntary retirement scheme. The tax is deducted at source, if the interest amount is more than Rs.10, 000/- annually.
7. **National Saving Certificate (VIII/IX) Issue:** Under this scheme of NSC VIII Issue (with a maturity period of 5 years), it carries an interest rate of 8.6% with effect from 1st April 2012 while on NSC IX Issue (maturity period 10 years), the interest rate is 8.9%. There is no tax deduction at source and investment up to Rs. 1 lakh per annum qualifies for income tax rebate under 80 C of IT Act.

(B) Insurance Services

1. Postal Life Insurance: This scheme was introduced on 1st Feb. 1884 with the approval of the Secretary of State (for India), the Queen Express of India. It is essentially a scheme of state insurance mooted by the Director General of Post Offices Mr.F.R Hogg in 1881. It was introduced for the benefit of postal employees in 1884, and later extended to the employees of Telegraph Department in 1888. It covers employees of state and central Govt., state and central public sector undertakings, universities, government aided institutions, nationalized banks, local bodies etc.

2. Rural Postal Life Insurance

On the basis of the recommendation of the Molhotra committee on reforms in insurance sector, postal life insurance scheme was extended to the rural areas to transact life insurance business with effect from 24-03-1995. It had the objective of providing insurance cover to the rural public in general and to benefit weaker and women worker in rural areas in particular. This scheme is called rural PIT [RPLI].

The status of business procured during the year 2011-2012 and the PLI/RPLI funds as on 31 - 03-2012.

Name of Plan	No. of policies procured	Sum assured (Rs. in millions)	Aggregate no. of active policies	Aggregate sum assured (Rs. in millions)
PLI	482423	132881.5	5006060	765913.3
RPLI	2714852	90889.9	13547355	697541.7

Source: Annual Report, 2012-2013, Department of posts, Govt. of India.

3. Remittance Services:

India post provides an important financial service of remittance of money through Money Order and Indian Postal Order services and post office savings bank. Besides, India Post has introduced many other financial services to cater to the need of the market forces.

(i). **Money Order:** This is a domestic money transfer facility through post office. Money sent through money order is paid at the door steps of the payee and this service is available in all the post offices. Maximum amount which can be remitted through a single money order is Rs. 5000/- and charges for the service is 5% of the value of money to be transmitted.

(II). **International Money Transfer Service:** This service, in association with western Union Financial Services International, provides the customers the facility of receiving remittances from more than 200 countries on a real time basis. Even though the services currently available from nearly 1500 post offices mostly situated in urban areas, the rural people also get the benefits of remittance.

(iii). **e-Money Order:** In 1994, satellite money order service was introduced, with the installation of high speed Very Small Aperture Terminal (VSAT) linked to the Indian National Satellite (INSAT) in which money orders were transmitted through this virtual network. Now, this system is discontinued of MO through the web is taking place as eMO.

(IV). **MO Videsh:** This is an international remittance service offered by India Post to most foreign destinations. Outward remittance is payable to beneficiaries by crediting payment to the bank account of beneficiaries on the destination countries. Each outward remittance shall not exceed 5000 USD and maximum 12 outward remittances are allowed in a year.

(V). **IMO (Instant Money Order):** India Post provides instant money order services, which is instant, safe, reliable and convenient. Amount ranging from Rs. 1000/- to Rs. 50,000/- can be remitted through designated IMO Post Offices. It is an instant web based money transfer service.

Other Financial Services

(a). **Payment of Military Pension and other family/ Pension:** Another function which India Post has undertaken since 1889-90 is the payment of pensions and other dues to the Indian Military Pensions in Punjab Postal Circle, which was subsequently extended to Delhi circle. Besides, it has undertaken pension/family, responsibilities to coal miners, retired railway employees and family members of beneficiaries of employee's provident fund.

(b). Sale of Mutual Funds:

The Post office is playing an important role in extending the reach of the capital market of the country on one hand and in providing the common man easy access to market based investment options on the other. At present around thirty mutual fund products, Unit Trust of India are retailed through over 2000 designated post offices in the country.

(C). **Forex Services:** High growth Indian economy coupled with globalization has resulted in thousands of Indians going abroad for travel, studies and business. At the same time, there is a huge inflow of foreign nationals visiting India for vacations, business, tourism etc. This has resulted in the need for a reliable and quality service provider for purchase and sale of foreign exchange. Each of them requires reliable, affordable

and convenient forex services. Indian Post with a network of more than 155,000 post offices is best poised to offer forex services in an efficient and economical manner.

