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## A comparative study of post office services fostering financial inclusion – A Meta analytical approach

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### Abstract

Postal services, since origination, all over the world have started with the concept of providing public service. However, over a period of time, the developed countries have orienting these services towards the provision of private goods. In contrast, the underdeveloped countries are operating to provide public goods. However in the case of emerging economies such as BRIC countries there is a dichotomy among the policy makers between the provision of public goods and private goods. In the Indian context, there is an ambiguity in the implementation of policies with respect to postal services to ensure inclusive growth in the rural and tribal areas. Against this backdrop this paper examines the practices adopted in the developed countries, emerging economies and underdeveloped countries. The Meta analytical approach is adopted for comparative purposes. The findings show that larger the postal network in the rural areas better will be the financial inclusion possibility. Women empowerment is possible only with making them financially strong; as an initiative they should have an easy access to the post bank services because of coalescence of transaction cost and transport time deters the women to access the postal services.

**Keywords:** Public goods, financial inclusion, women empowerment

### 1. Introduction

India has the largest postal network in the world with 1,54,866 post offices at the end of 2011. The Post Office Savings Bank (POSB) is one of the biggest savings banks in India. It collects savings from all corners of the country. The savings collected by the POSB play an important role in view of capital formation in the Indian economy.

Indian Postal department is planning to start a bank, to be tentatively called the Post Bank of India (PBI). The India Post already provides various financial services including a Post Office Savings Bank, Postal Life Insurance, Pension, Payments and Money Transfer Services. Indian postal department is proposing a capital investment of Rs.1,000 crore for the bank. It will be set up as a subsidiary with the postal department holding a 51% stake in it. It also intends to rope in major public sector banks like the State Bank of India to pick up a 25% stake in the new venture. Of the remaining equity, 5% will be offered to employees of India Post and the rest will be offered to the public. The proposal to set up the Post Bank of India is under consideration in the Department. However, at present it is at conceptual stage. The PBI has to be set up soon to facilitate the inclusive growth.

Postal systems are universal in nature. However, due to changes in the economic conditions post world war, the nature of postal services has undergone many changes. In the developed countries the concept of business efficiency and technology has made the postal systems of least importance. In contrast, the postal systems are the backbone of economy and commerce in the underdeveloped countries. However, in emerging markets, particularly in India, the policies related to postal systems are at the cross roads indicating that the policy makers are not giving due priority to the development of postal systems in the rural and underdeveloped tribal areas in India. Since the urban rural divide is so wide, unless the policies are rural oriented the divide continues to grow, affecting the socio-economic conditions of the rural population. Against these back drop, this paper examines the different systems and services rendered by the postal services in the different parts of the world.

The study is organized as follows. Chapter 2 deals with literature review. The methodology is dealt in chapter 3, limitations in chapter 4, analysis and results are dealt in chapter 5. Conclusions and directions for further research are incorporated in chapter 6. Since this study is based on Meta analysis, setting of hypothesis and its testing has not been considered.

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**2. Literature Review:**

As per Rangarajan Committee (2008) report, Financial Inclusion is defined:

[. . .] as 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 affordable cost.

According to Scher M (2001) [8], many governments have undervalued their postal savings institutions both as financial and social-economic assets

According to Rajan and Zingales (2003) [5], development of the financial system contributes to economic growth.

Srinivasan and Lakshmi stated that for India Post, there is no alternative than to leverage its infrastructure, trust, and related services into a much larger role in e-commerce and e-government. The post offices should be computerized and more staff members are to be appointed as majority feel that the services provided by the post offices are not good. The interest rates have to be increased for many deposit schemes, as there was a gradual reduction from high percentage of interest to low percentage. There must be a change in the infrastructure facilities of post office and the staff should be more hospitable.

According to the works of King and Levine (1993) and Levine and Zervos (1998), at the cross-country level, evidence indicates that various measures of financial development (including assets of the financial intermediaries, liquid liabilities of financial institutions, domestic credit to private sector, stock and bond market capitalization) are robustly and positively related to economic growth. Other studies also establish a positive relationship between financial development and growth at the industry level, like the one by Rajan and Zingales (1998) [5]. The implicit meaning of this is that the postal systems and its policies are to be robust facilitating the rural women.

The Inter-American Development Bank (2010) defined women’s empowerment in terms of ‘expanding the rights, resources, and capacity of women to make decisions and act independently in social, economic, and political spheres’. The UN (2001) defined women’s empowerment in terms of five components: women’s sense of self-worth; their right to have and determine choices; their right to have access to opportunities and resources; their right to have the power to control their own lives, both within and outside the home; and their ability to influence the direction of social change to create a more just social and economic order, nationally and internationally”.

