

Government working on a plan to revamp India Post; could soon turn into a full fledged bank

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Loss-making India Post, having a size and workforce hugely disproportionate to its shrinking role, may reinvent itself by becoming a full-fledged bank.



India Post's FY20 pay and allowances were estimated to be Rs 17,451 crore or in FY20 or 142% more than revenues of Rs 12,211 crore.

Loss-making India Post, having a size and workforce hugely disproportionate to its shrinking role, may reinvent itself by becoming a full-fledged bank. According to a plan being discussed in the government, the 14,000 strong branch network of 45 regional rural banks (RRBs) will be brought under the fold of India Post, which itself runs 1.56 lakh post offices in the country. The Centre will wield control over the proposed bank via a holding company, of which the RRBs, where the Centre already holds 50%, will become subsidiaries. The existing India Post Payments Bank (IPPB) will also be made a subsidiary of the holding company.

The other shareholders in the RRBs, namely public sector banks (35%) and the state governments (15%), will have the option to retain the stakes or monetise the same by selling these to the Centre.

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Currently, IPPB, as a payments bank, can't accept deposits above Rs 1 lakh per customer; also, it can't lend.

The proposal to make India Post a bank goes with the government's plan to consolidate PSBs and bring down their number eventually to four or even less. At one point, it may so occur that only the [State Bank of India](#) and the proposed India Post Bank will remain in the public sector as two large banks and also be vehicles for assorted government transfers to people. Also, the proposed bank, even while sticking to [RBI's](#)

prudential norms, can't neglect lending to priority sectors like agriculture, MSMEs, education and affordable housing.

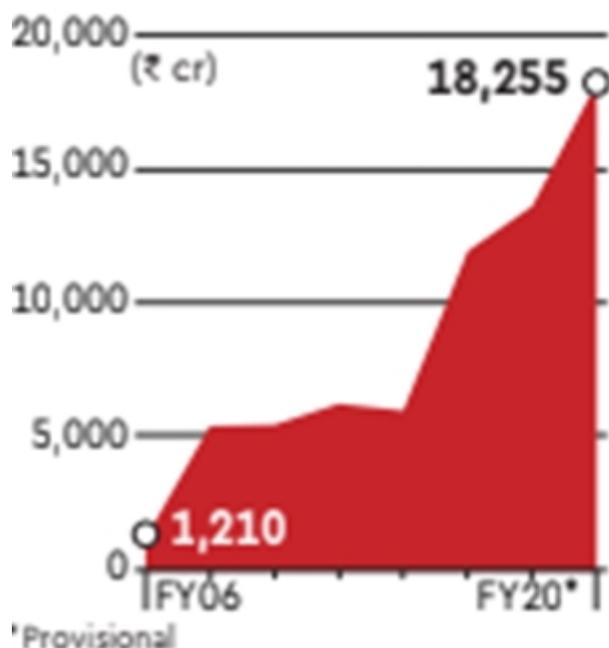
Even now, India Post, which runs the ubiquitous post offices in the country and popular savings schemes, performs additional functions like distributing MGNREGS wages.

Explaining the rationale behind the proposal, official sources said RRBs will bring in a readymade deposit and lending portfolio for the proposed India Post Bank to build on. Once the RRBs are brought under a common management, their efficiency will improve and common practices will be implemented across the networks, they added.

RRBs are relatively better off financially compared to India Post, which is estimated to have posted its highest-ever loss of Rs 18,255 crore (also highest by any public-sector entity) in FY20. RRBs posted a loss of Rs 548 crore in FY19 compared with a net profit of Rs 1,501 crore in FY18. Outstanding advances of RRBs stood at Rs 2.8 lakh crore as on March 31, 2019, up 11.3% on year. About 91% of their loans were to priority sectors such as agriculture, MSMEs, education and housing.

The government has taken various initiatives for making the RRBs economically viable and sustainable institutions. With a view to enable RRBs to minimise their overhead expenses, optimise the use of technology, enhance the capital base and area of operation and increase their exposure, the Centre has initiated structural consolidation of RRBs in three phases, thereby reducing the number of RRBs from 196 in 2005 to the present 45. During the period, the Centre and other shareholders have infused more than Rs 6,000-crore equity in the RRBs to maintain the mandatory capital to risk weighted assets ratio (CRAR) of 9%.

India Post's losses



1.56 lakh

Number of post offices across India, with 4.2 lakh employees, as on March 31, 2019

45

RRBs in the country with 14,000-strong branch network

₹548 crore

Combined losses of all RRBs in FY19 compared with a net profit of ₹1,501 crore in FY18

“Some RRBs are extending a lot of credit but have very limited capital, others are over-capitalised but not extending much credit. When these are unified under a holding bank there will be tremendous efficiency of pooled capital,” an official said.

Combining RRBs with the distribution network of postal services will provide a good mix as 90% of the postal branches are in rural areas while 80% of RRBs loans are in rural areas, even as they are gradual entering into urban areas. “The two networks will complement each other, multiplying their growth potential,” he added.

India Post’s massive 4.2-lakh workforce and 1.56 lakh-strong post office network will provide a tremendous platform as postmen will be converted banking correspondents while post offices will work as bank branch extensions for deposits and loans.

Like other loss-making public-sector enterprises, India Post’s finances are weighed down by high pay-and-allowance costs, now at over 100% of its annual revenue. India Post’s FY20 pay and allowances were estimated to be Rs 17,451 crore or in FY20 or 142% more than revenues of Rs 12,211 crore. Including pension costs of another Rs 10,271 crore, the employee cost itself was Rs 27,722 crore in the last fiscal, more than double the total receipts.

There exists a huge mismatch between product costs and pricing of India Post; also the availability of cheaper/faster substitution to traditional mail services have dented its revenues. On the revenue front, India Post is largely defendant on remuneration for the National Savings Schemes and Saving Certificates, which contributed 65% of its revenue in FY20, while postage services generated only 27% of revenues.

In July 2013, the postal department applied for a universal banking licence as RBI invited applications for a new round of bank licences. However, it didn’t got approval at that time since the central bank was averse to creating another public-sector bank. In 2015, India Post got the payments bank licence.

The expenditure finance committee, headed by the expenditure secretary, had told the postal department last year that it has to be self-sufficient by levying adequate user charges as the Centre’s Budget could not absorb such recurring annual losses.

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