13

STANDING COMMITTEE ON INFORMATION TECHNOLOGY
(2009-2010)

FIFTEENTH LOK SABHA

MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY
(DEPARTMENT OF POSTS)

[Action Taken by the Government on the Recommendations/ Observations of the Committee contained in their Sixty-second Report (Fourteenth Lok Sabha) on 'Management of Funds by the Department of Posts through Banking and Insurance activities']

THIRTEENTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

August, 2010/*Sravana,* 1932 *(Saka)*

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Presented to Lok Sabha on 21.8.2010
Laid in Rajya Sabha on 21.8.2010

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August, 2010/*Sravana,* 1932 *(Saka)*

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ON INFORMATION TECHNOLOGY
(2009-10)

Shri Rao Inderjit Singh — *Chairman*

MEMBERS

Lok Sabha

2. Shri Rajendra Agrawal
3. Shri Nikhil Kumar Choudhary
4. Shri Milind Deora

*5. Shri Charles Dias

6. Shri Rajen Gohain
7. Smt. Darshana Jardosh
8. Shri Mithilesh Kumar

**9. Shri Sadashivrao Dadoba Mandlik

10. Shri Inder Singh Namdhari
11. Shri Abdul Rahman
12. Shri Prem Das Rai

#13. Shri Tufani Saroj

14. Shri Tathagata Satpathy
15. Shri Adhalrao Patil Shivaji
16. Dr. Bhola Singh
17. Shri Dhananjay Singh
18. Shri Sushil Kumar Singh
19. Shri C. Sivasami
20. Smt. M. Vijaya Shanthi
21. Shri Dharmendra Yadav

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* Nominated to Committee *w.e.f.* 19th November, 2009.
** Nominated to Committee *w.e.f.* 10th September, 2009.
\# Nominated to Committee *w.e.f.* 13th October, 2009.

Rajya Sabha

22. Prof. Alka Balram Kshatriya

[$]23. Vacant

[##]24. Shri Jesudas Seelam

25. Shri Ravi Shankar Prasad

26. Shri Prabhat Jha

27. Shri P. Rajeeve

[&]28. Vacant

[$$]29. Vacant

30. Shri M.P. Achuthan

31. Shri Rajkumar Dhoot

Secretariat

1. Shri T.K. Mukherjee	—	*Joint Secretary*
2. Smt. Sudesh Luthra	—	*Director*

[$] Consequent on retirement of Shri Dharampal Sabharwal, *w.e.f.* 9th April, 2010.
[##] Nominated to Committee, *w.e.f.* 5th January, 2010.
[&] Consequent on retirement of Shri Shriram Pal *w.e.f.* 4th July, 2010.
[$$] Consequent on retirement of Shri N.R. Govindarajar, *w.e.f.* 29th June, 2010.

INTRODUCTION

I, the Chairman, Standing Committee on Information Technology (2009-10) having been authorized by the Committee to submit the Report on their behalf, present this Thirteenth Report on action taken by the Government on the Recommendations/Observations of the Committee contained in their Sixty-second Report (Fourteenth Lok Sabha) on 'Management of Funds by the Department of Posts through Banking and Insurance activities' of the Department of Posts (Ministry of Communications and Information Technology).

2. The Sixty-second report was presented to Lok Sabha/laid on the Table of Rajya Sabha on 20 October, 2008. The Department of Posts furnished updated action taken notes on the Recommendations/ Observations contained in the Sixty-second Report on 20 January, 2010. Four sittings of the Committee were held on 7.1.2010, 10.2.2010, 4.3.2010 and 10.6.2010 in connection with the examination of action taken notes.

3. The Committee took oral evidence of the representatives of the Department of Posts (Ministry of Communication and Information Technology) and Departments of Economic Affairs and Financial Services (Ministry of Finance) at their sitting held on 4.3.2010. Subsequently on the insistence of the Committee, a meeting under the Chairmanship of Finance Secretary was held on 19 April, 2010 to sort out the various long pending issues between the Ministry of Finance and Department of Posts as raised in Sixty-second report. The Committee took further evidence of the Department of Posts (Ministry of Communication and Information Technology) and Departments of Economic Affairs and Financial Services (Ministry of Finance) at the sitting held on 10 June, 2010.

4. The Report was considered and adopted by the Committee at their sitting held on 10 August, 2010

5. The Committee wish to express their thanks to the officials of the Department of Posts (Ministry of Communication and Information Technology) and Departments of Economic Affairs and Financial Services (Ministry of Finance) for appearing before the Committee and making efforts to sort out the various long pending issues between the two Ministries.

6. For facility of reference and convenience, Recommendations/ Observations of the Committee have been printed in bold Chapter-I of the Report.

7. An analysis of the action taken by the Government on the Recommendations/Observations contained in the Sixty-second Report (Fourteenth Lok Sabha) of the Committee is given at *Annexure.*

NEW DELHI;
13 *August,* 2010
22 *Sravana,* 1932 *(Saka)*

RAO INDERJIT SINGH,
Chairman,
Standing Committee on
Information Technology.

CHAPTER I

REPORT

This Report of the Standing Committee on Information Technology deals with the action taken by the Government on the Observations/ Recommendations of the Committee contained in their Sixty-second Report (Fourteenth Lok Sabha) on 'Management of funds by the Department of Posts through Banking and Insurance activities' relating to the Ministry of Communications and Information Technology (Department of Posts).

2. The Sixty-second Report was presented to Lok Sabha on 20 October, 2008 and was laid on the Table of Rajya Sabha on 22 October, 2008. It contained 29 Observations/Recommendations.

