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Assessing the role of POSB to cater financial inclusion and delivering rural credit in India

Dr Amlan Ghosh,
Department of Management Studies,
National Institute of Technology, Durgapur, India
amlanpost@gmail.com

Abstract

Since the opening up of the economy and reforms in the banking sector in India, rural finance is in back foot. To keep the momentum of the growth at the desired level, India needs to serve the financial need of the excluded masses to bring them into the main stream of developmental process.

This paper examines the problems of formal banking to include the excluded people and providing (micro) credit to the poor of rural areas in the present era and advocates why the POSB (Post Office Savings Bank) can effectively be used to cater the financial need of rural India where formal banks/MFIs have very little presence in total demand of finance and failed to meet the aspirations of common people.

INTRODUCTION

Financial inclusion of un-served people is a major issue today in India. The un-served or the excluded are poor people mostly rural and unorganised, hence commercially insignificant. Whatever the progress has been made so far, are with the network of more than 65000 commercial banks, RRBs, and more than 100 000 primary agricultural credit societies and urban cooperative banks. With this present infrastructure it is still not enough to serve the financial services to around 70% (68.8% to be precise) people of the total population who lives in the more than 70 million villages across all India. Agriculture is the predominant occupation in India, accounting for about 60% of employment1. If we wish to maintain the present level of growth in GDP, we need to serve the financial need of this sector that is highly unorganised. Unless we include this unorganised sector into our developmental process the whole development would be at risk. ***We need to go micro for macro speed***. According to the survey carried out by the NSSO in 2002, three out of four households in India do not have access to a bank loan. Interestingly, during the tenure of 1991-2002, when reforms were in progress in the Indian financial system, formal banking sector has added only 4% of the total rural households as its customers[2].

Lack of access to credit is one of the key reasons why many people in developing economies remain poor. The poor have very little or no access to the credit facilities from the formal banking sector as they can't provide sufficient amount of collateral for their demand which eventfully make it hard for the banks to sustain profit from doing business by extending credit to this section of people[3]. This paper tries to highlight the problems of formal banking sector in extending credit to the poor and evaluate the possible advantages of POSB in extending such facilities to the poor of India.

PROBLEMSOFTHEBANKINGSECTORINFINANCIALINCLUSION

After the independence, the All India Rural Credit Survey (AIRCS) in 1954 observed that the share of non-institutional sources of credit (91.2%) was almost 11 times of institutional sources (8.8%). Among non-institutional sources, the professional moneylenders accounted for almost 70% of the total credit followed by landlords and relatives[4]. Access to finance has been seen as a major factor in elevating the poor into the mainstream. The nationalisation of Banks in India in 1969 and introducing the social banking by the way of branch expansions in the rural areas was one the major steps towards that. Govt. of India took few more initiatives to improve the rural credits such as Lead Banks schemes (1969), establishing RRBs (1975), Service Area Approach (1989) etc. Due to the major shift to the policy India witnessed an increased number of branches in the rural areas. Key to the branch expansion endeavor was the imposition of the 1:4 license rules in 1977 which stated that a bank could open one branch in an already banked location only if it opened four in unbanked locations. During the period of 1969 to 1991 the share of rural banks in the total branches improved from around 35 percent to almost 59 percent (see table no.1). And the share of rural credit also improved substantially to more than 21 percent.

Table:1DevelopmentofRuralBusinessbyallSCBs

Year	Rural Branches (%)	Rural Credit /Total Credit
1970-1971	35.62%	--
1980-1981	49.52%	11.60%
1990-1991	58.46%	21.45%
2000-2001	49.39%	12.80%
2007-2008	42.40%	13.36%
2014-2015	37.17%	9.02%

Source: Handbook of statistics on Indian Economy, RBI, 2014-15.; Branch Banking Statistics, RBI.