**3. Methodology**

For the purpose of study the following factors are being listed and mapping is done against these parameters for the practices adopted by different countries. Countries have been classified in the following way –

- Group A – Postal systems in developed countries (Considered 5 European Countries)
- Group B – Postal systems in emerging markets and better developing countries (Considered 5 Countries, Including India)
- Group C – Postal systems in underdeveloped economies

**4. Limitations**

Some of the limitations of this study were -

- Since the data is secondary in nature, statistical rigor is obviated.
- The time frame is limited to draw proper inferences. Nevertheless the observations do provide meaningful directions for the further research.

**5. Analysis**

**5.1 Separation of Post Bank from Posts** - is recommended since it fosters financial inclusion. Below given table indicates Y – Non Separation and N – separation

SI No	Developed Countries	Developing Economies (Emerging Markets)	Underdeveloped Countries
Parameter	N	N **	Y

\*\* It is being envisaged in the current policy

Analysis – the Indian model seems to be pretty good. The separation of the post bank from the posts facilitates synergies in financial and postal services benefiting the lower-income and rural populations.

**5.2 Number of post offices per citizen / per rural citizen**

SI no	Population served / post office (Rural)	Population served / post office (Rural Women)**
1	6061	2884

(Source: Book of Information 2011 - 12 – GOI)

\*\* India’s total population – 1.21 Billion; Sex Ratio: 1:0.908 (Male: Female)

Area served by a post office (in Sq Kms) 21.23

Average distance to be travelled by an Individual (lateral movement) = 2.6

Average distance to be travelled by an Individual (side movement) =  $\sqrt{21.23} = 4.61$  Kms

Average distance to be travelled by an Individual (diagonal movement) =  $4.61 * 1.44 = 6.64$  Kms

Analysis – From the above data it can be seen that for every 2884 women population there is one post office and a woman on an average has to travel a minimum of 4.61 Kms and a maximum of 6.64 Kms to access a post office. This deters for women to open an account in the post office, thereby her savings are not effective. This affects the economic development of women and their empowerment thereby impairing the economic inclusive growth.

**Table 1:** Average population served by post offices in developed and developing countries

Developing Economies			Developed Economies		
SI No	Country	Population Served / post office	SI No	Country	Population Served / post office
1	Bulgaria	3130	1	Belgium	1348
2	Czech Republic	13871	2	Denmark	913
3	Estonia	545	3	Germany	33600
4	India	7956	4	Ireland	1532
5	Hungary	3197	5	Italy	13893

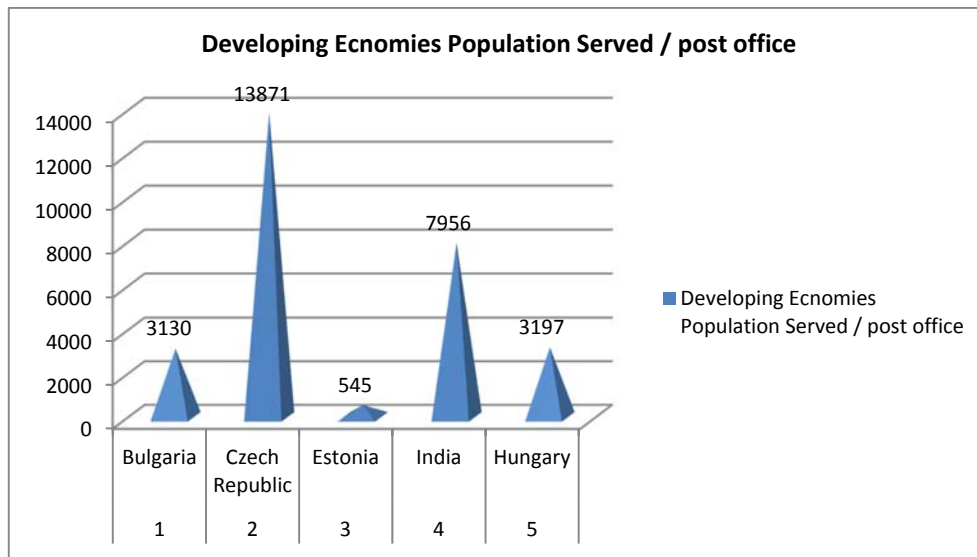


Chart -1

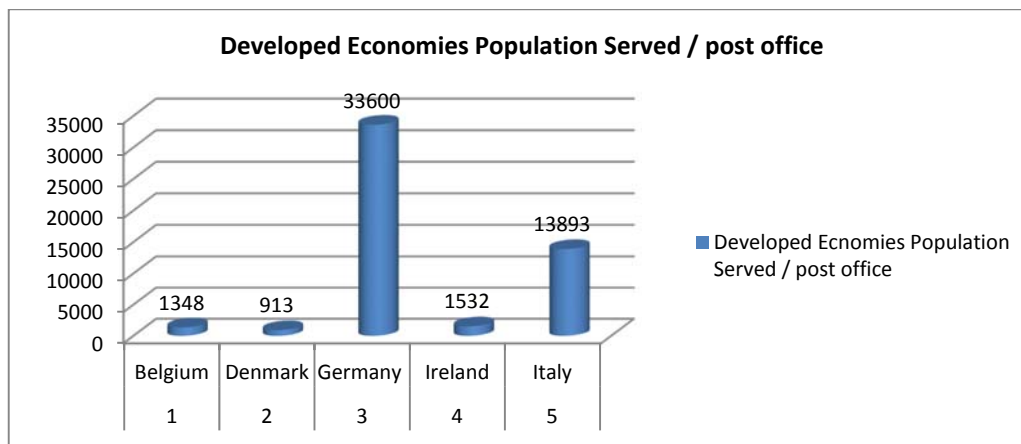


Chart 2

**5.3 Credit offered by postal services**

Developed economies have separated Postal services and Post bank services. They offer various types of credits to the target population. But in India, as discussed earlier, it is the