3. Action Taken Notes in respect of all the Recommendations/ Observations contained in the Report have been received and categorized as under:

(i) Observations/Recommendations which have been accepted by the Government

Para Nos:- 1, 2, 6, 7, 8, 9, 13, 14, 15, 16, 17, 21, 22, 24, 25, 26, 27, 28 & 29

Total	19
Chapter	II

(ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies of the Government

Para Nos:- NIL

Total	NIL
Chapter	III

(iii) Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and require reiteration

Para Nos:- 10, 11, 18, 19, 20 &23

Total	06
Chapter	IV

(iv) Observations/Recommendations in respect of which replies are of interim nature:-

Para Nos:- 3, 4, 5 and 12

Total	04
Chapter	V

4. Sixty-second Report (Fourteenth Lok Sabha) on the subject 'Management of Funds by the Department of Posts through Banking and Insurance activities' was presented to Lok Sabha on 20 October, 2008 and laid in Rajya Sabha on 22 October, 2008. The Draft Action Taken Report drafted by the Secretariat based on the Action Taken Notes submitted by the Government was considered by the Committee at their sitting held on 7 January, 2010. After some deliberations, the Committee observed that some of the crucial issues *viz*. the need for revision of rates of interest on Postal Savings Bank Schemes comparable with those of the Commercial Banks, raising the maximum limit of deposits in Postal Savings Account, starting of some new Schemes for girl child, working women, rural women etc. and securing the annual 10 per cent increase in the rate of remuneration for agency services, etc., as recommended by the Committee in the Sixty-second Report are long pending with the Ministry of Finance. Not only that some of these issues have consistently been recommended by the Committee in their earlier Reports too. In view of this, the Committee decided to take oral evidence of the nodal Department and the Ministry of Finance before finalizing the draft Action Taken Report.

5. Accordingly, the Committee took evidence of the representatives of the Departments of Financial Services and Economic Affairs of the Ministry of Finance and Department of Posts of the Ministry of Communications and Information Technology at their sitting held on 4 March, 2010. The detailed deliberations on the aforesaid long pending issues were held at the aforesaid sitting. However decision on the aforesaid issues could not be arrived at. As such the Committee requested the Secretaries of the Departments of Economic Affairs, Financial Services and Posts to sort out various long pending issues. The Committee also decided that after a month, the representatives of the two Departments of the Ministry of Finance and the Department of Posts would again be called after giving due intimation to them.

6. While examining the Demands for Grants (2010-11) of the Department of Posts, the Committee again emphasized to take

decision expeditiously on the aforesaid matter as recorded in the Fifth Report (Fifteenth Lok Sabha) of the Committee.

7. With the continuous insistence of the Committee, a meeting under the Chairmanship of Finance Secretary was held on 19 April, 2010. The aforesaid meeting was attended by the Secretary, Department of Expenditure, Secretary, Department of Revenue (DoR), Secretary, Department of Posts, other representatives of Department of Posts and Joint Secretary, Department of Financial Services, Joint Secretary (Budget) and Director, National Saving Institute, Nagpur.

8. In the light of the aforesaid developments, the Committee took further evidence of the representatives of Departments of Posts, Financial Services and Economic Affairs at the sitting held on 10 June,2010. Besides the Secretaries of the aforesaid Ministries/ Department, the Chairman, IRDA was also present at the sitting. The Committee in the light of the decisions taken at the sitting of the Secretaries held on 19 April, 2010, deliberated at length various long pending issues as recommended in Sixty-second Report. With the efforts made by the Committee some of the issues could be resolved which *inter-alia* include increasing the ceiling of deposits in single and joint account in Post Office and starting of new Schemes by the Department of Posts. On the other issues, there was some progress. On the issues like the rate of remuneration of Small Savings Schemes and giving autonomy to the Department of Posts for providing competitive rate of interests on Small Savings Schemes, the matters have been referred to a Committee constituted/ proposed to be constituted for the purpose. About the insurance activities, the matter has been taken up with the Department of Financial Services which has made a reference to the Ministry of Law. The efforts of the Committee not only resolved the long pending issues as given in the Sixty-second Report but also were helpful in resolving some of the long pending matter *suo-moto* taken up by the Departments of Posts with the Ministry of Finance as indicated in the Minutes of the meeting of the Secretaries of the Ministry of Finance and the Department of Posts held on 10 June, 2010 as well as the correspondence of the Ministry of Finance dated 7 June, 2010 are given at the Appendix-I & II respectively. These issues *inter-alia* include 'Appointment of Small Savings Agents', 'Delegation of Powers in Operating schemes' and 'Grant of Loans against NSC/KVP/TD' etc. The Committee would like to place on record that their efforts resulted in resolving some of the issues on which there were long pending dispute between the Department of Posts and the Ministry of Finance.

9. The Committee have dealt with action taken by the Government on some of their recommendations in Chapter-I of the Report. The details of the deliberations held and the decisions arrived at with the efforts of the Committee have been indicated in the Report. The Committee would like to emphasize that the decisions on the matters where interim action has been taken by the Government as explained in detail in the Report should be taken up by the Ministry of Finance/Department of Posts without any further delay and the Committee be kept informed accordingly.

I. Declining trend of amount mobilized under POSB Schemes

Recommendation of the Committee (Para Nos. 3, 4 & 5)

10. While noting the trend of declining deposits and rising withdrawals in respect of various Post Office Saving Bank Accounts (POSB) as reflected in the data furnished by the Department, the Committee had emphasized to thoroughly look into the reasons and take the corrective measures to restore the POSB Schemes to their previous role of the most favoured option of the common man. From the data made available to the Committee, the Committee had further noted that out of 22 Circles, declining trends were observed in 13 Circles *viz* Assam, Base (Army Postal Circle) Delhi, Gujarat, Haryana, Jammu & Kashmir, Kerala, North-East, Orissa, Tamil Nadu, Uttar Pradesh, West Bengal & Uttarakhand. Looking at Circle-wise trends, the Committee stressed on analyzing the performance State-wise and taking the corrective action.