Indian banking sector has made a huge transformation in its functioning in post reform era. All the recommendation of the Narasimhan Committee has been accepted. Now it has shifted towards prudential norms, reduction of NPAs, cost cutting measures such as closer of weak or loss making branches, introduction of VRS schemes etc to make its balance sheet healthy, implementation of Basle norms in the risk management to make it strong enough to compete with the best of the world in this industry. Another important step was phasing out of the PSU banks into public held companies which are accountable to its share holders who are more interested to the profit level of the banks, that is, the focus has shifted primarily to earn more profit than to serve the social banking need of the masses which was the main objective behind the nationalization of banks in 1969. As a result the numbers of bank branches in rural areas are declining and employee per branches as well. During the financial year 1996 to 2005; banking sector has reduced its total employee strength by more than 10%[4].

Table. 1 shows that the share of rural branches out of total bank branches at the end of financial year 2014-15 goes down once again to the level of 37.17 percent which is similar to the level of branch percentages as it was prior to the nationalisation of banking industry. Banks are now more focused to service the section of population that they deem profitable, other than stipulated priority sector lending which are regulated by the RBI.

According to a report brought out by Karvy Stock Broking, country's top six metros, Mumbai, Kolkata, Delhi, Chennai, Bangaluru, and Hyderabad account for 61% of total credit disbursed by the banking sector and 46% of total deposits. Importantly these metros only have 10.5% share of total population of India. At all India level, only 77% population has a deposit account while only 13% of the adult population has got the loan facility from the banking sector[5]. This concentration of financial services to the small segment of this urban population has increased the socio-economic inequality. The view of the banking sector towards the financially backward section is that the financially excluded section are unorganized and the volume of business from this sector is not viable commercially as the nature and small requirements are widely dispersed and hence, loan would turn into NPAs. So servicing the need of this sector should fall into welfare category of state. The sector also expresses that the Commercial banks should be free from every clutches to perform its own business commercially so that these banks can function independently to compete with the rest of industry.

Table:2ShareofRuralHouseholdDebtbySources

(1951 – 2010)

Credit Agency	**1951**	**1961**	**1971**	**1981**	**1991**	**2010**
Formal Agencies (Banks,	8.8	15.8	31.7	63.2	66.3	60.6
Informal Agencies (Moneylenders, Traders, Landlords, relatives etc)	91.2	84	68.3	36.8	30.6	37.7
Sources not Specified	00	0.2	00	00	3.1	1.7
Total	100	100	100	100	100	100

Source: All-India Rural Credit Survey for 1954; All-India Debt and Investment Survey for the other years, NSSO.

If we look at the figures of the rural household debts closely, we can see the impact of banking reforms (financial liberalisations) on the rural credit. After the nationalisation of banking industry in 1969 the dependence on the informal agencies have come down from 68.3 percent in 1971 to 30.6 percent in 1991 and at the same time the formal sector's contribution to the total rural household debt increased to 31.7 percent to 66.3 percent. Interestingly, during the post banking reforms era the contribution of formal agencies towards the rural debt has contracted from 66.3 percent to 60.6 percent and the dependence on the informal sector has increased from 30.6 to 37.7 percent[6]. In a recent report of the National Sample Survey Organisation (NSSO) it has been found that outstanding debt to non-institutional agencies like local money lenders, friends and relatives is almost half of the total outstanding debt of rural people compared to that of institutional agencies.

MICRO FINANCE IN INDIA

Due to the shift in the policy level from social banking to core commercial banking, there is a wide spread believe that viable financial inclusion in the rural areas or in the unorganized sector is better achieved through alternative channels such as micro credit through Micro Finance Institutions (MFIs) or Non Government Organisation (NGOs) or credit (micro) through Self Help Groups (SHGs). In India, there are several of microfinance models are operational which include the NGOs, the NBFCs and the Self Help Groups. According to "Microfinance India: State of the Sector Report 2010"[7], 45 per cent of all MFIs in India are registered as NBFCs, which include all the large commercial institutions and they accounted for nearly 64 per cent of the total disbursement in 2008-09. This shows the commercial viability of this sector.

