In India, postal financial services go hand in hand with government measures to promote financial inclusion. This collaboration is helping to ensure that poor people are not excluded from basic products, such as savings accounts.
Covering the last mile is a major challenge of government engagement in poverty alleviation. Financial exclusion is not only a symptom of poverty but can also be its cause. As those with no access to a bank account cannot develop savings, they become vulnerable to unofficial moneylenders and can often not receive regular wages or pension payments. The good news is that Posts can offer an effective solution to the unbanked population, as the example of India shows.

The Indian central bank has been using the Post as a delivery outlet for social-security benefits for the past four years, crediting wage and pension payments directly to postal accounts. This approach has considerably stopped the diminishing of funds on their way from grantor to recipient through corruption – a major problem in many emerging economies. “In India, funds are comprehensively reaching the individual entitled to them for the first time,” says Sandip Ghose, regional director for Northern India at the Reserve Bank of India.

The Indian central bank hand-picked India Post as preferred financial inclusion partner for several reasons. With 155,000 post offices, 139,173 of which are located in rural areas, India Post has the potential to reach the financially excluded population, many of whom are farmers. India’s 33,800 rural banking branches are mostly concentrated in selected pockets, covering no more than 5.2 per cent of its 650,000 villages. India Post, on the other hand, is represented in all villages and is often the only provider offering savings accounts specially to those on low incomes. During the past two years, the Post has opened 35 million savings accounts with no capital requirements for unbanked people. The government also uses postal branches for the distribution of currency in rural areas, where 85 per cent of transactions are still made in cash. “Our partnership with India Post began seven to eight years ago, when there was a huge shortage of coins in rural areas,” explains Ghose. “The post offices were paid a commission to distribute coins and fresh currency notes.”

Another reason why the central bank chose India Post was the post’s proximity to customers. “Postmasters in rural post offices come from the same village and know everyone in the community,” says Shukadev Samant, member of India Post’s board. “Our Post encourages employment of locals in rural branches, adopts flexible work hours to suit people of the community and organizes its promotional drives to take place during community festivals.” Some rural postmasters serve in the same office for 15 to 20 years and can help the government to verify proof of identity, one prerequisite for opening an account.

Reaching out

The central bank has been actively involved in financial inclusion since 2005, bringing more than 70 million Indians without access to a bank account into the financial fold. Due to a concentration of poverty in rural areas, the Reserve Bank has focussed on promoting financial access in the countryside. To do this, it introduced no-frills accounts and credit cards especially targeted at the farming population. “First came this change of mindset that anyone who wants to can open an account, even if they have no money. Secondly, we wanted to expand access to banking cards,” Ghose recalls.

One of the biggest problems in rural India is that the population is not accustomed to formal banking and turns to local moneylenders in times of need. “Moneylenders are willing to give you any amount of money, provided you have some collateral in the form of land, house, jewellery or even cattle. And of course they charge huge interest,” says Ghose. Out of fear for their livelihood, farmers only approach money lenders for special situations, such as medical emergencies, their children’s weddings or religious ceremonies. As traditional banks do not grant credit for these kinds of expenses, the central bank issued a “kisan credit card” for farmers, designed to enable them to borrow money in precisely those circumstances.

Two years after the introduction of the no-frills accounts, however, the Reserve Bank discovered that many of the newly opened accounts still had a zero balance as the account-holders were still conduction most transactions in cash. Carrying around cash or storing it in private homes was both insecure and inhibited the generation of savings – a vital component of financial inclusion, as Ghose explains: “Savings is the biggest protection a financially excluded person can develop.”

In view of the crucial role of savings, the central bank decided to collaborate with India Post in 2006. The latter looks back on a very long history as a savings institution (since 1882). “We are helping the Post to actively become part of the payment and settlement system, so people no longer need to only transact in cash but can use different instruments, such as cheques, drafts and plastic cards,” says Ghose.

Village approach

The savings account is India Post’s most successful financial service to date, while also being one of its most flexible products, says A.S. Prasad, deputy director general of its financial services. “We have savings schemes for senior citizens, monthly-income accounts and different short and long-term investment products.” The Post plans to increase its 220 million savings accounts to 350 million accounts within the next two years. Samant specifies: “We are promoting the concept
of Bachat Village or Savings Village with at least one postal savings account per household." Many villages in India have already achieved this goal and serve as models to other communities. The Post also aims to provide the rural population with other basic financial services as a banking correspondent. “A complete bouquet of financial services should be available to those who are financially excluded," says Prasad. The ultimate goal of India Post is to make customers’ lives financially sustainable. In its view, this can be achieved by responding first to basic needs – such as providing access to remittance services and social-security payments – and later by offering savings and insurance opportunities.

