



Financial Inclusion and India Post: An Analytical Overview

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ABSTRACT

Financial inclusion is a topic of increasing interest in global policy regime. The objective of this paper is to examine the postal factors for getting information about present nature of financial accessibility through India Post in the country. The paper employs panel data on India post from 2009 to 2014 to make two dimensional analysis of how postal factors like saving deposits, Insurance coverage, technology, connectivity, automation, and various postal products influence financial inclusion in the country. The postal networking has been analyzed on region wise to find the variation in terms of branch density and population load per branch. The study finds the policy regime characteristics and institutional factors of India Post appears to be the dominant driving force behind higher levels of financial participation.

KEYWORDS : Financial inclusion, postal networking

1. Introductions

Indian economy is facing with a wider gap between urbanity and rural. A large part of population (72%) inhabits in the rural area where the BPL rate is 25.7% in comparison to 13.7% in urban area indicating an obstacle to economic development in the country. Due to massive poverty and inadequate infrastructures; they are not getting chances to proper access of governmental programs. Since independence, the provision of service by bank communions has been enormously increasing in our country. Still it is not sufficient to include the society particularly financially excluded people come from a wide range of backgrounds such as marginal farmers, landless laborers, oral lessees, self-employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women. In fact, India Post is the long experienced and old agency suitably located to deliver such services due to its close proximity to the rural population. It is the largest financial service delivery network in the country. Financial inclusion generally refers to the majority population of deprived section in the society has broad access to financial services which include loans, deposits, insurances, pensions, and payment systems by the main stream financial institutions. During Independence, the total number of post offices was 23344 those are primarily in urban areas. Currently, 154882 numbers of post offices all over the country during the period of 2014 have served more than 349.13 million saving deposit accounts and more than 14 million clients of its life insurance business in addition to other remittance services and pension payments.

In spite of these efforts, at the turn of the century an average 60% of the country's population did not yet have bank accounts and nearly 90% did not or could not take out loans. Therefore, in 2006 both the central government of India and Reserve Bank of India took radical steps to make financial inclusion policy as its top priority. Banks and India Post could then use this new structure to expand their outreach. It plays an important role in India's financial inclusion policy because it has a unique presence (89.86 % of total post offices) in rural areas to scatter financially excluded people ignored by the traditional banking sector. It contributes to financial inclusion both directly and through partnerships with commercial banks. Recently, India Post tied up with few banks to issue and operates pre-paid debit cards targeted at a low-income population. Economies of scope make the post bank partnership profitable and financial inclusion can be achieved profitably (Alcantara and Gautier, 2013). The main objective of this paper is to analyze how far India Post has progressed in respect of Financial Inclusion in the country and to know the branch penetration of post offices in region and population wise.

2.1. Methodology

The study of this paper is based on secondary data sources compiled by the national and international government agencies like Department of India Post, Reserve Bank of India, Central Statistical Organization, different websites, other various journals and Annual Reports. To know the progress of financial inclusion through India Post, it has

been taken two dimensional analysis. The branch and ATMs penetration, will be scaled up on widening dimension, while the saving bank accounts, insurance policies, credit instruments are scaled up on the other deepening dimension. In this paper few indicators like the distribution of postal branches both per population and region wise will be discussed spatially and several financial indicators such as saving deposits, Insurance coverage, technology, connectivity, automation, and various postal products are taken into consideration for the study of financial inclusion. To analyze broadening and deepening of postal indicators with respect to financial inclusion, we divide the country into six regions. We also explore the degree to which different postal business models and the size of the postal network help to explain the progress of financial inclusion. In the first section, literature review from several scholarly articles on the topic and overall analysis of the objective in the paper has been presented. The findings of study, policy suggestions and conclusion have been placed under second section.

Section-A

3.1. Meaning and Literature Review of Financial Inclusion

Financial inclusion means the majority population of vulnerable groups has broad access to financial products transparently in a quick response way by the formal financial institutions. Its meaning has been defined by several research scholars as well as policy makers in different times in different ways. According to **K C Chakrabarty (2009)**, "Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players". In the words of A. S. Prasad (2008), "Financial inclusion to our understanding is bringing a person into the loop of finance, business and self-employment, so that he or she becomes sustainable". If the cost is not favorable to the lower income group in the society there is a chance of deprivation of financial inclusiveness. Leeladhar (2005) has pointed out – "Financial inclusion is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups". Postal financial inclusion does not necessarily mean that the Post office offers financial services on its own.