Group liability or Joint Liability approach is often cited as a key innovation responsible for the expansion of access to credit for the poor in developing countries. We all know the success story of Grameen Bank in Bangladesh. Since poor people can't provide collateral, in Joint Liability approach, they need to form the groups in order to apply for the loans from the micro-lenders where every member would be eligible to undertake a loan, In case of default of an individual, the group would be responsible for that and the default amount to be repaid by rest of the group members in order to continue the relationship with the lender (Banerjee, Besley, & Guinnane (1994)[8]. Many researcher, such as Banerjee *et al.* (1994), Armendáriz de Aghion (1999)[9], Ghatak (1999; 2000)[10] and Gangopadhyay *et al.* (2005)[11], Besley and Coate (1995)[12], Benjamin *et al* (2010)[13] have studied the importance of Joint Liability approach (or group liability) empirically and found that joint-liability lending promotes screening, monitoring, verification and enforcement of repayment and reduces the moral hazards in providing credit.

With a view to provide banking services to the poor in the rural, semi-urban and urban areas for enabling them to raise their income levels and to improve their living standards, National Bank for Agricultural and Rural Development (NABARD) launched a pilot project in micro-credit by linking self help groups (SHGs) in 1991-1992. RBI then advised other commercial banks to participate in this linkage programme. Cumulative disbursement of bank loans of these SHGs stood at Rs. 55,523.53 crores as on 31st March, 2010, with 62,47,449 SHGs. The programme has enabled more than 400 lakhs poor families in the country to gain access to micro finance facilities from the formal banking system. India is experiencing a high growth rate of micro finance SHG- Bank linked programme[14].

Table: 3

SHG-Bank Linkage Programme ---- (Cumulative Progress)

Years	No. of SHGs	Bank Loans (Rs. In Crore)
92-93	255	0.29
93-94	620	0.65
94-95	2122	2.44
95-96	4757	6.06
99-00	114775	192.98
00-01	263825	480.87
01-02	461478	1026.34
02-03	717360	2048.67
03-04	1079091	3904.20
04-05	1618456	6898.46
05-06	2238565	11397.43
06-07	2987441	18040.74
07-08	3051041	26816.72
08-09	4660627	39070.23
09-10	6247449	52523.53

Source: Handbook of statistics on Indian Economy, 2011-12; RBI.

But if we look at the share of these credit to total rural credit disbursed by the schedule commercial banks (only 3.7%) we will be able to find out that there is a huge gap between the demand and supply of rural credit (micro) in India.

If we take a look at the return of these MFIs, most of them are having a healthy return on equity. According to the Microfinance India: State of the Sector Report 2010,There are in total seven MFIs reporting return on equity of more than 50 per cent and the highest return reported to be 147 per cent. Due to the exorbitant interest rates charged by the MFIs for their products to serve the unbanked –unorganised sector, it is found that the people fall into the debt trap and sometimes they commit suicides too. Recently the state of Andhra Pradesh has come up with their own laws to regulate MFIs in their state. The recent report of Malegam Committee has suggested creating a new structure, NBFC-MFIs to deliver the micro credit to the poor [15]. This would once again lead to create another institution in the market with new regulations.

Now, time has come to consider the poor family as unit for any micro-finance instead of a group of people in the conventional model. Recent empirical research has shown that individual liability compared to group liability leads to no change or significant difference in repayment rates in the short as well as the long term. That means the individual clients are no more likely to default than their peers in group liability approach. (Giné & Karlan, 2006)[16], (Attanasio *et al*.2011)[17]. Few MFIs has already rolled out their products for individual borrowers and others are in pilot state and preparing to launch such products.

A large majority of the poor in India are still outside the formal banking system and microfinance in India is still at an emerging stage. It is estimated that between 70 and 80 million households need microfinance services in India and only 8 per cent of all poor rural households have access to microfinance products where the average loan outstanding is Rs. 5,500. Close to 56 per cent of the poor still borrow exclusively from informal sources. If we consider the scope of microfinance by looking at access to different financial products, 70 per cent of rural poor do not have access to deposit or saving account and less than 15 per cent have access to any kind of formal insurance[18].