(d). **Disbursement of Wages and Other Social Security:** India Post helps in the disbursement of wages under the Mahatma Gandhi National Rural Employment Guarantee Scheme (an employment guarantee scheme operating in rural areas). As per Para 31 of schedule II of MGNREG Act, payment of wages are required to be made through individual or joint saving accounts of the workers in banks or Post offices.


Analysis of financial inclusion in India Post

In spite of various initiatives from the part of govt. RBI and commercial banks, the banking sector in India so far not had been able to provide complete coverage in the country especially in the rural areas. There are 171 commercial banks in the country. Out of the 93,080 commercial bank branches only 36.10% are in rural areas and 24.76% in semi-urban areas. All India average population served by per branch is 13503. On the other hand out of 1.55lakhs post offices, 89.8% i.e. 1.39 lakhs are in rural areas covering the population of 5,682 per post office in rural areas and 20.346 in urban areas, on an average 7,176 people are served by one post office as on march 2011. On an average, a post office serves an area of 21.23sq.km. Further, only 5% of 6 lakh villages have bank branches, 296 districts in state are under banked, i.e., they have below par banking services.

The Indian Post Offices are providing different types of financial services in its all branches. It includes, postal life insurance, post office saving schemes, mutual fund, money remittance, forex services etc. There are nearly 25 crore postal savings bank account under various post office savings bank schemes. India post offices are unfortunately lacking the credit facility to the general public. Lack of infrastructure in terms of technology and staff is also one of the important factors that need to be tackled. The Expert Committee recommended that the infrastructure must be light and efficient, so that it can be deployed on mobile networks, and must not require high bandwidth internet access.

Comparative Network: POs Vs Bank

(Source: Annual Report, 2012 -13 India post and annual report -2011 Universal postal Union)

	Post Office (As on 31-03-12)	Branches of all Banks (including RRBs) (As on 31-03—12)
Total	1,54822	93,659
Rural Branches	39,086 (89.84%)	34,671 (37.02%)
Number of Accounts	238 million	310 million
In Odisha	8163 Rural 7582(92.88%)	3607 Rural: 1976(54.76%)
International position	6,70,000	5,23,000

The above table shows that not only in terms of number of branches, but in terms of coverage of rural areas where financial inclusion is still a challenge, India Post has an advantage over banks.

Findings and suggestions

1. The post office in India is facing huge crisis of infrastructure, especially in rural areas which has an important role in providing financial services in rural areas and are not equipped with basic infrastructure, even sitting arrangement is not for staff is not available.
2. To meet the challenges of the fast changing environment Indian post need to replace the age old practices of working by adopting new inventions and technologies.

3. In many countries Post offices are showing tremendous performance for financial inclusion in coordination with other departments. But, till today Indian post does not have any coordination with its sister organizations and other organizations not seeking coordination of Indian post in providing financial services.
4. There is a crunch of manpower in the post offices. Most of the post offices run by one or two persons and need to do all sorts of work, which puts adverse effect on output and performance.
5. Providing loan is one of the major aspects of financial inclusion but Indian post is still lacking it as part of its business which has shrunk its operations.

Conclusion

The Expert Committee on Harnessing the India Post Network for financial inclusion is of the opinion that, "succeeding with universal access to financial services will require a considerable role for post offices. In parallel and as bone traditional functions of the postal network are being supplanted by new technology such as email, India post is also the process of carving out a large role for itself. India post with a wide network and credible outreach in the country already has several decades of experience in providing various financial services, especially to the poor and rural people. But the matter of fact is that postal network has been grossly underutilized for this purpose, not only in India but across the globe. In terms of branches and customers, the India Post office savings bank is already the largest bank in the country. No doubt Indian post can lead the way in financial inclusion with its given network and reach. I believe if Indian post can make coordination with other stakeholders, infuse necessary human resource with proper training and technology, being innovation and other appropriate measures, the Indian post can reap the benefits of its wide spread network with extensive outreach and lower cost and will contribute a long way for achieving the national objective of financial inclusion. Establishment of Post Bank of India may be another strong decision to associate the India post in financial inclusion.

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