

Strategic Role of Post Office Savings Bank towards Prosperity of India

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Abstract

Postal administrations the world over are obliged to provide countrywide services and enjoy trust and loyalty of the customers. Many of the advanced postal administrations such as Duetche Posts, Poste Italiane, SwissPost, etc have inducted IT to modernise their network and thereby improve the quality of services of their core businesses as the first step. These administrations are now successfully innovating and diversifying their products and services and are further leveraging the trust of the customers by entering into new areas such as telephony, financial services, etc.

Keywords: Micro finance, Financial Services, Post office savings Bank, Economic Development.

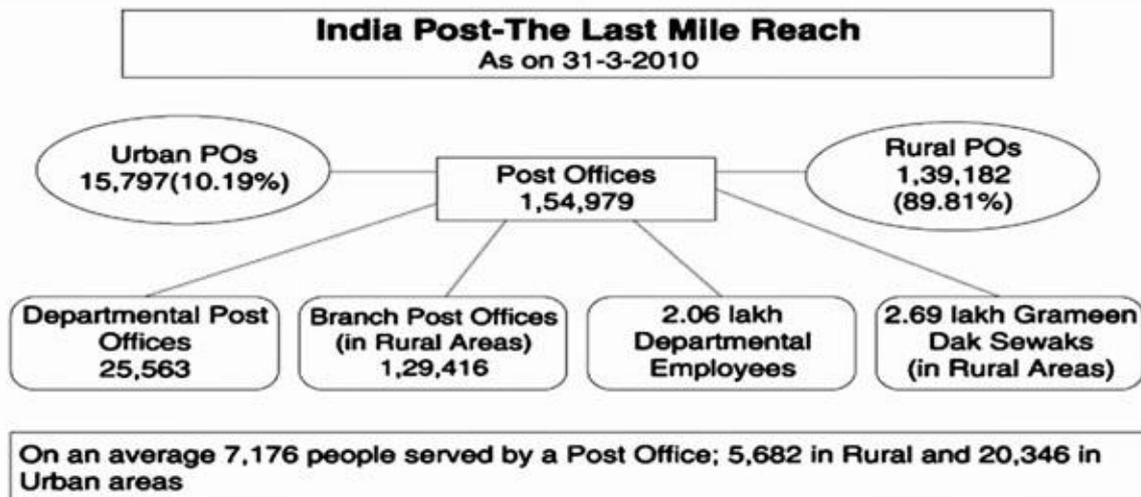
1.0 Introduction

The India Post network are the largest in the world with over 1, 54,971 post offices (as on 31.03.2010) of which 1, 39,182 (89.81%) are in the rural areas. These are twice as large as the outreach of all commercial banks in India put together. Over the years, the Post Office Savings Bank (POSB) has emerged as significant component of India Post operations and its revenues from financial services as a share of its total revenue have steadily increased over time to 45 percent today.

In 1913, the chief post office inspector, Carter Keene, declared that the postal savings system was not meant to yield a profit: "Its aim is infinitely higher and more important. Its mission is to encourage thrift and economy among all classes of citizens." Any benefit to the post office's bottom line should not come at the expense of those who can least afford it.

At the time of independence there were 23,344 post offices, which were primarily in urban areas. Thus, the network has registered a seven-fold growth since independence, with expansions focus primarily on the rural areas.

On average, a post office serves an area of 21.21 square kilometres and a population of 7, 176 people; it is the most widely – distributed postal system in the world. The large number is a result of tradition of disparate postal systems, which were unified in the Indian union after independence. Because of this far flung reach and its presence in remote areas the Indian postal service is also involved in other services (such as small- savings banking and financial services).



The postal service is under the Department of posts, which is part of the Ministry of Communication and information Technology of the government of India. The apex body of the department is the postal service Board consisting of a chair and six members. The six board members govern personnel, operations, technology, postal life insurance, human – resource development (HRD) and planning. The joint secretary and financial advisor is also a permanent invitee.

2.0 Indian Scenario

India has been divided into 22 postal circles, each circle headed by a Chief Postmaster General. Each circle is divided into region, headed by a postmaster general and comprising field units known as divisions (headed by SSPOs and SPOs). These divisions are further divided into subdivisions, headed by ASPs and IPOs. Other functional units (such as circle stamp depots, Postal store depots and mail motor service) may exist in the circles and regions. In addition to the 22 circles, there is a base circle to provide postal services to the Armed Forces of India. The base circle is headed by a Director General. Army Postal Service (with a rank of major general). The highest post office in the world is in Hikkim, Himachal Pradesh, India at a height of 15,500 ft (4,700m) (Postal Code 172114).

The government Savings Bank Act 1873 (5 of 1873) passed by the legislative January 28, 1873, was enacted in 1881, on April 1, 1882, Post Office Savings Bank opened throughout India (except in Bombay Presidency). In Madras Presidency, it was limited, in the Bengal Presidency, no POSB were established in Calcutta or Howrah.