In this present situation where the demand mismatch is prevailing, Post Office Savings Bank (POSB) of India Post can play a pivotal role in providing all financial services and extending micro credit to the poorest of poor by performing itself as a micro-lender. The role of POSB in spreading the life insurance coverage in the rural area has already been studied by the Mitra and ghosh (2007)[19]. This paper tried to study the emerging role of POSB in the near future as a complete financial institution in India.

POSTOFFICESAVINGSBANK(POSB)

Post office savings bank (POSB) was established in 1882. Since then it has a long tradition of providing financial services to the masses through POSB. The Department of Posts operates POSB, which is a part of the Ministry of Commerce. At present India Post, have 1,54,886 post offices of which 89.78% are in rural areas and covers on an average 21.23 square kilometer and 7814 people per post office[20].

The present financial services[21] which are offered by the POSB, apart from money orders (National/International) and life insurance (RPLI/PLI), are as follows:-

(1) Savings account schemes,

(2) Recurring deposit schemes, (3) Time deposit schemes,

(4) Monthly income schemes,

(5) Public provident fund scheme, (6) Kishan vikas patra scheme,

(7) National savings certificate,

(8) National savings scheme, 1992.

The main objectives to use the POSB as the MFI are

(1) To cater the financial needs of financially excluded ; and

(2) To make the P.Os health better by earning extra profits.

Comparative Advantage of using POSB as MFI

Let us discuss the comparative advantage that can be generated by using POSB as a micro lender (as MFI) over the other MFIs operating in India. To understand the advantages of POSB, we need to know the present operating structure in which MFIs are operating in India, their *cost structure* and *interest rates* that they charge to their lenders.

COST STRUCTURE

There are three kinds of cost element which are associated with the lending rate by the formal sector, namely, (a) cost of funds, (b) operating costs, and (c) risk costs.

(a) Cost of funds (Financial Cost): Financial cost is the cost of raising money to provide loans. MFIs does not have enough or sufficient capital or deposits as the commercial banks to undertake credit activity on their own as the regulatory mechanism in India prevents MFIs from accepting savings from borrowers. MFIs, therefore, dependant on outsource finance, that is, they need to acquire funds either on refinancing facility from other financial institutions such as NABARD, SIDBI, RMK (Rashtriya Mahila Kosh) or borrowing from the commercial banks[22]. The cost of these finances from the respective borrowing sources are given below:-

Table: 4
Financial cost to MFIs
(On a one-year loan)

Institutions	Rate of Interest (declining
NABARD	8 % to 9%
SIDBI	8 % to 9%
RMK	8 %
PSU Banks	12 %
Private Banks	14 %

Source: Report of the working group on competitive micro credit market in India, Planning Commission, New Delhi, January 2007.

(b) Operating Cost: This cost includes salaries to staff, traveling expenses, expenses on promotion, amortization and depreciation incurred by the MFIs.

Out of these expense salaries proved to be major cost for MFIs in India. More the clients are lesser the cost would be incurred under the head of operating costs of MFIs. On an average, MFIs in India are able to service 150-250 clients per staff member. MFIs in India incur 10% to 14% in the head of operating expenses, where as banks incur only 3% to 4%[23].

(c) Risk costs: - We may define this as the cost of covering for the risk of losing capital on account of its ability to recover loans (willful or non-willful default). In general, 2% of the total loan amount outstanding is set aside as the normal loan losses in case of MFIs in India[24].

So, the rate of interest which MFIs charge to their lenders comprises all the above mention costs plus a minimum rate of profit which is needed to stay alive in this market. The table below will give us the general idea of costs involved in servicing credit through MFIs operating in India.