The detailed examination of the matter by the Committee revealed that the important reason for the declining trend of amount mobilized under POSB schemes was that the rate of interest on POSB schemes had not been increased by the Ministry of Finance though the Commercial Banks had been permitted to do so. Although the Department had taken up the matter with the Ministry of Finance, which was followed up at various levels, yet no relief was forthcoming. The Committee observed that the Department of Posts ought to be provided with a level playing field and their case for increasing the rate of interest in various Small Saving Schemes at par with Banks deserved serious consideration. As such the Committee had recommended that the matter regarding making the interest rates on POSB Schemes comparable to Banks should be taken up by the Department of Posts with the Ministry of Finance at the highest level without wasting any further time.

Reply of the Government

11. The Department has stated that in case of PPF and SCSS schemes, the rate of interest offered by Banks is equivalent to the rate of interest given by the Department and the account base has increased. However, in respect of investment based schemes like MIS, TD and RD, the declining trend is noticed. The Department in the action taken note has furnished the data of number of accounts Scheme-wise and Circle-wise. With regard to the observation of the Committee on competitive rate of interest on various Saving Schemes, the Department stated that it had taken up the matter with the Ministry of Finance at the level of Minister, but the Ministry of Finance has not agreed to raise interest rate as interest on Small Savings Schemes are benchmarked to the average yield on Government Securities of comparable maturity in the secondary market. The interest rates of various schemes are decided by the Ministry of Finance through the Committee on Administered Interest Rates and the Post Office only collects the small savings on behalf of the Ministry of Finance.

12. Elaborating further on the aforesaid issue the Secretary, Department of Posts during the course of oral evidence at the sitting of the Committee held on 4 March, 2010 submitted as under:

> "We would like a certain amount of flexibility in running these two very important services because we find, if it were made more viable, and made more attractive, we would be able to serve and also get more deposits and also be able to get more revenue for the Department. The Department of Posts is introducing Core Banking in the current plan into its Post Offices. We are also looking at networking all our rural Post Offices by giving the village Post Master a handset so that the quality of our services should substantially improve. This was the evidence that was given earlier before the Consultative Committee. We are well on the way. Our EFC is before the Finance Ministry. Probably we may get the clearance this year and hopefully we should be able to start running our pilot this year. We are not able to get many of our clearances from the Ministry of Finance because the Ministry of Finance has got its own internal problems."

Commenting on this aspect, the Finance Secretary stated as under:-

> "The Small Savings interest rates are administered interest rates. They are administered basically because this is a sort of surrogate borrowing of the Government which is shared in some proportion

between the Central Government and the State Governments. So there has to be some linkage, some benchmark on which the rate of interest is paid. The interest rate regime is not possible to have a flexible interest rate regime, which has to have a benchmark or linked to what Government is otherwise able to borrow and what Government is offering on the securities, which are otherwise the Small Savings Securities. Therefore, the perception of the Department of Posts that this is something which is holding them back may not be the right perception in the light of this broad framework."

13. On the insistence of the Committee, the issue was further deliberated between the Finance Secretary and the Secretary, Department of Posts. In pursuance thereof, Ministry of Finance (Department of Economic Affairs) *vide* correspondence dated 7 June, 2010 informed as under:

"So far as the issue relating to 'providing competitive rates of interest for various Small Savings Schemes' is concerned, the Thirteenth Finance Commission in its report submitted to the President on 30th December, 2009, has made recommendations to provide debt relief to States in which the Commission has *inter alia* recommended that the interest rate on loans contracted by the States till 2006-07 and outstanding at the end of 2009-10 be reset at a common interest rate of 9 per cent per annum in place of 10.5 per cent or 9.5 per cent. The Commission has recommended that all aspects of the design and administration of the National Small Savings Fund (NSSF) be examined with the aim of bringing transparency, market linked rates and other much needed reforms to the scheme.

The Government has accepted, *in principle*, the recommendations of the Commission relating to interest rate reset on NSSF loans to the States. However, since the recommendations are comprehensive and cover other structural aspects like interest rate mismatch, tenor mismatch and other administrative matters, it was decided that Ministry of Finance will constitute a Committee to work out detailed modalities for implementation of this recommendation."

14. It has further been stated in the aforesaid correspondence that the Government has decided to set up a Committee with Smt. Shyamala Gopinath, Deputy Governor as the Chairperson. Orders for setting up the aforesaid Committee would be issued shortly after receipt of concurrence from the State Governments of West Bengal

and Maharashtra for inclusion of their Finance Secretaries in the Committee. While informing about the status on the matter, the Secretary, DoP at the sitting of the Committee held on 10 June, 2010 informed that still final action on the rate of interest has not been taken.

