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India Post Payments Bank: Organizational Restructuring is Essential for Desired Outcomes

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The India Post Payments Bank (IPPB) represents one more initiative to expand financial inclusion, particularly in rural India, and narrow the gender gap, while positively impacting on financial savings. Research does suggest that there is demand for financial services in rural areas. It is the appropriate supply response that is needed.

Launching of the IPPB should be regarded not a onetime event, but as a dynamic process facilitating learning over time.

While not explicitly stated, IPPB has the potential to provide internal competition within the India Post, and bring about behavioural change in India Post towards greater service orientation.

To realize these outcomes, appropriate organizational structure of the IPPB, and organizational change mainly focused on the India Post will be essential and require urgent focus and commitment. This is because the unchanged organizational structure , work culture, mix of

skills-sets, and current level of technology of India Post , which will be the operating arm of the IPPB, will make attaining the desired outcomes more difficult. IPPB also must begin with inculcating these attributes in the organization from the very beginning.

It is encouraging that the need for organizational restructuring is increasingly being realized among government organizations. This is exemplified by the reported agreement among the leadership of the Indian Army for organizational restructuring. The Army has reportedly achieved a consensus on having verticals for operations, logistics and procurements and having only one head for each of them.

[. \(https://economictimes.indiatimes.com/news/defence/army-chief-commanders-agree-to-transform-army-trim-headquarters-create-verticals/articleshow/65787037.cms?utm_source=APPusers&utm_medium=twittershare&utm_campaign=socialsharebutton](https://economictimes.indiatimes.com/news/defence/army-chief-commanders-agree-to-transform-army-trim-headquarters-create-verticals/articleshow/65787037.cms?utm_source=APPusers&utm_medium=twittershare&utm_campaign=socialsharebutton)
[\(\(https://economictimes.indiatimes.com/news/defence/army-chief-commanders-agree-to-transform-army-trim-headquarters-create-verticals/articleshow/65787037.cms?utm_source=APPusers&utm_medium=twittershare&utm_campaign=socialsharebutton\)\)](https://economictimes.indiatimes.com/news/defence/army-chief-commanders-agree-to-transform-army-trim-headquarters-create-verticals/articleshow/65787037.cms?utm_source=APPusers&utm_medium=twittershare&utm_campaign=socialsharebutton)

A study by Nils Clotteau and Bsrat Measho, titled *Global Panorama on Postal Financial Inclusion* 2016, published by the Universal Postal Union (UPU), in Berne, Switzerland, has estimated that globally, out of a total adult population of approximately 5.4 billion people worldwide, 1.5 billion, or 28% – had access to some form of financial services (remittances, government payments, insurance, current accounts, savings, etc.) through a postal operator in 2015. Among these, 1 billion people, or 19% of the world's adults – hold a current or savings account with a Post. Currently, 91% of Posts worldwide (183 out of 201) provide financial services, either directly or in partnership with other financial institutions.

This study reports that Posts are arguably comparatively better at extending services than other financial institutions, including full-fledged commercial banks, to segments of the population that tend to be excluded, such as women, the low-income, the less educated and those in the informal economy. This suggests a strong case for postal networks to be an integral component of discussions in which governments, policymakers, international organizations, and other stakeholders design strategies for fostering financial inclusion.

India's progress in Financial Inclusion

The key findings, from India's perspective, of the World Bank's 2017 Findex Report on global progress in financial inclusion and in applying Fintech, (<https://globalfindex.worldbank.org/> (<https://globalfindex.worldbank.org/>)) may be summarized as follows:

In 2017 80% Indian above 15 year of age had a bank account, up from 53% in 2014. The corresponding share for rural persons was 79 % in 2017, up from 52 % in 2014. The Corresponding global average in 2017 was 69 %.

In 2017, 83 % of males above 15 years had a bank account in India, as compared to 77 % for females. But growth in those with bank accounts is much higher for females in India than in males. As a result, gender gap has substantially narrowed from 20 % in 2014 to 6 % in 2017.