Table 5: COST STRUCTURE OF MICRO CREDIT IN INDIA*

Description	Annual percentage rate (%)
(a)Average financial cost	8 % to 12 %
(b)Operating expenses	10 % to 14 %
(c)Risk costs	1 % to 2 %
(d)Desired capitalization rate (profit)	2 % to 4 %
(a+b+c+d)Annual effective interest rate	21 % to 32 %

*** Author's estimate**

M-CRIL, the internationally recognized rating agency for MFIs, has recently concluded a review of 84 Indian MFIs over the past three years, found that 24% is a reasonable rate for MFIs to charge from clients[25]. The rate of interest charged by the MFIs or other Micro-Finance providers are very high than the interest rate charged by the formal system. This inefficiency in the part of micro-finance agencies can not be allowed to pass on to the poor, who are financially excluded, to access finance.

In the cost structure, we have seen that the MFIs are getting money to lend the end customers either from refinancing facility from financial institutions or borrowing from SCBs as the MFIs in India can't accept deposits. The cost of financing from other financial institution or SCBs ranges from 8% to 14%. POSB has an ace over MFIs as it has huge amount of deposits, which POSB can be redirect towards micro-credit instead of providing the deposits to the states for deficit financing. The cost that POSB has to bear for their deposits ranging from 3.5% to 8% is lower than the cost of finance for the MFIs. So cost of funds would be cheaper in case of POSB than the MFIs working in India.

The other aspect of the cost structure is the operating cost. The operating cost of servicing micro-credit by MFIs in India are ranging from 10% to 14% where as it is 3% to 4% in case of normal banking institutions. On average MFIs are able to service some 150-250 clients per staff member in India. More the coverage per staff less would be the operating cost. India Post serves 8221 people per post office. Since the POSB would be catering credit for the first time, it may require to spend more on training needs of its present employees then the level of operating expenses incurred by the banking system. It is; therefore, presume that the expenses on the head of operating expenses would be little higher side to the extent of 4% to 6%.

In case of risk cost element, the calculation has been done in more conservative way too. Credit disbursed to the unorganised-rural sector may create challenge to the POSB as they are going to this recovery work for the first time. Therefore 2% to 3% of the total loan amount outstanding has been considered as the normal loan losses while calculating the total cost of loan for POSB.

So, if we could introduce micro-credit through POSB, the total cost structure would be reduced from the existing cost structure as follows: -

Table 6: COMPARATIVE COST STRUCTURE*

Description	Existing cost	POSB cost structure*
(a)Average financial cost	8 % to 12 %	3.5 % to 8 %
(b)Operating expenses	10 % to 14 %	4 % to 6 %
(c)Risk costs	1 % to 2 %	2 % to 3 %
(d)Desired capitalization rate (profit)	2 % to 4 %	2 % to 4 %
(a+b+c+d)Annual effective interest rate	21 % to 32 %	11.5 % to 21 %

*** Author's estimate**

This reduced cost structure will help the POSB to earn more profit to make its financial health better and can charge lower interest rates than the rates that are prevailing in the micro-credit market (provided by the MFIs) in India to boost the rural economy in manifold. Even this cost structure is well below the acceptable upper limit of interest rates chargeable by the MFIs suggested by the Malegam Committee.

OTHER ADVANTAGES Using POSB as a micro finance institution has other advantages over any other formal financial institutions in India. Let us appraise those advantages of POSB in this section.

Geographical reach: - First and most important advantage of POSB is the present established network it has through-out the India. India Post has the largest postal network in the world with 1,54,882 post offices of which 1,39,182 (89.86%) are in the rural areas. It has more than double the number of branches of all the commercial banks operating in India. None of the financial institution has such a big network to reach to the bottom of population as the India Post has.