The National Postal Policy visualises an important continued role for India Post in delivering broad – based banking and financial services:

“Nearly 16 crore people use India Post to save Rs. 3,23,781 crores as on March 31, 2007. Out of this, deposits in savings bank account alone are Rs. 16,789 crore. There is, therefore, a need for India Post to computerize and connect all its savings bank accounts so as to widen and deepen the level of financial transactions and offer banking services to the rural population. India Post sees a great opportunity for increasing the number of accounts and volume of savings.”

As the Post Office Savings Bank is the oldest and largest banking institution in the country. It could only operate 20.50 crore (appr) savings accounts. As the savings bank facilities are provided through a network of more than 1,54,000 post offices. Though there are number of schemes provided by the Post Office Savings Bank and these include Savings Account Schemes, Recurring Deposit Schemes, Time Deposit Schemes, Monthly Income Schemes, Public Provident Fund Schemes, National Savings Certificates and Senior Citizens’ Savings Scheme.

3.0 Organised banking sector

Banking in India in the modern sense originated in the last decades of the 18th century. The first banks were Bank of Hindustan (1770-1829) and The General Bank of India, established 1786 and since defunct.

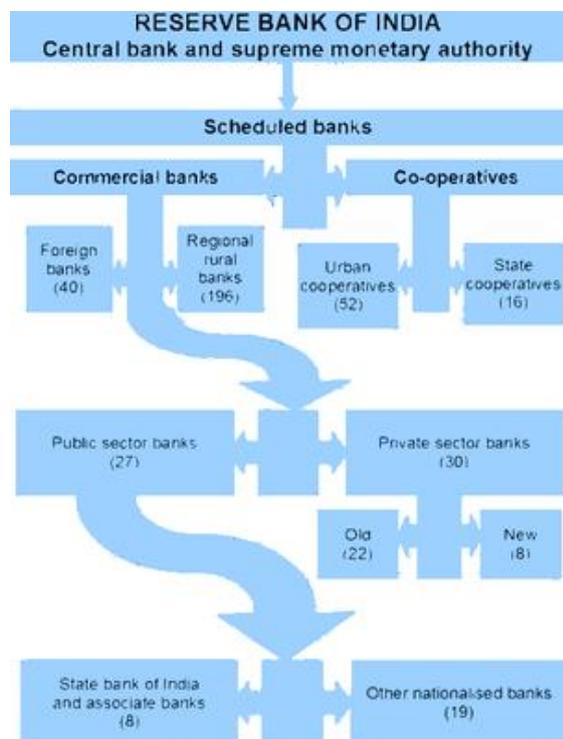


Figure: Structure of the organised banking sector in India (Number of banks are in brackets)

In 1969 the Indian government nationalised all the major banks that it did not already own and these have remained under government ownership. They are run under a structure known as 'profit-making public sector undertaking' (PSU) and are allowed to compete and operate as commercial banks. The Indian banking sector is made up of four types of banks, as well as the PSUs and the state banks; they have been joined since the 1990s by new private commercial banks and a number of foreign banks.

Banking in India was generally fairly mature in terms of supply, product range and reach—even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development with things like microfinance.

The publication **India's Top Banks 2007** profiled 82 Scheduled Commercial Banks (SCBs), comprising of 28 Public Sector Banks (PSBs), 25 Private Sector Banks and 29 Foreign Banks. The total number of branches for these 82 banks stood at 54,346 as on Mar 06, 88% of which being those of PSBs, thus underscoring the massive reach of this group of banks. The concentration of bank branches was highest in the rural areas (35% of total), where again PSBs owned 95% of all rural branches.

The total income for the 82 banks stood at Rs 2,215,280 mn in FY06, of which the Public Sector Banks held the highest share of 72.7%, Private Sector Banks at 19.5% followed by 7.8% for the Foreign Banks. The net profit for the 82 banks together stood at Rs 248,281.5 mn for FY06. The top ten banks (6 PSBs, 2 Private Sector and 2 Foreign Banks), based on the net profit classification, and accounted for nearly 58.5% of the total net profit of all the 82 banks.

Indian economic policy emphasises achieving high growth rates coupled with ensuring that the poor are able to participate in the market economy. This inclusion agenda

has many implications for the field of finance. It involves creating a business environment through which the poor across the country have easy, secure and affordable access to critical risk management products.

In the book “Portfolios of the Poor”, the authors describe how the poor in India pay a lot to access low quality and unreliable financial products. The complex financial needs and risks faced by the poor require sophisticated financial solutions and risk management tools. These cannot be scaled down versions of existing products for the rich. Microfinance institutions (MFIs) in India have shown how credit products can be restructured to meet the needs of the poor, so that loans can be made at lower interest rates while still being profitable.

Access to the formal financial system starts with a bank account, and the ability to make secure payments through that account. Once the ability to make payments is available ubiquitously, other financial products such as credit, insurance, pensions and mutual funds can be delivered using this infrastructure.