Digital technology has played an important role in expanding access to the bank accounts in India.

The Findex Report also notes that in spite of India accounting for 55 % of all new bank accounts globally (numbering 510 million between 2014 and 2017), there is still a significant unbanked population in India, estimated to be 190 million in 2017.

The rationale for IPPB and its potential for expanding financial inclusion should be viewed in the above context.

The Design of IPPB

The India Post payment (IPPB) was launched at 650 post offices, with 3250 branches, on September 1, 2018 (two pilot projects were launched in January 2017 at Raipur & Ranchi). The plans are to make available IPPB services throughout the country at all 155,000 post offices by end December 2018.

The IPPB has been incorporated as a public sector company under the Department of Posts with 100 percent government equity. It is to be regulated by the Reserve Bank of India (RBI).

Its desired outcomes are to make further progress in financial inclusion, especially among the rural population, in adapting financial technology to providing banking and related services, and to increase financial savings. The IPPB's key features are the use of technology, and to provide financial and banking services at the door step in rural areas. The postal staff will be essentially the operational arm of the IPPB.

Reliance on digital technology requires robust and reliable digital connectivity with high degree of reliability. This is the challenge that IPPB appears to be aware of, and is taking steps to attain it.

There will be 0.3 million 'grameen dak sevaks' or rural postal staff, who are being trained with use of smart phones and biometric devices to provide door-to-door financial services digitally.

They are being given financial incentives in the form of 25 percent commission from revenue from services they generate, additional 5 percent will accrue to India Post, and remaining to the IPPB. Steps to minimize mis-selling, and robust accounting systems will be needed in this revenue sharing process.

IPPB being a Payments Bank can accept deposits, but cannot provide loans, and the deposits must be invested primarily in government security. Such banks must therefore need to provide fee income from providing financial and related services.

According to the 2016 study by Nils Clotteau and Bsrat Measho cited above, Posts globally need to provide financial services at scale at minimal costs. This means that postal operators that have not fully digitized their operations have to do so urgently, or risk being marginalized as financial service providers, or be dependent on government's budgetary support which will increasingly be difficult given constrained fiscal space in India.

The government has however provided a special grant of INR 14.4 Billion to help IPPB prepare to meet competition in technology and other areas.

The IPPB has made provisions to overcome the limitations of being a Payments Bank. Thus, a limit of INR 0.1 million deposit, and the absence of fixed deposit products, are being overcome by linking the IPPB account with Post office Savings Bank, with about 170 million accounts,

which has no such restrictions.

There are plans to use third-parties to enable access to credit or debt instruments. There are also plans to enable access to financial services such as insurance, mutual funds and pension products provided by the third parties.

Under the current arrangements, IPPB and Department of Post are inter-linked. This adds to the urgency of reorganizing India Post. It is strongly urged that it be accorded strategic, financial, and administrative autonomy commensurate with the outcomes expected from it.

The IPPB would need a Board with requisite skills-sets, with provisions for independent directors, similar to those mandated under the Companies Act.

A case for Reorganization of India Post

The need for organizational restructuring of India Post to help realize desired outcomes has been indicated above.

Another important indicator of the need for organizational change is the poor financial condition of India Post. Thus, According to India Post's 2017-18 Report,

https://www.indiapost.gov.in/VAS/DOP_PDFFiles/Post_AR_English_2017-18.pdf
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in 2016-17, (the latest year for which data are available, suggesting a need for better information management system), it had a deficit of nearly INR 120 Billion, which was 11 percent lower than the previous year, but which exceeded its total receipts of INR 115 Billion. Receipts of its savings bank and related financial services accounted for nearly three fifths of its total receipts. India Post's total capital expenditure was only INR 2.3 Billion.

While there have some recent improvements in its finances, these are not sufficient for financial health, particularly as IPPB will require initial investments in digital technology and in human resources.