Table 7: **Geographical Reach**
(as on 31ST March, 2012)

	Total Branches	Rural	Percent (%)
POSB	1,54,882	1,39,182	**89.86 %**
All Commercial Banks	93,080	33,602	36.10 %

Source: India Post Annual Report, 2014-15; HSIE, RBI, 2011-12

Table 8: Postal Network (International Comparison)*

Country	**Permanent offices**	**Population served (per**	**Average area served (sq. km)**
China	63555	20521	151.00
Malaysia	1211	20169	272.30
Indonesia	20073	10954	94.88
India@	154882	8821	21.23

U.K	15868	3734	15.31
U.S.A	37579	7825	256.24

Source: UPU, www.upu.int, * as on 31-03-12. @ India post, annual report 2014-15.

The reach of India Post can be judged by making comparison in the world scenario. The table- 8, shows that even a developed country with a large area such as US has a network which is ¼ th of the India Post. Again, a developing country, China, which has a larger area and population to cover, has less than half the network of India Post. This huge network which has such a great rural penetration can be used to provide credit (micro) to the masses that are in real need. We do not need to create another new institution such as NBFC-MFIs as suggested by the Malegam Committee; instead we can use the existing infrastructure of POSB in India in delivering credit to the poor through the formal sector.

Experience in dealing with financial services: - POSB has a vast experience in dealing with financial products since its inception in 1882. It is the largest retail bank in terms of network, which double the size of all banking network put together in India. Recently, India Post has launched Postal Finance Mart (PFM) manned by staffs having Association of Mutual Funds of India (AMFI) and Insurance qualifications to enable them to provide investment advices to depositors. By the end of financial year 2010-11, India Post has more than 435 operating Postal Finance Marts (PFM). Again, over 250 India Post branches distributing mutual funds and bonds of Principal/Prudential ICICI/SBI/ICICI Capital/ IDBI bonds. This vast experience in financial sector can be used in dealing with micro-credit functions[26].

Employees: - At the end of financial years 2011-12, India Post has 209,047 departmental employees and 257,856 are Gramin Dak Sewaks. In addition to this staff strength, India Post has more than 4 lakhs registered agents who help to market financial services on a commission basis. These huge potential staffs, which have the physical touch and relation to every corner of the country, can be explored by the POSB to provide micro credit to the poor[1]. It is being noticed that the mail volume handled by the India Post employees have reduced in the last few years. As the workload is reducing, India Post can redeploy its staff effectively to deal with micro credit function.

Table 9: Mail traffic of India Post

Years	Volume (in millions)	% change
2004-2005	7360.36	---
2005-2006	6700.72	(-) 8.9 %
2007-2008	6677.18	(-) 0.35%
2009-2010	6589.80	(-) 1.30%

Source: Annual Report of India Post, 2005-06, and 2007-08 and 2009-10.

Financial Advantage: In one hand, providing credit to the potential individual borrowers, POSB can improve the health of India Post as a whole by earning profit that will reduce the budgeted cost of India Post. On the other hand POSB can increase their total deposits by disbursing credit to new customers. This extra deposit would yield extra interest income and will definitely improve the financial condition of India Post.

Apart from these advantages POSB has already taken some other initiatives which would be helpful while dealing with credit disbursement and recovery. Under the "Project Arrow" the special initiative from the Department of Post, 130,000 post office branches will be under core banking solution and already 15,500 post offices are under wide area network (WAN). Post offices are installing ATMs for better fund delivery.

1 The PO-SHG-NABARD Linkage Scheme for disbursal of micro credit to women Self Help Groups was commenced as a Pilot Project in a few identified blocks of Sivaganga and Pudukottai District 0n 15.12.2006.

Recently the payment under the scheme of Mahatma Gandhi National Rural Employment GuaranteeAct (MGNREGA) has been implemented through the post offices. This will give POSB an ace over credit delivery and recovery mechanism as the payment is linked with them.

SWOT ANALYSIS OF POSB

An analysis of strength, weaknesses, opportunity and threat (SWOT) of POSB is presented below to shade light on significant strengths and opportunities which are available to POSB to develop it-self into a complete financial institution to cater the financial need of the poor Indians.