new initiative taken by Government of India to reach the objective of financial inclusion. The cases of the transition economies also make a point which should be underscored here.

SI No	Developed Countries	Developing Economies (Emerging Markets)	Underdeveloped Economies
Credit Offered by postal services	Yes	No	No

**5.4 Ease of opening and account- KYC norms in India and other countries**

The objective of KYC/AML/CFT guidelines is to prevent money laundering or terrorist financing activities by use of

Post Office Savings Bank intentionally or unintentionally by criminal elements. KYC procedures also enable post office Savings Banks to know/understand their customers better, which in turn help them manage their risks prudently.

Parameter	Developed Countries	Developing Economies (Emerging Markets)	Underdeveloped Economies
KYC Norms	Easy – Social Security Number	Difficult – too much documentation**	Very Difficult – too much documentation

\*\* In Indian Context, Customer, in order to open an account has to produce (a) Identity proof and Address proof. Documents should be self-attested or in case of illiterate depositors, the same should be attested by Gazetted

Officer/Sarpanch/ Branch/Sub/Head/Chief Postmaster or Postman/Gram Dak Sewak Delivery Agent. In case of investment through agent, these documents should also be attested by the agent.

### 5.5 Bringing Immigrants into the society

Parameter	Developed Countries	Developing Economies (Emerging Markets)	Underdeveloped Economies
Migrant Labour	Easy – Fund Transfer at lowest cost	Easy – but recently implemented	Difficult – too much documentation

In the context of developed countries Postal Savings System was most popular with recent immigrants, who had experience doing their banking at postal branches in their countries. Currently, immigrants take advantage of the post office for money orders and “Dinero Seguro,” an electronic money transfer service to nine Latin American countries. Adding postal banking could really cater to these communities by hooking up with other global postal systems.

But in Indian Context, only migrant labourers (Bihari’s, Andhriles working in Mumbai) in some parts of the country take benefits of this system through e-money orders. Setting up of PBI can speed up the transfer of money between accounts.

### 5.6 Mobilizing Savings – Insurance

Parameter	Developed Countries	Developing Economies (Emerging Markets)	Underdeveloped Economies
Insurance Services at Post offices	Life / Nonlife / Health policies	Only Life insurance policies	Slowly moving towards providing life policies

Government of India, in the recent past has started issuing Rural Postal Life Insurance schemes for the rural population.

Much of publicity is required in this area in order to popularize it

### 5.7 Delivering Federal Benefits transfer

Parameter	Developed Countries	Developing Economies (Emerging Markets)	Underdeveloped Economies
Federal Benefit Transfer	Yes	No	No

Subsidy payments (LPG) are being linked to the accounts in commercial banks. To have a better inclusion this can be

incorporated into POSB to facilitate subsidy transfers also.

### 5.8 Post Bank – a means to end recession

Parameter	Developed Countries	Developing Economies (Emerging Markets)	Underdeveloped Economies
Means to end recession	By providing Social security number and ATM account with Federal Reserve	No*	No

\*Payments under MREGA Schemes should be brought under the postal systems.

In US context - The physical ATMs could be at any of the 35,000 postal branches nationwide (or through their mobile-enabled postal account). Rajiv Sehti, an economics professor at Barnard College and Columbia University, explains that this would allow the Fed to directly target economic downturns. When the economy lags, the Fed could place a few hundred dollars in everyone’s account, with the proviso that it gets spent immediately. This would offer an immediate and timely Keynesian stimulus, paid for by normal Fed operations. Conducting monetary policy this way would do a lot more to help Main Street than the current quantitative easing, which raises asset prices and helps, mostly the wealthy. Similar policy can be adopted for emergency payments across rural people in India.

This is one of the critical deterrents for inclusive growth. Policy makers have to bear this in mind and try to further expand the postal network for better inclusion.

- Indian postal service can gain synergy out of its largest network by separating the postal services and post bank services.
- Unlike developed economies, India Post can also offer credit facilities to the rural women population to make them financially stable and to empower them.
- India Post can also initiate non-life and general insurance schemes for better inclusion.

### 6. Conclusions

From the analysis above it can be concluded that –

- In India, to assess the postal services, an individual has to travel 4.61 Kms (on an average) which makes the transaction cost expensive especially for rural women.

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