

## Postal Bank - a viable option for Holistic Financial Inclusion

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### Abstract

*This is a concept based paper where researchers have made an attempt to analyse the possible positive impact of proposed Postal Bank of India with a special emphasis on financial inclusion. The India posts having its wider network extending to nook and corners of India is already into the primitive micro banking activity of collecting savings banks and recurring deposit accounts. Now, the proposed Postal Bank of India is all set to converge on the wider network clubbed with government patronage for heralding a new era in banking industry. A proposal to set up Postal Bank As payment bank only is perceived to be retrograde move because it may lead to establishment of truncated bank where the main face bank i.e. lending loans will be totally absent.*

**Key words:** Postal Bank, India Post, payment bank, ATM, indigenous bankers

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### 1. Introduction

The Postal Bank is likely to be a reality in the nearest future. Hence there is much scope for debate on the issue the viability of postal banks for the holistic financial inclusion in India. Ever since the heralding of LPG era in the early 1990 s the Indian banking scenario is undergoing sea changes. The external environment for banking elsewhere in the world is also undergoing thorough changes. The WTO induced changes in the service sector clubbed with Basel norms are giving new shape to banks. Bank investments and loans on a tight line of growth trajectory make brighter future clearly visible. The licensing norms for new banks are still held under tight clutches besides enforcing upon new regulatory norms on existing banks in relation to capital adequacy and non performing assets.

Further the central banks in the respective countries in general and the RBI being a central bank of India, in particular, are playing pivotal role in consolidating the banking infrastructure while ensuring their fair growth.

In India, though there are several private enterprises which have applied for new banking licenses, The RBI keeping the matter of issuing license in abeyance . As per the indications given by Sri Raghuram Rajan , the Governor of RBI, and as reported in news papers the RBI is likely to give license to few selective bankers including Postal Bank. Now the time has come to mull over the idea of Postal Bank and its further ramifications in the present socio economic structure of the country.

## **2. Conceptual frame work of proposed postal bank of India**

The Postal Bank of India which is proposed by Department of Posts is supposed to be basically a payment bank as per the reports made available. This bank is planning to encash upon the valuable real estate and other infrastructure that the Department of Posts is enjoying.

Further the additions of regular banking business to the existing SB account and RD accounts would amount to extension of services by the traditional post offices and thus enabling them transcending into Postal Bank.

This Postal Bank of India is expected to be major catalyst in financial inclusion programs. With an objective of augmenting banking service infrastructure the Government of India with the concurrence of RBI is mulling over the idea of setting up of several specialty banks such as payment banks and savings banks. These new banks have to compete with universal banks, RRB's, co-operatives, NBFC's and indigenous banks. To give enough teeth to these new banks the RBI is striving hard in streamlining the conceptual outlook of these new banks. The project report for RBI is prepared by Earnest and Young this report is purported to be having 3 models, of which the hybrid model is perceived to be recommended by Earnest and Young and the Department of Post is keen on securing Rs.240 crore from expenditure department for setting up of Postal Bank.

At the initial stage, the Postal Bank of India is likely to be a payment banker, with branches of its own through length and breadth of the country. Postal Bank of India would be offering services like acceptance of demand deposits and remittances. The ATM facilities are also provided but no credit card facilities are allowed. The maximum deposits by an individual customer are likely to be pegged at Rs.100000. The SB and RD account will also continue. The banking operations of Postal Bank will be mandated by Post Bank of India through networking. It is reported that the bank is projected to earn Rs.550 crores in first 5 years.

## **3. Benefits of Proposed Postal Bank**

The Postal Bank of India is expected to yield the following benefits

### **➤ Wider network:**

The presence of the postal banks in the nooks and corners of the country ensures the wider network of banks across the divergent geographies. This would give the easy access to people in remote areas to the modern banks and their services.