Comments of the Committee

15. The Committee have persistently been recommending to make the interest rates on Post Office Saving Schemes comparable to Banks, particularly when the deposits in POSB schemes are declining and the withdrawals are rising. The Department of Posts has continuously been expressing helplessness on the plea that interest rates of various Schemes are decided by the Ministry of Finance through the Committee on Administered Interest Rates and the Post Office only collects the small saving on behalf of the Ministry of Finance. The same position has been explained in the Action Taken Note submitted by the Department of Posts. When the issue was pursued further by the Committee with the Ministry of Finance (Department of Economic Affairs) and the Department of Posts, the Committee found that there was apparent difference between the two Ministries on the issue. The detailed deliberations further revealed that even when Thirteenth Finance Commission in its Report submitted to the President on 30 December, 2009, had recommended that all aspects of the design and administration of the National Small Saving Funds be examined with the aim of bringing transparency, market linked rates and other much needed reforms to the Scheme, the Ministry of Finance during the course of deliberations at the sitting of the Committee held on 4 March, 2010, i.e. almost more than four months after the Thirteenth Finance Commission had submitted its Report had reiterated the stand that interest rates on POSB Schemes cannot be flexible as these are benchmarked to the average yield on Government securities of comparable maturity in the secondary market. Even when the Committee gave the Ministry of Finance and Department of Posts a deadline for settling the long-pending issue within one month the matter could not be settled as informed by the Secretary, Department of Posts at the sitting of the Committee held on 10 June, 2010.

The Committee would again like to emphasize that the present customer has various options of investing money in the market and for any saving scheme to survive, it is utmost necessary that the competitive rate of interest is provided. As such it is utmost

necessary to keep track of the frequent changes happening with regard to the rate of interests in the market and act fast. Without providing autonomy to the Department of Posts in this regard, it is not possible to provide competitive rate of interest on POSB Schemes. Even when it is accepted that the Department of Posts is providing POSB Schemes on behalf of the Ministry of Finance, there is an urgent need to have some sort of mechanism which can be under the Department of Posts or alternatively under the umbrella of the Ministry of Finance and that the Department of Posts to take quick decisions with regard to the rate of interests so that these rates are comparable with the rate of interest provided on the similar instruments by the Commercial Banks and other private banks, etc. The Committee conclude from the aforesaid deliberations that their persistent recommendation on the aforesaid aspect was not given heed by the Ministry of Finance, but they find solace from the fact that at last the Ministry of Finance has decided to set up a Committee on the recommendations of the Thirteenth Finance Commission as informed to the Committee *vide* Ministry of Finance (Department of Economic Affairs) correspondence dated 7 June, 2010 just three days before the concluding evidence of the Ministry of Finance and the Department of Posts was taken by the Committee. The Committee hope that some decision would be taken on the matter. The Committee strongly recommend that aforesaid Committee should be set up expeditiously and the matter decided within the definite timeframe. The Committee should be kept apprised about the progress made in this regard.

16. The Committee find from the composition of the aforesaid Committee that the Finance Secretaries of only two States *viz.* West Bengal and Maharashtra are proposed to be included in the aforesaid Committee. The Committee would like to be apprised about the specific reasons for selecting only these two States to be represented in the aforesaid Committee.

II. Raising the limit of tax concession on interest accrued under Post Office Saving Schemes

The recommendation of the Committee (Para 7)

17. Post Office Savings enjoy tax concession on interest accrued, of ₹ 1 lakh in single and ₹ 2 lakh in joint account. Based on the representations received from general public, Department of Posts had requested the Ministry of Finance to raise this limit. Ministry of Finance took up the matter with Central Board of Direct Taxes (CBDT)

who took a stand that there would be a revenue loss if the demand was acceded to. The Committee had found that the tax concession on interest accrued is an added benefit of POSB Schemes and observed that a suitable increase in the limit would be a definite addition attracting more depositors in the Post Office Savings. The Committee as such had recommended the Government to give favourable consideration to the proposal of the Department of Posts.

Reply of the Government

18. The Department in the action taken note has informed that the matter was taken up with the Ministry of Finance *vide* correspondence dated 26 May, 2008 and 3 December, 2008 and the recommendation of the Committee in this regard was also sent to the Ministry of Finance. However, the Ministry of Finance did not agree to the proposal.

19. The Committee at the sitting held on 4 March, 2010 requested the Secretaries of the Department of Economic Affairs and Financial Services of the Ministry of Finance and the Secretary of the Department of Posts to sort out the aforesaid issue. Accordingly the matter was deliberated at the meeting held on 19 April, 2010 under the Chairmanship of Finance Secretary. The proposal of DoP to remove the ceiling on maximum balance and restricting the tax benefit to interest accrued on the balance as per current ceiling was finally accepted, subject to the condition that the tax accrued would be deducted at source as per the existing provision of TDS. Finance Secretary observed at the said sitting that DoP should move a formal proposal for amendment to relevant laws and guidelines/rules.

20. The Secretary, DoP during the course of oral evidence on 10 June, 2010 informed the Committee that they had sent the proposal in this regard.

Comments of the Committee

21. The Committee while noting that representations were being received from general public to increase the ceiling of ₹ one lakh in single and two lakh in joint account in respect of tax concession being offered on interest accrued under Post Office Saving Schemes, had recommended to give favourable consideration to this aspect. As usual, the Ministry of Finance did not agree to the proposal even when recommended by the Committee. It was when the Committee insisted on the matter and requested the Secretaries of Departments of Economic Affairs of the Ministry of Finance and

Department of Posts of the Ministry of Communications and Information Technology that the proposal of DoP to raise the aforesaid ceiling was agreed to in principle subject to the condition that the tax accrued would be deducted at source as per the existing provision of TDS. Accordingly, the Department of Posts was requested to give the formal proposal. The Committee appreciate that very quickly the Department of Posts sent the proposal to the Ministry of Finance as informed to the Committee at the sitting held on 10 June, 2010. The Committee again emphasize that the increase in the aforesaid limit would definitely attract more depositors and therefore desire that the final decision in this regard should be taken by the Ministry of Finance without any further delay and the Committee informed accordingly.

III. Starting of New Schemes by DoP under Small Saving Schemes

Recommendation of the Committee (Para Nos. 8 & 9)

22. The Committee had recommended for starting various new schemes for girl child, working women, rural women and also for providing additional incentive for vast membership of POSB schemes in rural areas in the country.