The balance sheet data of India Post are not available. Therefore potential for utilizing its assets more productively, and for monetizing them cannot be ascertained.

Among the government organizations with scope for improving their finances, Indian Railways have been more cognizant and energetic in improving their asset utilization, pricing structure, and monetizing assets where feasible.

The India Post is strongly urged to to develop an asset registry, and to study the initiatives of the Indian Railways designed to strengthen its financial position. Potential for revenue generation from data analytics and data mining merits exploration by the IPPB.

In addition to the need to improve the financial position, an additional reason for organizational restructuring of India Post arises due to the ample scope for improving its performance.

It should be stressed that the government provides its amenities and services through government organizations, whether they are explicitly commercially oriented or not. In economic theory, there is no separate theory of the firm (or organization) by ownership, i.e. public, private, or mixed. There is only theory of the firm (or organization).

For any organization, including organizations such as IPPB and India Post, there are four broad areas which need to be better managed to improve organizational performance, help extend financial inclusion, and raising savings undertaken in the financial form:

Competition/ contestability

Empirical evidence strongly suggest that competition, and in some cases contestability for the right to produce a good or service act as spur to efficiency.

India Post has considerable competition in their traditional areas of delivering letters and parcels; and IPPB has strong competition from other payments banks. So organizationally, both should be prepared to operate in a competitive environment, guarding against disruptive technologies affecting their financial health.

Appropriate organizational incentives

India Post, with its nationwide reach of 155,000/ post offices, has a vital role to play. But it cannot continue to operate without a good corporate structure, with leadership and management with needed skills and accountability to operate in a competitive environment. Globally, post offices have reoriented their organizational incentives and accorded much wider scope to them.

A good example in this context is how post office organizations have globally been trying to harness economies of scope by doing many more revenue generating activities within post office premises. IPPB is a step in the right direction, provided it does generate higher net revenue for India Post.

An important aspect of organizational incentive for India Post, as usual remedy of bankruptcy applicable to the private sector is not desirable, is the accountability and incentives for improving performance with which budgetary support is provided. There is a scope for India Post and those responsible for it to take a more result oriented approach in this regard.

It would be useful for organizational management to keep IPPB's financial performance as separate from that of India Post, at least for management decision making. This will require appropriate changes in accounting methods, with selective use of accrual method of accounting and preparing of operating statements.

Appropriate individual incentives

These incentives are desirable as performance monitoring and management of staff is an important source affecting organizational performance. It would be essential to organize the staffing patterns and employment contracts for selected skills-sets, especially in digital

technology, and knowledge of financial services industry with a view to improving organizational and individual performance.

The IPPB staff in particular would require service-orientation culture as there are other payment banks with whom it will be competing. This need is particularly accentuated as the IPPB aims to provide last mile services, with banking and related services at the door step of those with very limited access to financial services.

Technological adaptation

This is particularly important for IPPB as its distinctiveness is using JAM (Jan Dhan, Aadhar, and mobile technology) as a platform to provide digital intensive financial services, relying significantly on income from fees. The progress in financial technology has resulted in rising scale at which minimum average cost occur. So volumes need to be large for the IPPB.

India Post's capital expenditure of only INR 2.3 billion will therefore require substantial increase, as IPPB's need for capital expenditure would be high.

Concluding Remarks

The IPPB has been launched with the desirable objectives of extending financial inclusion, especially in rural areas and raising financial savings. This launch should not be regarded as an event but as a dynamic process from which IPPB and India Post would emerge as learning organizations. Behavioural change towards much greater service orientation by India Post, an operational arm of IPPB, will be essential.

The IPPB initiative provides an opportunity for more result oriented policy focus on organizational restructuring of India Post along the lines outlined above. The IPPB must begin its operations with sufficient financial, strategic, and administrative autonomy, and appropriate organizational structure to help realize desired outcomes.

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