### **➤ Alternate to the indigenous bankers:**

Emergence of postal banks plummets the importance of indigenous bankers. The local money lenders may have to harbour jealousy against these Postal Banks as latter would certainly attract local people towards them with enough ease. The advantages like convenient location, government patronize, professionalized management, transparent policies and convenient working hours are likely to be the benevolent factors for Postal Banks. The indigenous bankers may encash upon their flexibility in operations, customized approach and effective recovery norms however the post offices can over power them through government patronization, capital adequacy, public trust and legal support. Thus the under privileged and gullible persons can have better satisfaction of holistic financial inclusion. The provision for

acceptance of deposit in postal bank along with easy withdrawals perhaps through mini ATM gives an added advantage to these banks.

➤ **Better utilization of available resources:**

The post offices with the wider network of offices have sufficient HR and real estate infrastructure readily available at the disposal of proposed Postal Bank of India . Further the Proposed Postal Bank of India need not take too much of pain in marketing because the name of postal bank is likely to become a household name as the brand of India Posts is very much popular.

➤ **Effective control:**

The proposed Postal Bank of India come under the umbrella of RBI and also its operations will be tightly regulated. Being wholly owned Government of India undertaking the Postal bank would be monitored by the RBI.

➤ **Flexible Timing:**

The proposed Postal Bank of India may try out flexible timing to offer customized service to divergent target groups. They may ponder over the issue of introducing shift system with 2 shifts a day for staff workers, of course, with general shift for officers. Few officers may be forced to stay over extended period to operate the accounts and communicate with Nodal office. Such special officers may be suitably rewarded. Here the question of safety and security may arise. In the present context ensuring safety to the funds and security to the personnel through continuous watch and ward system, CCTV camera surveillance may be enough to reduce the problem of safety and security.

➤ **No Problem of NPA:**

As the proposed Postal Bank is a payment banker no question of lending arises. Further their will be no credit card issued by banks. Hence the question of NPA will not arise. Further the asset management becomes easy. Capital adequacy norms of Basel may be automatically taken care of.

➤ **Sound Investment policy:**

As the deposits collected by Postal Bank are under the disposal of government for investments. They can be used for highly productive purposes of infrastructure development and priority sector lending.

#### **4. Challenges**

Proposed Postal Bank of India is likely to face the following challenges

➤ **Gaining on competitive strength:**

As the Postal Bank of India is striving to encash its own grass root level network of India Posts. With no other strategic competitive advantage, there are every possibility of slowing down in the race or getting knocked out, by other competitors in oligopoly banking industry. The existing public sector and private sector banks may strategize their moves against the proposed Postal Bank. In fact they may be trying to put entry barriers. There are possibilities of giving birth to truncated Postal Bank of India as a payment banker only. Ultimately it remains the follower in the race by conceding victory to fellow bankers.

➤ **Acquisition of skilled manpower:**

Traditional postal service is totally different from modern banking concept. The postal banks have to be built upon the strong edifice of post offices which have weaker leeway towards banking arena. The existing staffs in the post offices are not trained to handle modern banking service professionally. Acquisition of such managerial skill which can efficiently run a postal bank is likely to be a challenging one. Recruitment, Training, Induction and Talent management are likely to be serious issues to postal bank.

➤ **Poor public response:**

The post offices are undoubtedly the leaders in the postal services key have carved out a niche in the minds of the public by the virtue of the wider network and prompt services. The service diversification on their part may not give the same edge to the new dimension because perceiving the post offices as banks may not be easy and quick action on the part of common man Therefore public response is likely to be discouraging in the initial stages.

➤ **Absence of credit facility:**

A main stumbling block in the minds of common man about banks perceives them in the narrow sense of lenders of loan when postal banks are not licensed to lend the money. The very concept of gets defeated because one of the basic two functions of banks – accepting deposits and lending loans, gets no presence in postal bank, hence use of the word bank in these postal banks is a misnomer.

## 5. Conclusion

The Postal Banks in offing are likely to be realities very soon however they are not going to be full fledged banks. The present post offices which have SB accounts and RD accounts will get added dimension in the nature of payment bankers with several restrictions on maximum amount of withdrawal and no credit facility. It means there is simply renaming of post offices into postal banks where modernization and professionalism may not be immediate effect as such competitive advantage may not be enjoyed by these banks. The only solace is introduction of ATM facility. This would certainly help the customers. The authors expect the launching of a comprehensive postal bank similar to modern commercial banks.

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