



PROBLEMS AND CHALLENGES OF INDIAN POST IN FINANCIAL INCLUSION

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Abstract:

Financial inclusion means connecting all individuals, who are in the remote rural areas, to a well-functioning financial system. During post liberalization period the Indian post offices are providing banking services to the all section of people of the society since 1882. Indian post served Indian villagers as banker much before financial inclusion become buzzword and Indian post claims to be the pioneer of financial inclusion in India. The paper aims to focus on utilizing the India Post Office making it more efficient and user friendly for the interest of the rural population as well as the formal sector. Through this paper an attempt has been made to study the problems and challenges faced by the Indian Post in Financial Inclusion.

Key Words: Financial inclusion, Indian Post, Liberalization, Problems, Challenges & Savings etc

Introduction:

Financial inclusion plays a major role in inclusive growth of the country. It is estimated that globally over 2.5 billion people are excluded from access to financial services of which one third is in India. The objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risks, etc. by the rural individuals and firms. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy. In emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency. Other than banking, the Indian post which partially do banking activity under the ministry of finance is doing a commendable job towards providing easy financial services to the people throughout the country especially in the remote areas through its huge network.

Review of Literature:

Charkraborty's (2009) study focused on technology, financial inclusion, and the role of banks showed that technology can operate on any platform. However, the technology solution to the business needs should be user-friendly without much third-party or IT vendor intervention or support requirement for operating the same. According to his study banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low-income groups, treating it as both a business opportunity as well social responsibility.

According to Ravichandran and Alkhatlan (2009), very few people have access to banking services. There are a number of factors affecting access to financial services by the weaker sections of society in India. Lack of awareness, low incomes and assets, social exclusion, and illiteracy are the barriers from the demand side. Distance from the bank branch, branch timings, cumbersome banking procedure, requirement of documents for opening bank accounts, unsuitable banking products/schemes, language barriers, high transaction costs, and attitudes of bank officials are the barriers from the supply side. The authors discussed bank-SHG, bank-MFI, MFI-NBFC (with non-banking financial companies), and bank-post office linkage models and proposed new models such as rural students banking model and RBI-education institute linkage models.

Sangwan (2007) studied financial inclusion and self-help groups (SHGs), and found that over the last 15 years, India has witnessed unprecedented growth in financial services unfolded by liberalization and the globalization of financial services due to the adoption of information technology (IT) and the unlocking of the regulatory framework. The study concludes that this positive development, there is evidence that the formal financial sector still excludes a large section of the population.

Objectives of the Study:

The objective of study the role of post office in financial inclusion, problems and challenges of Indian post in Financial Inclusion

Research Methodology:

The paper is basically a descriptive one. The paper tries to review, what role the post office is playing in financial inclusion. While preparing the paper relies exclusively on secondary data. The secondary data was collected from websites of the Indian post, RBI bulletin, annual reports of RBI and Ministry of Finance and from various reputed journals.

Origin of Indian Post:

The first post office in India was established by East India Company in the year 1688 in Bombay followed by Calcutta and Madras. It was named as „Company Mail“. The Post Office Department of the East India Company was first established on March 31, 1774 at Calcutta, followed in 1778 at Madras and in 1792 at Bombay. The present type of post office came in to being in the year 1854 under the post office Act of 1854. The Indian post office has a huge network of branches with an unique outreach in rural areas. In the year 1861 total number of post offices in India were 889. The number of post offices in India increase from 23,344 in 1947 to 1, 54,866 as on 31-03-2011. Out of total post offices in India 1,39,040 numbers post offices are in rural areas which accounts for 89.78% of India’s total post office and remaining 15,826 numbers of post offices situated in urban areas which is only 10.22% of total numbers of post offices. Apart from providing regular postal service’s the post offices in India are also providing financial services to the public through Post Office Savings Bank. The Indian Post starts Postal Life Insurance in the year 1984 as a welfare scheme for the employees of the Post and Telegram Department due to huge demand of the scheme latter on it was opened for employees of other departments and finally in the year 1995 it was opened for all people. In addition to these services post office also provide money transfer services. Post Office Savings Bank which was establish with an objective of encouraging saving habit and thrift among the masses has now become a medium of mobilizing a huge amount of funds.