Providing the rural population with a first point of entry to the financial world, as well as targeting farmers, has advantages for India Post. “A very valuable lesson is that dispensing of savings and insurance products at a community level has business advantages for the post office,” Samant says. “In rural areas, economic activities are on the increase and there is more scope and opportunity for savings, insurance and asset-management activities. The post office plays an important role in expanding the market for such services.”

Wages and microcredit

India Post is also vital for distributing social benefits to the rural population. “The Post is the government’s largest partner in the National Rural Employment Guarantee Scheme [NREGS],” says Ghose. In operation since 2006, the scheme provides at least 100 days of guaranteed wage employment per year to every rural household whose adult members volunteer to do unskilled manual work. NREGS covers all Indian districts with a rural population and disperses wage payments through postal or bank accounts.

India Post held 46.13 per cent of all NREGS accounts in 2009 (35.46 million accounts), with 93,301 post offices having distributed more than 35.3 billion rupees (US$765 million) under the programme. “An account is opened for a worker and wages are paid into it,” explains Prasad. “The worker can then withdraw money from a postal branch near his home.” Because funds are directly credited to postal accounts, they are effective in reaching beneficiaries. The Indian government has also started using postal accounts to pay out other social security schemes, such as old-age pensions and other social-welfare benefits. The Post regards the distribution of social benefits as a means of optimally exploiting its network, while complying with its public service mandate. In September 2009, it was granted the CNBC Financial Advisor Award for effectively utilizing its network to promote financial inclusion in small communities. The TV channel presents the award each year to honour the best financial advisors across the country for their contribution towards wealth creation and preservation. It was also the first time a governmental department won.

Along with social-security payments and savings products, an important instrument to financially include the rural population is microcredit. For this reason, India Post has signed an agreement with the National Bank for Agriculture and Rural Development (NABARD) to distribute small loans to the so-called Self Help Groups in rural India. The collaboration has helped to develop alternatives to institutional credit disbursal, enhancing access to credit to the poor. Nearly 2,000 post offices are implementing this scheme in nine districts of Tamil Nadu state since 2006 with a revolving fund of 10 million rupees.

NABARD’s microcredits are especially important for rural women, who, in their patriarchic environment often lack resources to run their own small businesses. Some 54,000 women have to date been linked by the scheme, empowering them to identify their financial needs, manage their savings and explore opportunities in income generation. India Post has granted 26.4 million rupees as loans to 2,842 Self Help Groups, 115 of which have already fully repaid their loans.

Financial literacy

But the Post can do even more to bring the rural population into the financial fold, says the central bank. As the latter’s experience shows, the mere provision of financial products targeted to farmers often is not enough to promote financial inclusion effectively. “We found that our experimentation in providing access was not as material for financial inclusion as providing some knowledge of basic financial services,” Ghose explains. Along with Financial Literacy Counselling Centres and Rural Entrepreneur Development Kiosks, the government has designated post offices as major contact points for financial education. “The Post can become the biggest single organization for propagating financial literacy,” says Ghose.

The personal touch of carrying out transactions in a post office can give customers without prior knowledge an understanding of different financial services. “For people that are not financially literate, it is becoming more and more difficult to access financial products, because they do not know how these products can help them,” says Ghose. Banks today hardly have any direct contact with customers, while post-office workers can take the time to explain different products, he continues. “By contrast to virtual banking, Posts have a face to the office, someone to which you can talk and get your doubts clarified.”

Rural postmasters are often the only literate person in a village and are prime candidates for taking charge of
villagers’ financial education. However, some postmasters need more training to transmit financial knowledge effectively. “Inside the Post itself, financial training is currently limited to the product the postal branch is marketing,” explains Ghose, who has longstanding experience in training the top management of India’s public sector commercial banks.

**UPU workshop**

Providing appropriate training is an issue, which India Post is currently tackling. Some food for thought was found during the financial inclusion workshop in 2009 organised jointly by the Universal Postal Union and the Alliance for Financial Inclusion in Berne, Switzerland. The two-day event underlined the pivotal role financial literacy plays in making financial inclusion a success. As a result, senior representatives from India Post approached the central bank, expressing an interest in developing comprehensive training for their staff with the latter’s cooperation. The bank is now in the process of creating training modules for postal employees, while India Post has increased training in rural areas. “We are taking up skill development of rural postmasters both in professional and soft areas on a large scale,” says Samant.

The workshop not only encouraged India Post to strengthen its efforts in financial education. It has also given new impetus to the central bank’s commitment to financial inclusion. “For me, this congregation in Berne was a unique experience, getting first-hand information of what is happening in Brazil and other countries that have gone ahead in this area – whether as postal banks or correspondents,” says Ghose. “When we came back to India, we discussed the different models that had been presented to determine how to implement the best of each in our system.”