The Reply of Government

23. The Department has explained about the initiatives taken to make the Small Schemes more attractive and investor friendly which include removing of restriction on opening of more than one account during a calendar year under the Senior Citizens Saving Scheme, allowing all categories of pensioners to open and maintain Pensioner Account, rationalization of penalty on premature withdrawal of deposits under POMIA from 3.5% to 2% on withdrawal on or before expiry of three years and 1% on withdrawal after expiry of three years, increase in the maximum deposit ceiling under POMIA from ₹ 3 lakh and ₹ 6 lakh to ₹ 4.50 lakh and ₹ 9 lakh under single and joint accounts respectively, bonus at the rate of 5% on the deposits made under Post Office Monthly Income Account (POMIA), extending the benefit of Section 80C of the Income Tax Act, 1961 to the investments made under Five Post Office Time Deposit Accounts and Senior Citizens Savings Schemes, promoting and popularizing these schemes through print and electronic media and launching of website to facilitate interface with the public and providing additional incentive of benefit of Accidental Insurance through Oriental Insurance Company for ₹ 1 lakh to POSB holders with nominal premium of ₹ 15. The Department has further informed that the aforesaid recommendation

of the Committee has been sent to the Ministry of Finance *vide* correspondence dated 28 November, 2008.

When the issue was pursued further by the Committee, the Department of Economic Affairs in the written note stated that the Department of Posts was informed on 9 January, 2009 that any specific proposal that Department of Posts may have in this regard may be referred to them.

24. On the insistence of the Committee, the aforesaid issue was further deliberated in the meeting held on 19 April, 2010 under the Chairmanship of Finance Secretary whereby the suggestion of DoP to start new schemes for women/girl child was agreed to in principle as per the Minutes of the said meeting made available to the Standing Committee on Information Technology. DoP was requested to formulate the schemes accordingly and send it to MoF. The Secretary, Department of Posts during the course of oral evidence on 10 June, 2010 informed the Committee that proposal in this regard have been sent to the Ministry of Finance.

Comments of the Committee

25. The Committee find that no decision on their recommendation was initially taken by the Government as informed in the Action Taken Note. They are happy to note that when the issue was pursued further, the recommendation of the Committee to start new Schemes for women/girl child was agreed to in principle at the meeting of the Secretaries of the Ministry of Finance and the Department of Posts on 19 April, 2010 and the Secretary of the Department of Posts was requested to formulate the Schemes. Not only that, the Department of Posts formulated the proposal and sent it to the Ministry of Finance as informed to the Committee during the course of oral evidence held on 10 June, 2010. The Committee strongly recommend that the final decision in this regard should be taken expeditiously and the Committee informed accordingly.

IV. Market share of POSB Schemes

Recommendation of the Committee (Para No. 10)

26. Having noted that despite the advantage in terms of reach, network and goodwill, the Department had a meagre market share in the country's Banking Sector, the Committee had recommended that the Department ought to evolve a centralized monitoring and

evaluation system at the Headquarter level. This system manned by senior officials with relevant professional qualification should keep an eye on the market size, market development and trends on a day to day basis so as to provide the much needed directional support and guidance to the field officers.

Reply of the Government

27. The Department in the action taken note has stated that the Post Office Savings Bank is operated by DoP on behalf of MoF and its mandate is limited to the collection and disbursement of the funds deposited therein and maintenance of records. The actual fund management is done by MoF.

28. In reply to the subsequent query of the Committee probing whether any need for giving some freedom to DoP in matter of policy framing was felt by the Department, DoP has stated that the issue related to the Ministry of Finance.

Comments of the Committee

29. The Committee are constraint to note that even when the Department of Posts had made the demand for giving autonomy in respect of various matters relating to banking and insurance activities as contained in the Sixty-second Report, the Department seems reluctant to take the responsibility of having a centralized monitoring and evaluation system at the Headquarter level as recommended by the Committee. The Department of Posts in an evasive manner has tried to shift the responsibility by stating that Post Office Saving Banks (POSB) is operated on behalf of Ministry of Finance. The Committee are not inclined to accept the aforesaid argument of the Department of Posts. The Committee understand that in this competitive era it is utmost necessary to keep an eye on market size, market development and trends on day-to-day basis for which there is an urgent need to have some centralized monitoring and evaluation system at the Headquarter level. Since POSB Schemes are being operated by the Department of Posts, it is the responsibility of the Department to evolve and maintain such system. The Committee while reiterating their earlier recommendation would like to emphasize that instead of shifting the responsibility, the Department of Posts should take immediate action in this regard and the Committee informed accordingly.

V. Organisational Structure

Recommendation of the Committee (Para No. 11)

30. While taking note of the fact that the Department was looking more and more towards numerous avenues for revenue generation through Financial Services, the Committee observed that following was important for the Department; (i) personnel specifically qualified for the purpose should also be in the Department; and (ii) specialized internal in-house training for the existing staffs entrusted with these works is provided.

Reply of the Government

31. The Department did not respond at all to the recommendation of the Committee as given at (i) above. With regard to training aspect, the Department explained as under:-

> "To train/update officers and staff about the development taking place in the field of financial services, operationalisation and management specialization training is imparted to them from time to time through specialized institutions such as Postal Training Centres and National Institute of Bank Management (NIBM) (for training in banking related processes). Department is also imparting training at regular intervals to its staff through Induction and Refresher Courses at specialized training centres for updating their knowledge in Post Office savings Bank rules and procedures, Public customers relations, soft skill, etc. The mutual fund companies namely Principal, UTI, SBI, Franklin Templeton and Reliance provide training to postal staff to enable them to pass Association of Mutual Fund of India (AMFI) test so that staff could retail the mutual fund product effectively. Similarly, the ICICI Prudential Life Insurance Co.Ltd. provide the training to staff about its pension product".