Role of Indian Post in Financial Inclusion:

By access to financial services, it is implied that people should have access to not only a bank account but also affordable credit facilities to conduct their businesses and insurance facilities to have financial security in case of troubles in the family. Alongside this, also lies covering the need for financial literacy where individuals are aware of and have information about various financial products and an understanding of pros and cons of investing their hard earned money in these products.

With respect to India, the problem presents a gigantic task at hand due to a large population of 1.3 billion where nearly 58 percent of the people not having access to banking services and this number is growing at a rapid pace with the high population growth rate. The low level of literacy and vast span of the country (inaccessible villages) adds to the scale of the problem for any workable solution to be implemented. This has led to creation of multiple solutions by various departments of GOI, which may cause duplication of efforts and repeat coverage of the same segment of population. Thus, there is a need for developing solution to the problem based on utilizing the synergy between existing resources and providing an implantable and sustainable solution.

Multiple initiatives have been undertaken by both GOI and the RBI to tackle the problem of giving the unbanked people an access to financial services. Many of these initiatives were entirely new schemes with little thought about synergy with other schemes existing in the system. The existing extensive network of post offices can be targeted by utilizing it as an alternative banking solution for the unbanked people. In this context, current banking facilities available for people at post offices have been explored and also their capabilities have been observed for the cause of financial inclusion at minimum cost and maximum synergies.

Table 1: Number of Post Offices in India

Year	Rural	Urban
2008-09	1,39,144	15,871
2009-10	1,39,182	15,797
2010-11	1,39,040	15,826
2011-12	1,39,086	15,736
2012-13	1,39,164	15,692

Source: Indian Post (2013)

From the above table shows that in India, there are nearly 1,54,856 post offices as on March 31, 2013, with nearly ninety percent in rural areas. The number of post office in rural areas is more when compared to urban areas.

Table 2: Number of Post Offices in India (State Wise)

State	2009-2010	2010-2011	2011-2012	2012-2013
Andhra Pradesh	16,149	16,147	16,141	16,141
Assam	4,006	3,996	4,004	4,007
Bihar (Including Jharkhand)	9,056	9,057	9,055	9,057
Chhattisgarh	3,122	3,123	3,125	3,127
Delhi	571	573	575	576
Gujarat	8,972	8,976	8,983	8,979
Haryana	2,653	2,655	2,661	2,664
Himachal Pradesh	2,777	2,777	2,777	2,778
Jammu and Kashmir	1,691	1,693	1,693	1,695
Jharkhand	3,091	3,094	3,095	3,095

Karnataka	9,822	9,814	9,772	9,703
Kerala	5,068	5,070	5,067	5,068
Madhya Pradesh	8,322	8,316	8,310	8,314
Maharashtra	12,850	12,853	12,860	12,858
North East	2,934	2,935	2,932	2,912
Orissa	8,162	8,161	8,161	8,163
Punjab	3,904	3,877	3,853	3,849
Rajasthan	10,316	10,313	10,321	10,324
Tamil Nadu	12,116	12,111	12,065	12,064
Uttar Pradesh	17,662	17,666	17,640	17,668
Uttarakhand	2,714	2,715	2,715	2,718
West Bengal	9,057	9,057	9,061	9,062
Total	1,55,015	1,54,979	1,54,866	1,54,822

Source: Indian Post (2013)

Table No.2 shows the state-wise distribution of post offices in India. State-wise distribution of post offices reveals that a large network in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh can be useful to extend financial inclusion.