It is absolutely necessary to choose the set of attributes appropriately while defining financial inclusion in order to access their contributions to overall achievement (Chakravarty and Pal, 2010). Since bank account is one of the important parameter in the context of accessing financial services. In general, women, poor adults, and rural residents in developing economies are significantly less likely than their counterparts to have a formal account (Allen et al., 2012). Along with this, GDP per capita and the level of cell phone use are the important predictors of financial access (Martinez, 2011). The progress of inclusion through the financial set up is not geographically equal. Financial exclusion can be caused by geographical factors, excessive prices, lack of education, but also by self-exclusion (Sinclair 2001). For the equi-

table in all the regions of the country there is a need for addressing the banking services of the north eastern, eastern and central regions of the country (Swamy, 2011). The physical connectivity is one of the important parameter for financial access rural areas. Share of deposits and credits in rural and semi urban areas is on the decline and in contrast, share of the same in metropolitan areas is rising (Swami, 2011). The contribution of deposit account per capita is more than the contribution of demographic penetration of bank branches in large number of countries (Chakravarty and Pal, 2010). Increasing telecommunications in the country and greater reach mobilized business models will prove to instrumental in realizing branchless banking and taking it into higher grounds by enabling low cost and real time transactions over secure networks (Bihari, 2011). In case of credit linkage, it is 32.2% in case of rural households and 50.2 % in case of urban households indicating that there is a need for further broadening of the bank services in the rural areas (Swami, 2011).

3.2. Postal network

It is clearly evident from the table that the concentration of the number of post offices is larger in rural areas than that of the urban during 2009-10 to 2013-14. The service provided by the India post both in rural and urban areas has been increased up to the year 2013-14 in comparison with the previous year though the total number of post offices has been declined to the year of 2009-10 financial years. The increased postal network indicates the inclusiveness of financial services positively changed. The data also reveals 89% above postal branches concentrated on the rural part of the country in scattering its service to the rural people.

| Types | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|-----------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Urban Pos | 15797 (10.20%) | 15826 (10.22%) | 15736 (10.16%) | 15692 (10.13%) | 15700 (10.14%) |
| Rural Pos | 139182 (89.80%) | 139040 (89.78%) | 139086 (89.84%) | 139164 (89.87%) | 139182 (89.86%) |
| Total | 154979 (100%) | 154866 (100%) | 154822 (100%) | 154822 (100%) | 154882 (100%) |

Source: Annual Reports, Dept. of Post, Govt. of India

3.3. Average area coverage per a post office

In the following table it has shown that on an average area of 21.22 sqkms, a post office is located to serve its customers. If a person needs to access financial services from the India post then (s)he will have to cover the distance 4.61 Kms. along the side, 6.5 Kms. diagonally and 3.26 Kms. laterally. This means the customer will suffer money and time loss.

| Year | Average Area in sqkms. | Along the Side Movement (in kms.) | Along Diagonal Movement (in kms.) | Along lateral movement (in kms.) |
|-----------|------------------------|-----------------------------------|-----------------------------------|----------------------------------|
| 2013-2014 | 21.22* | 4.61 | 6.52 | 3.26 |

*Source: Deptt. Of Post, Govt. of India

3.4. Population Coverage per Post office

| Year | Average population/PO | Rural population/PO | Urban Population/PO |
|---------|-----------------------|---------------------|---------------------|
| 2009-10 | 7176 | 5682 | 20346 |
| 2010-11 | 7814 | 5992 | 23828 |
| 2011-12 | 7817 | 5990 | 23964 |
| 2012-13 | 8086 | 6124 | 25481 |
| 2013-14 | 8221 | 6193 | 26198 |

Source: Dept. of Post, Govt. of India

The above table indicates the average population per post office and urban population per post office is increasing continuously from the year 2009-10 onwards. But, the rural population per post office has declined in the year 2011-12 and in the subsequent year it is increasing. The data shows the covering of population of a branch has increased from the year 2009 to 2011.