Comments of the Committee

32. The Committee note that the aforesaid recommendation of the Committee with regard to organizational structure was partially responded by the Department in the Action Taken Note. The Department has not addressed to the part recommendation whereby the Committee had emphasized that professionally qualified personnel should also be in the Department, particularly when the Department was looking more and more towards numerous avenues for revenue generation through financial services. The Committee

while reiterating their earlier recommendation would like the Department to take the action on the aforesaid recommendation of the Committee and inform accordingly.

VI. Rate of remuneration for Agency Services

(Recommendation Para No. 12)

33. The Committee had recommended as under:-

"The Committee note that based on the recommendations of an Expert Committee set up by MoF in 1993-94, the Department of Posts were to be paid agency charges by MoF with an annual increase of 10 per cent over the preceding year's remuneration. However, the Ministry paid agency charges to DoP as per this formula for a few initial years but have thereafter, failed to adhere to the recommendations of their very own Committee. Finding merit in the contention of the plea of DoP, the Committee have been recommending a positive consideration by MoF in the matter in their successive Reports. Midway through the examination of the present subject, the Committee asked DoP and MoF to reconcile their differences in this regard at the earliest. As a result, MoF have increased the rate of remuneration for the year 2008-09 by 4.6 per cent over the last year. The Committee while appreciating this move of MoF still feel that this increase is nowhere near the 10 per cent benchmark. The Post Office Savings Schemes with more than 17 crore accounts and a bevy of services to offer entail a lot of additional workload on DoP. The massive corpus of these Schemes is a significant contributor to the developmental efforts. The Committee, therefore, desire that as recommended in their Fifty-sixth Report on the Demands for Grants (2008-09), the Department should continue to vigorously pursue with MoF for securing the annual 10 per cent increase in the rate of remuneration as per the recommendations of the Expert Committee."

Reply of the Government

34. The Department in the action taken note has stated that after sustained efforts of the Department of Posts, the Ministry of Finance has constituted a new Expert Committee to review the agency charges.

35. The Secretary, DoP during the course of oral evidence submitted that the issue of payment of remuneration on zero balance accounts is also being asked to be included as an issue for the consideration by the Expert Committee.

36. With regard to the timelines for the Expert Committee the Secretary informed as under:-

"I understand that the Ministry of Finance has set four months for the Expert Committee to come to a conclusion on the decision about the remuneration".

Comments of the Committee

37. The Committee find that based on the recommendation of an Expert Committee set up by the Ministry of Finance in 1993-94, the Department of Posts was to be paid agency charges with an annual increase of 10 per cent over the preceding year's remuneration. Pursuant to the aforesaid recommendation, the Ministry of Finance paid agency charges to the Department of Posts as per this formula for a few initial years but thereafter, failed to adhere to the recommendations of their very own Committee. Thereafter the Department of Posts insisted upon the remuneration as per the recommendation of the Expert Committee. Although there have been some increase in the rate of revenue, it still fell short of the 10 per cent benchmark. In this connection, the Committee had consistently been recommending to reconcile the differences between the Ministry of Finance and the Department of Posts. To resolve the matter, the Ministry of Finance has again constituted a new Expert Committee as informed in the Action Taken Note. The Committee have further been informed during the course of deliberations that the Ministry of Finance has set four months time for the Expert Committee to come to a conclusion on the decision about remuneration. Besides, the demand of the Department of Posts for the payment of remuneration on zero balance accounts is also referred to the aforesaid Expert Committee. While taking note of the aforesaid developments, the Committee emphasize that aforesaid Expert Committee should give the Report within the stipulated timeframe of four months followed by expeditious decision by the Ministry of Finance so that the aforesaid long-pending issue is settled for the effective functioning of the Department of Posts. The Committee should be kept informed about the progress made in this regard.

VII. Expansion of Insurance Schemes of Department of Posts and Regulatory Mechanism

Recommendation of the Committee (Para No. 19, 20 & 23)

38. The Committee had observed that PLI and RPLI, riding on the twin advantage of lower premium and higher bonus rates *vis-à-vis*

products of other players, had grown phenomenally at the estimated rates of 15 percent and 40 percent respectively during the preceding five years but still its market share remained a meagre 2.7 percent. The Committee found that this tardy progress is mainly because of the fact that the insurance activities of DoP are, even in this era of liberalization, shackled with norms that are highly restrictive. They are required to seek direction of the Ministry of Finance (Insurance Division) in terms of their letter dated 20 September, 1993 for all policy matters like extension of scope so as to cover other clientele, introduction of new products etc. The Committee, therefore, strongly recommended that the conditionals imposed on DoP by the communication of 1993 ought to be withdrawn forthwith.

39. Besides strategy of luring individual customer, the Committee also recommended the Department to take initiatives with regard to signing MoUs with various bodies/Institutions for the Postal Life Insurance Schemes by way of offering certain attractive discounts on bulk membership.

40. The Committee further observed that in view of the Department's ambitious plan for increasing financial activities, it has become incumbent upon the Department to have some sort of regulatory mechanism on an urgent basis so as to make their functioning more transparent and accountable.