Types of Scheme in Indian Post:

a) Saving Account Scheme: Post office saving bank account (POSB) is the oldest and most popular postal saving instrument. Any individual can open a POSB A/C with a minimum balance of Rs-50/. A pass book is provided to the A/C holder and Cheque facility is also available for POSB A/C. Currently the rate of interest offered against POSB A/C is 4%. This Account is regulated by The Government Savings Bank Act of 1873.

b) Recurring Deposit Scheme: Post office offers recurring deposit facility with a maturity period of five years. The minimum deposit is Rs 10/ and multiples of Rs 5/ thereafter and there is no limit of maximum deposit. The present rate of interest offered against this A/C is 8.4%. Premature closer is allowed after three year and part withdrawal is also allowed. Four defaults are allowed, more than four default lead to closer of the account. Depositors are provided with one passbook.

c) Time Deposit Account: Post office offers time deposit for one year, two year, three year and five year. The rate of interest allowed is 8.2%, 8.3%, 8.4%, and 8.5% for one year, two year, three year and five years term deposit respectively. The minimum amount required to deposit is Rs 200/ with no maximum limit. Premature withdrawal is allowed after expiry of six month.

d) Monthly Income Scheme: under this scheme the severs make a lump-sum deposit, which gives him a monthly interest. The minimum deposit in case of single depositor is Rs 1000/ and in case of joint depositor it is Rs 1500/. Maturity period is five years and rate of interest allowed is 8.5%. Depositors are provided with one passbook.

e) National Savings Certificate: This is a tax exempted certificate sold by post office with a minimum investment of Rs 100/ and having no maximum limit. Certificates are available in the denomination of Rs 100/,500/, 1000/, 5000/ and 10,000. Rate of interest is allowed at 8.9%. Trust and HUF are not allowed to invest in NSC.

f) Public Provident Fund Scheme: This is a tax advantage 15 years scheme with a minimum deposit of Rs 500/ in a financial year and a maximum of Rs 70,000/ per year. Withdrawal is allowed after expiry of five years from the date of initial deposit. Interest is allowed at 8.8% per annum. Depositors are provided with one pass book.

g) Postal Life Insurance: besides above mention saving schemes the Indian post offering life insurance services since 1884. Initially the service was limited only to the employee of post & telegram department but due to its popularity the service was later on extended to the employees of some other departments and banksalso. It was opened for all people in the year 1995.

h) Rural Postal Life Insurance: To extend the life insurance service to the rural public the post office extended the service to rural areas in 1995. The prime objective of the scheme is to provide insurance cover to the rural public in general and to benefit weaker sections and women workers of rural areas in particular andalso to spread insurance awareness among the rural population.

Problems and challenges in Indian Post:

a) Lack of Basic Infrastructure: The post offices in India, especially post offices in rural areas which playing an important role in providing financial services in rural areas are not equipped with basic infrastructure. In most of the post offices even proper sitting arrangement for staff is not available.

b) Less Numbers of Staff: There is a crunch of manpower in the post offices. It is observed that most of the post offices are run by one or two persons and need to do all sorts of work which has a very adverse effect on performance and output.

c) Lack of Coordination: There are many examples in the foreign countries where post offices are doing tremendous work for financial inclusion in coordination with other departments. But, till today Indian post keep

itself away from other sister organization or other organization also not seeking coordination of Indian post in providing financial services.

d) Slow Progress of Innovation: To cope with the fast changing environment Indian post also need to be catching the new invention and technology timely. The Indian post still following the age old practices of working, though it bringing some innovation recently but in a very slow speed. Out of total post offices only 25464 post offices are computerized till 2011-12.

e) Abstain From Landing: Providing loan is one of the major aspects of financial inclusion but Indian post is not till today taking it as a part of its business which has narrowed down its operation.

Conclusions & Recommendations:

Indian post is playing a very important role in financial inclusion but it can play a much better role if it can overcome from the following problems: Indian Post should tie-up with Banks to utilize their extensive network by setting up small banking counters at each of their post offices, especially rural branches. The government owned post offices have sufficient space in the post offices to set up such a counter with a computer and printer, to be operated by a commercial bank employee. Thus the post offices and their capabilities can work as an alternative banking solution for the better improvement of financial inclusion. Capabilities of post office imply the space available in the post office, capacity of the post office to handle cash balances and qualifications and knowledge level of the post office employees for basic financial services. Hence utilizing of post office networks can provide another way forward in extending financial inclusion. Indian post can give a new dimension to the process of financial inclusion and can reach an extra mileage in the field of financial inclusion.

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