4.0 Small Savings through Post Office Savings Bank

In India, when we talk about financial services for rural India, the stereotype offered is that of a banking system that fails to reach out to the poorer clients and when it does, fails to recover the money so disbursed. Though India has 96 scheduled commercial banks, 27 public sectors, 31 private sector and 38 foreign banks, the counterpoint offered is usually the magic stick of microfinance. Micro-finance has emerged as an important mechanism to reach out financial services to the poor. As of march 2013, out of 15630 existing private sector bank branches only 2699 are located in rural areas i.e. to say only about 17 per cent of the total branches are in rural areas (October 7, 2013 Pg.1 *The Hindu*).

Table 1: Growth of Small Savings through Post Office Savings Bank

	1996-97	1997-98	1998-99	1999-00	2000-01	2005-06
No. of savings accounts –All types (In Millions)	99.88	107.02	110.97	116.19	124.01	162.16
Total outstanding savings (In Millions)	1057734	1267542	1552956	1875085	2250875	3237805

Source: Chief Post Master General, Bangalore

The Post Office Savings Bank (POSB) already is the largest bank in the country by number of customers, and number of branches, handles a large volume of government benefit payments, and does not distinguish between rich and poor customers. Thus, given its size and reach, India Post can play a major role in the development of the Nation. It can bring together a number of stakeholders on a common platform: central and state governments, microfinance institutions, technology providers and most importantly, the presently excluded individual citizens.

Commercial banks are leading the charge for financial inclusion today. They are opening No-frills accounts for poor customers. Central, state and local governments increasingly prefer government benefits payments to be routed through banks rather than using money -orders. Banks are increasingly offering remittance products to their customers and installing ATMs in rural areas. In a world that is fast becoming electronic and connected, India Post needs to innovate and change with the times. It must offer customers products that can be used effortlessly and instantaneously through the use of technology. By playing a dominant role in financial inclusion, India Post can increase its relevance and improve its profits.

Products that use cash implicitly pass on the costs of cash management to the customer. This makes many of financial products infeasible. The costs of storage and transportation of cash are very high. It is estimated that 1% of all microfinance loans go towards the cost of cash management today. The poor often pay a large sum for safekeeping of money, either directly or indirectly through occasional theft. A savings account provides

safety at low cost, while at the same time bearing interest. Modernising the POSB accounts offering with technology will form a basic building block of India Post's offerings for financial inclusion.

Worldwide, post offices offer the Postal Giro as a means of sending payments electronically, and a mechanism for paying utility bills. Once a payments system is set up, India Post can deploy this infrastructure in elegant ways to become a market leader in microloans to the poor for emergencies. It will be able to offer much cheaper loans to its customer by harnessing the power of technology and innovative product design.

India Post should work on a better pattern of:

1. A savings account solution
2. A payments solution, and
3. A micro-credit solution

Extensive use of technology is the only realistic way to achieve economies of scale and deliver a range of financial services in a secure environment at a low cost to the poor. At present, IT skills and capacity at India Post are relatively limited although the Department is rapidly incorporating technology into its processes and acquiring new IT skills. Its core competencies are its outreach, credibility and brand strength among everyday Indians. India Post should actively embrace the financial inclusion agenda and harness both modern technology and innovations in distribution and outreach. In this process, it should not displace private initiative. Instead, it should proceed in a spirit of public –private partnership that harnesses the trust and outreach of India Post and the technology skills and innovations of private technology and financial services firms to deliver the core building blocks of financial inclusion to every citizen of India.

The Post Office Savings Bank is included in the Union List vide item No. 39 of the Seventh Schedule of the Constitution of India. It operates under various frameworks defined by the Government Savings Bank Act, 1873, Government Savings Certificates Act, 1959, Public Provident Fund Act, 1968. Small savings schemes were designed to provide safe and attractive investment options to the public and at the same time to mobilise resources for financing public debt. India Post performs this function as an agent of the Ministry of Finance, and is funded by the Ministry of Finance for doing so.

5.0 Conclusion

India Post is the largest and most credible outreach infrastructure in the country. It has several decades of experience in delivering bank accounts and payments across the country and especially to the poor. India Post is already in the process of reinventing itself and has implemented several innovative products for its letter and package delivery business. However, while India Post has also introduced new financial products, its own basic banking and money –order products have remained unchanged for several decades.

A combination of the India Post outreach and credibility, with its extensive experience with delivering savings accounts and payments on a pan –India basis can serve as a critical building block for broad –based financial inclusion. India Post should harness the rapid IT and telecom capacity expansion to deliver three basic, integrated products to every Indian citizen: a savings account hosted on a lightweight banking platform, a broad –based payments network, and a competitive mechanism to deliver microloans to the poor.

In this process, India Post would create essential public goods in the form of low cost banking and payments capacity that reaches every Indian citizen. In parallel, India Post should aim to build an ecosystem where several public and private sector partners can design and deliver new innovative products using its low cost banking and payments infrastructure. In this way, India Post would drive innovation in financial inclusion and increase its own revenues without assuming significant technology or credit risk. For the public at large, and especially for the poor, this will be a critical window to a range of sophisticated and affordable financial products and risk management tools.

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