Reply of the Government

41. On the issue of allowing DoP to extend their clientele and introduce new products, the Department in the action taken note submitted as under:—

"The issue of bringing certain categories of employees within the fold of PLI was taken up with the MoF (Banking & Insurance Division) *vide* PLI Directorate letter No. 25-06/2000-LI dated 07.01.2007, 13.07.2007 and 03.06.2008. The Ministry asked to prepare a road map for coming under IRDA *vide* their letter No. S-11019/10/2006-Ins. III dated 18th June, 2008. But unless PLI is corporatized, it is not possible to bring it under the regulations of IRDA. However, the recommendations of the Standing Committee are being brought to the notice of the Insurance Division of the Ministry of Finance so that the restrictions imposed to PLI in terms of their letter No. 97(25)/Ins.II/93 dated 20th Sept., 1993 for extension of scope so as to cover other clientele, introduction of new products/schemes etc. are withdrawn and Department of

Posts is given a level playing field with other operators in the life insurance sector.

However, PLI does not have any mandate to sale non-life products *viz*. Medical Insurance, Crop Insurance, Vehicle Insurance etc. In this connection, it may be stated that premium mobilized through sale of PLI/RPLI policies, do not add to revenue of the Department. All the premia gets accrued to Post Office Life Insurance Fund (POLIF) and Rural POLIF. Even the returns on these funds are accrued to the fund itself. Department of Posts recovers the administrative expenses in running the schemes out of this fund at some predetermined rate."

42. With regard to the recommendation of the Committee for offering attractive discounts to bulk membership, the Department in the Action Taken Note has submitted as under:-

"Providing attractive discounts in the premium for bulk membership is possible only in respect of Group Insurance Schemes. As on day PLI is not having any Group Insurance Scheme for bulk membership. Such schemes designed in past for BSNL employees did not get approval of the Insurance Division of the Ministry of Finance.

As such idea of signing MoUs with various bodies/institutions for their Postal Life Insurance Schemes by way of offering attractive discounts on bulk membership can be implemented only when Insurance Division, Ministry of Finance, gives necessary authority and freedom to the Department of Posts, similar to the authority enjoyed by other players in the Insurance Sector to design such products. However, the observations of the Standing Committee is being taken up with the Ministry of Finance at appropriate level".

43. On the issue of regulator, the Department submitted as under:-

"Postal Life Insurance and Rural Postal Life Insurance (PLI/RPLI) are exempted insurers under Section 118(C) of Insurance Act 1938 and also under Section 44(d) of the LIC Act 1956. These Schemes do not come under the purview of IRDA Act 1999, and consequently, not regulated by IRDA. Recommendation of the Committee in respect of other activities will be kept in view while drafting the IPO Act, Amendment (Bill)".

44. On the insistence of the Committee to resolve the aforesaid issues within a given time of one month, the meeting under the Chairmanship of Finance Secretary was held on 19 April, 2010. The following decision with regard to the aforesaid issue as recorded in the Minutes was taken:

> "Secretary, DoP explained that DoP has proposed an expansion of the Life Insurance scheme offered by it to the IRDA. However, IRDA has opined that it is not competent to regulate activities of the sovereign. JS, DFS explained that IRDA has pointed out two issues, *viz*. the premium calculations of the DoP are not on actuarial basis and thus may lead to long term deficit in the scheme and implicit liability on the Government; and that IRDA is not competent to regulate activities of the Government. He explained that since the scheme is implicitly underwritten by the Government, low premium may eventually devolve upon the Government. Secretary, DoP explained that the issue of IRDA regulating the insurance activity of DoP can be posed to Law Department for their opinion. DoP expressed that they are not against corporatization of the insurance business of DoP but it is not proper to withhold expansion till corporatisation. FS felt that in long run, it may be better for DoP to corporatize the insurance activity and an in-principle decision needs to be taken and a time bound road map needs to be prepared, if DoP decides in favour of corporation.
>
> It was decided that opinion of Law Department may be sought on IRDA's competence to regulate DoP's insurance activity. DoP may proactively examine the issue of corporationsation of the insurance activity in long run and DoP may interact with IRDA on other issues regarding costing etc. raised by IRDA."

45. Elaborating further on this issue, the Secretary, DoP during the course of the oral evidence on 10 June, 2010 stated that the Department preferred to continue as mandated by the Government, but if it is inevitable, the Department is not against corporatizing its insurance activities.

The Secretary further stated as under:

> "We are claiming that we can continue our insurance activities under the Insurance Act. But what we are saying is, since it is with the Law Ministry, we will discuss them and we will await their advice".

46. Indicating the status on the aforesaid matter, the Secretary, Department of Posts during the course of oral evidence 10 June, 2010 stated that the Department of Financial Services has made a reference to the Ministry of Law and the Ministry of Law has asked the Department of Financial Services for the comments of the Department of Posts basically regarding what is the plan and vision of DoP and also the views of the Department on other issues that have been pointed out by the Department of Financial Services. The Department of Posts received the correspondence on 26 May, 2010 and it is under examination of the Department.

Comments of the Committee

47. The Committee note that the conditions imposed on the Department of Posts *vide* the Ministry of Finance communication dated 20 September, 1993 are withholding the plans of the Department of Posts to enlarge the insurance activities. The Committee understand that the whole issue of autonomy to be provided to the Department of Posts is being mixed up with the issue of regulator. While appreciating the fact that with the proposed ambitious plans of the Department of Posts for increasing Banking and Insurance activities it is urgently required to have some sort of regulatory mechanism, the conditions to seek permission of the Ministry of Finance on each and every matter are not understandable.