From the table below it is clear that average population per a post office is growing with a decreased rate compared to preceding year.

| Year | Growth % to previous year(Average population/PO) | Growth % to previous year(Rural population/PO) | Growth % to previous year (Urban Population/PO) |
|---------|---|---|--|
| 2010-11 | 8.89 % | 5.45 % | 17.11 % |
| 2011-12 | 0.03 % | -0.03 % | 0.57 % |
| 2012-13 | 3.44 % | 2.23 % | 6.33 % |
| 2013-14 | 1.66 % | 1.12 % | 2.81 % |

Source: Estimated by the author on the basis of data , Gol

3.5. Performance of Financial Accounts

The main significance shown from the data in the following table is that there is an increasing trend in the number of accounts from the year 2008-09 to 2013-14. The growth percentage of deposit accounts is maximum(28.08%) during the period of 2010-11. So India Post is attracting the people into its loop of Financial Inclusion. Its reach and service is unparalleled by any other banking agency in the country.

| Year | Total No. Of Accounts** | Growth % to Previous year* |
|---------|-------------------------|----------------------------|
| 2013-14 | 349136167 | 11.88 |
| 2012-13 | 312070823 | 8.58 |
| 2011-12 | 287431078 | 8.69 |
| 2010-11 | 264456655 | 28.08 |
| 2008-09 | 206478355 | - |

*Estimated by the author

** Under Financial accounts KVP and NSC are not included in the above table due to irregular and insufficiency of data. Total no. of accounts include SB, RD,TD, MIS, NSS, PPF, SCSS, FD, MGNREGA accounts. Kisan Vikas Patras (KVP) had been discontinued with effect from 1st December, 2011 was restarted on 18th November, 2014.

3.6. Performance of Postal Life Insurance Policies

The performance status in securing of Postal Life Insurance (PLI)/ Rural Postal Life Insurance (RPLI) policies are gradually augmenting every year indicating more people have been insured. The percentage growth to previous year is maximum of 6.82% in case of PLI and 11.01% in case of RPLI in the year 2011-12.

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|----------------------|-------------------|-----------------------|----------------------|----------------------|
| No. of PLI Policies | 4686245 ----- | 5006060 (6.82%)* | 5219326 (4.26%)* | 5406093 (3.57%)* |
| No. of RPLI Policies | 12203345 ----- | 13547355 (11.01%)* | 14664650 (8.24%)* | 15014314 (2.38%)* |

Source: Dept. of Post, Govt. of India

*Growth percent of no. of PLI/RPLI policies in the current year to its preceding year.

The number of policies both on PLI and RPLI cases are progressing at a decreasing rate. The rural inclusion in insured sector in counterpart to urban was very backward in the preceding year of 2013-14.

3.7. Performance of MGNREGA Accounts

The scheme of disbursement of MGNREGA wages through post office accounts is operational in all over the country.

| Account | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---------------------------|---------|---------|---------|---------|---------|---------|
| MGNREGA# (in million) | 29.21 | 42.50 | 48.97 | 53.84 | 57.47 | 64.23 |
| % change to previous year | ----- | 45.49 | 15.22 | 9.94 | 6.74 | 11.76 |

#Source: Book of Information 2013-14, Dept. of Post, Govt. of India

The above table shows that the number of MGNREGA A/cs is in increasing trend from the starting of the year 2008-09 to 2013-14 which fetches accounts from 29.21 million to 64.23 million. The growth percent is 119% in the year 2013-14 to the year 2008-09. More people particularly from the lower strata in the rural part have been included under this scheme. It is important to note that, a large number of these accounts are lying inoperative due to multi reasons. Despite inoperative, the accounts opened under financial project were gainfully utilized by the MGNREGA beneficiaries for effective transactions (Yadav, 2009).