Strength

- World's largest network
- Knows the customers best and have physical access
- Experience in financial products
- **Credibility and Trustworthiness**
- Huge human resources
- **Good public image**
- Low cost of capital.
- MGNREGA wage disbursal is on.
- Technological up gradation is on. (15500 Pos are WAN connected).
- Direct Benefit Transfer (DBT) through post offices from 2013

Opportunities

- High demand of micro credit in rural and unorganized sector
- Very few SGHs/NGOs are operating successfully in India
- Don't need to incur heavy on infrastructural investments
- Can redeploy its current employees
- Already PFM is operating successfully
- High growth rate of GDP
- Huge customer database.
- Core Banking solution will be implemented by 2014.

Weaknesses

- No experience in credit risk and asset management
- No business culture
- Bureaucratic mentality
- Poor incentives
- Unions in postal department.

Threats

- Number of SHGs, MFIs, and NGOs are increasing in India
- Commercial banks are showing more interest in micro credit and trying to penetrate the rural areas
- Low literacy rate.

Suggested Approach to Rural Credit

To develop itself into a micro finance institution to cater the financial needs of the excluded masses POSB can appoint or redeploy its present staff as a Credit Appraisal Officer (CAO), who will be trained as the staffs of postal finance marts (PFM) have been trained with proper knowledge and skills to deal with credit appraisal techniques. These CAOs are to be deployed at block level or at the departmental post offices to evaluate credit needs of the depositors. To evaluate the credit requirement of the depositors or the rural poor, CAOs should focus more on 6604 Panchayat Sanchar Seva Yojona (PSSY) centers which are under used at present stage[27] and use more than four lakhs agents effectively. More incentives should be given to the staffs or agents, not for providing credit but for collecting installments of loans and deposits on due time. To avoid or to reduce the risk factor of associated with credit POSB can use the KYC (Know Your Customer) database in credit evaluation process. Since the payment under the scheme of Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is tied with the post offices, POSB may use this as a recovery mechanism. Direct Credit transfer (DCT) through post offices is being rolled out in October, 2013. This will increase the dependence and usage of post offices more than ever before by the people of India. The recent study found that poor require a basket of financial services, such as insurance (micro), assest transfers (money) and saving (micro) facilities[28]. Micro savings is more important than extending credit as it would help the poor to create assets for future which they can use for future consumptions or foe any future eventualities or may use as collateral to get better access to credit. MFIs in India can’t accept savings from the borrower but can extend credit and on the other hand NBFCs can’t extend credit but accepts savings. This structural problem has been address by RBI by giving guidelines to create new NBFC-MFIs. In case of POSB which is generating micro savings from the rural and urban areas, is in a greater position to extend the benefit of credit facilities because of its advantages over others. We should make the POSB a fully fledged financial institution to serve the un-served. Because of these quantitative (e.g. infrastructure, rural network) and qualitative (e.g. experience in financial services like savings, life insurance, mutual funds etc) advantages, RBI should issue the banking license to POSB first. RBI has issued a payment bank licensing to the POSB but the most complete model in postal financial inclusion is a post bank with a universal license and not to be confined POSB as only a payment bank. France has actually moved from limited banking license to the universal post bank license which enables the post office of France to offer the full range of products, including loans to companies. Even

China also having universal post bank license since 2007 and it is now issuing loans to small and medium enterprises (SMEs) [29]. Postal Savings Bank of China (PSBC) has become the fifth largest bank in china in respect of assets with largest network. PSBC is now serving more than 870 millions of post office accounts.

POSB (India) is the only way to achieve the financial inclusion objective and inculcate the micro-savings habit among the poor and generate savings for future India. When an illiterate moneylender can explore the financial needs of the rural poor then why not a formal financial institution like POSB, which has the experience in dealing with financial products and services with trained work force, can enter into the same business. Proper management and policy is solicited from the Department of Post to serve the credit needs of the rural poor in India and India Post can become the ultimate touch point for the India Public[30].

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