Meanwhile, India Post is planning to offer core banking solutions in 4,000 branches by 2011. “Our proposal to become a bank is in the conceptual stage,” says Prasad, explaining that post offices are to be fully computerized and linked via a virtual network. Once all technological hurdles have been overcome and comprehensive staff training completed, India Post’s prospects in the financial sector are bright, according to Ghose: “Already today India Post has savings deposits that are larger than that of any single bank. Its credibility and network, the backing of the government, its long history as an institution, its reach – all this supports the case for establishing a strong bank in the future.”

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The PLI was established in 1884 for employees of all government departments in India, especially in central or state administration, defence services, the departments of post and telecom, nationalised banks, municipal and other local bodies, and government-aided educational institutions, such as the school Tiwari works in.

Happy returns
Tiwari says he is very pleased with how this investment has worked out for him. “Right now, I need the money. In a year or two, I have to get my daughter married, and this money that I have received from investing in the PLI scheme will be so beneficial to me,” he says. “Now I can do good things for her.”

For fifteen years, Tiwari deposited 155 rupees each month at the post office, a total investment of 30,000 rupees. Last year, in November 2009, his scheme matured, and he received 65,130 rupees in a lump sum from the Post. “You don’t notice the 155 rupees each month going out because it’s a small amount,” he says. “But when you get that big 65,000 rupees cheque, there’s so much you can put it towards.”

Tiwari’s two sons and daughter are still studying and he says the biggest expense for his family right now is the sheer amount of money that goes into their education. There is the oldest son, who is doing his Master in Business Administration and Tiwari spends 8,000-9,000 rupees each month on his fees. The other son is doing a long-distance learning course with the Indira Gandhi National Open University and every six months, Tiwari has to pay for the tuition. His daughter is still in high school and, since she is not interested in or doing particularly well in academics, he would like to enrol her in some sort of vocational training when she graduates, another potential major expense.

Each day at dawn, Bharat Tiwari rises with his wife, and has his first cup of tea. He is the first to leave the family home in Mehrauli to start work in a government-run girls’ senior secondary school in Saket, a posh neighbourhood in South Delhi where he has worked for the last ten years. Fifty-year-old Tiwari gets on the bus, which takes him halfway, and from there, he waits another fifteen minutes to catch the next bus, so that he can get to school before it starts at 7.30.

Fifteen years ago, when Tiwari was working in a different school, also run by the Delhi government, several of his co-workers were talking about savings and investments. Tiwari too became interested in what they had to say, and, after getting some advice, decided to invest 30,000 rupees (US$652) in a scheme called the Postal Life Insurance (PLI) offered by India Post. Ten of his peers invested in it too. “People told me that the PLI was very good, and was better than the Life Insurance Corporation of India, which is more popular among Indians,” says Tiwari. “People with private company jobs can’t invest in the PLI since it’s specifically meant for employees of the government.”
“It’s hard for a worker like me to live in Delhi,” he says. “The price of everything is going up constantly, we can’t afford to buy a house, and if you want your children to have good-quality education, you need money for private institutions.” The investments he has made have helped to that end. He has invested in a number of products, he says, mostly schemes that have been offered by the government. Of all those, he found the India Post schemes, especially the PLI investment, to be the most sound and rewarding.

“If I had had a policy for one lakh [100,000] rupees, then I would have received 250,000 rupees today,” he says. “At the time I didn’t understand these things, and I couldn’t afford to invest that much either. But now, I’ll be investing this money again, not only for my wife and myself but also for our children.” Now that his salary has recently increased, Tiwari will be investing a lot more in his future.

In addition to the position at the school, Tiwari works odd jobs to earn a few extra thousand rupees each month. He says that, while his regular salary is all spent at the end of the month and, try as he might, he cannot save anything from that, he has made it a point to save at least something each month. All the money that comes from the odd jobs or his share of the farming land his family owns back in his home village in Bihar state is put away as savings or investments.

Crucial trust

Tiwari says the interest he received for the PLI scheme at 8.5 per cent is the highest he has seen for either government or private investments. Then, there is also the matter of trust. If he were to get a better deal, even at double the rate of interest from a private company, Tiwari says he would not invest in it. “There’s no reliability in private companies,” he says. “There’s no guarantee and I can’t bring myself to trust them.

Companies are going into loss and bankruptcy all the time and I don’t want my hard-earned money to go with them.” Since the PLI is operated by the Indian Post, he says he trusts it. “I went into a very well-known multinational bank the other day and they told me about all kinds of schemes, but I just can’t take that risk.”

There are, to be sure, some problems. “Like most government departments, there’s a bit of inefficiency,” he says. “Nothing more or less than you’d find in other government-run organizations.” The other day Tiwari went to open a new account with the post office, but they told him to come back the next day. When he returned, they told him to return the following day. “I would have opened up an account right there and then, but I couldn’t. And I would have saved 500 to 1,000 rupees in that account each month.”

He is still happy with the PLI. “I had no problems with the PLI investment, however,” he underlines. “I’ve been recommending it to everyone I know, and just last month, on my advice, my nephew opened up an account as well.”

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