3.8. Region wise penetration of Postal network

The average population served by a post office in Eastern , Western , Southern, Northern East, and Central region are lower than that of the average population served per post office at all India level. Similarly, the average area covered per post office in Northern, Northern East and Central region are found very higher than the national level. Out of these three regions Northern region shows a maximum distance (6.66 Km) to be travelled by a customer to access the postal services. The average population served by a post office is also highest in the Northern region. So the spread of postal network is observed better in Eastern and Southern regions than others.

| Region @ (1) | No. of Post Offices (2) | Average population served per Post Office (3) | Average area per Post Office (in sqkm) (4) | Movement along side in km.# (5) |
|---------------|-------------------------|---|---|---------------------------------|
| Eastern | 29395 | 7719 | 14.23 | 3.77 |
| Western | 32167 | 4594 | 15.79 | 3.97 |
| Southern | 42962 | 5880 | 14.79 | 3.84 |
| Northern | 31968 | 17015 | 44.43 | 6.66 |
| Northern East | 6928 | 5608 | 37.85 | 6.15 |
| Central | 11462 | 8562 | 38.68 | 6.21 |
| All India | 154882 | 8447 | 20.44 | 4.52 |

Source: Estimated by the author

values in column (5) are the square root of the corresponding values in column(4).

@ Author comprises India into six regions those include 22 postal circles in this study..

Eastern Region---Odisha, West Bengal, Bihar, and Jharkhand

Western Region---- Rajasthan, Gujrat, and Maharastra

Southern Region----- Andhra Pradesh., Karnatak, Kerala, andTamil Nadu

Northern Region----- Jammu & Kashmir, Himachal Pradesh, Punjab, Hariyana ,Uttar Pradesh , Delhi and Uttarakhand

North Eastern Region ----- Arunachala Pradesh, and Assam

Central Region ----- Madhya Pradesh, and Chhatisgarh

3.8. Initiation of New schemes and Policies in Financial inclusion

In order to meet the new developments and challenges, a major IT Modernization Project is in the process of being implemented. Under the IT Modernization Project, various functions of post offices will have to improve and to automate postal services through re-engineering systems for customer satisfaction. The thrust of the Digital India Program to shape up the post offices into a multi services center. The Department is digitizing all its 154882 Post Offices. The Core Banking Solution (CBS) Project will bring facilities of ATM Banking, Internet Banking, Mobile Banking and Phone Banking to the Post Offices Savings Bank (POSB) customers to perform transactions 24x7 in ATMs and to transfer money from their account to any bank account through National Electronic Fund Transfer (NEFT) and Real Time Gross Settlement (RTGS). Instant Money Order (iMO) is an online domestic money transmission service which is instant, convenient, reliable and affordable. This service is intended for people requiring instant money remittance. This service enables the customer to transmit money. The entire Project is in implementation phase. Achievements made by India Post so far are as 26597 Departmental Post Offices out of 28847 have been networked and connected to Data Centre throughout the country, 1436 POs has been dressed with Core Banking Solution (CBS), and Core Insurance solution (CIS-PLI) has been rolled out in 3500 Post Offices. The implementation of scheme like Sukanya Samridhi Account is a new saving scheme was introduced on 2nd December,

2014 by the Government of India.

Section-B

4.1. Findings

Firstly, while examining the progress of financial inclusion through India Post in our study we came to know that the postal department has given more importance to spread its network in rural areas to serve financial services. Secondly, the volume of all financial transaction in India Post is increasing with a decreasing rate. Thirdly, the postal penetration is better found in the Eastern and Southern regions as compared to other regions. Fourthly, the average area per post office is higher (44.43sqkm) in the Northern region and lower in Eastern region (14.23sqkm) in India shows a wide variation was observed. Fifthly, In India, to assess the postal services, an individual has to travel 4.61 Kms (on an average). The unit distance coverage and average population served by a financial institution are two important parameters in determining the equitable distribution of financial access.

To ease the financial inclusion drive, the India Post has the most challenging operator is the largest network for accessibility. This suggests that post offices may play an important role in providing financial services to segments of the population that are particularly likely to be financially excluded. We suggest further to expand the postal network for better inclusion particularly in the regions where the travel distance is higher than the national level. A bank by India Post is the best challenge for financial inclusion; it could do much more than what a Jan Dhan Yojana can achieve.

4.2. Conclusion

In rural regions, accessibility of financial services is the main issue. This is one of the critical deterrents for inclusive growth. Policy makers have to take judicious measures for successful implementation of new schemes in India Post.

The future will see the Post Office playing a more active role in facilitating financial inclusion in the country. India post introducing innovative models and technology those are additional steps to push its importance particularly on financial inclusion get up.

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