48. It has come out during the deliberations that the main issue being deliberated between the Ministry of Finance, the Department of Posts and IRDA is competence of IRDA to regulate the financial activities undertaken by the Government i.e. **Department of Posts. Even when the Committee gave one month time to resolve the aforesaid matter, the decision could not be arrived at. With the further insistence of the Committee, now this matter has been referred to the Ministry of Law who has asked certain clarifications from the Department of Financial Services and Department of Posts.**

49. The detailed deliberations further reveal that to solve the aforesaid issue, Ministry of Finance (Department of Financial Services) and IRDA are suggesting to create a corporate entity under the Companies Act which would handle the Postal Life Insurance which then can be regulated by IRDA. The Department of Posts though prefer to continue with the existing system, the Secretary Department of Posts during the course of deliberations candidly admitted that they are not against it, if it is inevitable.

50. While reiterating the earlier recommendation of the Committee to set up some sort of regulatory mechanism, the Committee have certain reservations on the issue of corporatization of the Department of Posts for handling the insurance activities. The Committee observe that the mandate of the Department of Posts is to provide postal and financial services to the last person of the society and for that purpose the Department is offering multifarious services to the citizens of the country through the vast infrastructure created by the Department. Besides the large infrastructure, the Department has huge strength of officers and staff who are performing diversified activities. The solution lies in effectively using the large infrastructure of the Department covering every nook and corner of the country and exploit the tremendous trust of the general public on the Postal Department. The aforesaid challenge can be met by the optimum use of available infrastructure of the Posts and also by making the huge human resource available with the Department of Posts more efficient by giving suitable training. As such the Committee would like to emphasize that before taking any decision on the regulatory mechanism, it should be ensured that the identity of the Department of Posts is maintained. In this regard, the Committee may like to emphasize that the Government should study various models of regulator with regard to postal activities available internationally. The Committee would also like to recommend that the restriction of taking the permission of the Ministry of Finance on each and every matter by the aforesaid circular should be reviewed and some sort of autonomy should be provided to the Department immediately without waiting for the decision on the issue of regulator.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Para No. 1)

Banking and Insurance Services of DoP

The Department of Posts (DoP), through the world's largest network of Post Offices, 89% of which exist in rural areas are providing a wide range of services such as collection, transmission and delivery of mails (including premium products), money transfer, financial services such as banking and insurance and a variety of retail services. The Committee note with concern that with the significant decline in mail traffic, increasing competition and recurring operating losses (partly on account of its Universal Service Obligation) the Revenue deficit of the Department has been a massive ₹ 6649.00 crore in the Tenth Plan. During the first two years of the ongoing Eleventh Plan, this is expected to be of the tune of ₹ 2617.90 crore. India Post, therefore, faces great pressure to reduce costs, increase revenue and operate on a far more commercial basis while fulfilling the rising expectations of the customers. The Committee feel that these challenges can be faced only by improving services and adapting them to the needs of the rapidly evolving and increasingly technology driven world. With the obvious revenue generation limitation on account of fulfillment of USO, this calls for intensified focus on non-core activities like financial and non-financial and information technology based services by mainly leveraging their network.

Reply of the Government

The Department has taken the following initiatives in financial services during the last few years to increase the revenue of the Department as also its customer base:

(i) Introduction of Instant Money Order Service.

(ii) Operation of International Money Transfer Service (Western Union Financial Service Inc. USA).

(iii) Retailing of Mutual Fund (Principal, UTI, SBI, Franklin Templeton and Reliance) and Pension Fund (ICICI Prudential Life Insurance Co. Ltd.).

(iv) Distribution of non-life products of Oriental Insurance Co.

(v) Oriental Accidental Death Insurance Cover to Post Office Savings Bank (POSB) account holders.

(vi) Field Postal Orders.

(vii) Setting up of Postal Finance Marts (PFMs).

(viii) Electronic Clearance Service.

The Department was able to generate additional revenue of ₹ 75 crores (approx.) during the financial year 2007-08 from above noted initiatives which is likely to increase during the financial year 2008-09. In addition to this, recently Department has signed an Memorandum of Agreement with ICICI Prudential Life Insurance Co. Ltd. to retail their pension products through select post offices on referral model. It is expected that these initiatives will generate additional revenue for the Department.

In 2008-09, Department generated additional revenue of ₹ 120 crore (approx.) from these initiatives.

Recommendation (Para No. 2)

The Committee observe that DoP seek to enable access to financial markets and enhance opportunities without discrimination, to all regions and social groups in the Country. The financial services offered by DoP can broadly be classified into three categories. These are, the Banking Services operated on behalf of the Ministry of Finance, the Insurance Services administered by the Director General, Posts (Secretary, DoP) and the International Money Transfer and Mutual Funds carried through tie-up arrangements. The Committee note that the Department have received ₹ 1861 crore, ₹ 2323 crore and ₹ 2490 crore during the years 2004-05, 2005-06 and 2006-07 respectively from the Ministry of Finance as remuneration charges for performing Savings Bank/Cash Certificates work. Further, the premium income of DoP from Insurance operations are stated to be ₹ 1285.46 crore, ₹ 1553.76 crore, ₹ 1812.82 crore and ₹ 2145.80 crore for the years 2004-05, 2005-06, 2006-07 and 2007-08 respectively. Evidently, these figures indicate that the contribution of DoP in these areas is not insignificant. The various aspects arising out of the Committees' examination of the management of funds by DoP through banking and insurance activities are dealt with in the succeeding paragraphs.

Reply of the Government

The Department has stated that the recommendation of the Committee has been noted.

Recommendation (Para No. 6)

The Committee find it strange that the Department have no targets fixed for opening Savings Banks accounts as a whole or on a Circle-wise basis but Circles are allotted revenue targets in respect of Savings Bank/Savings Certificate work for each year. The Committee feel that unless targets for opening new accounts are fixed at the national level, a holistic picture cannot emerge. The revenue targets for the Circles may of course act as additional inputs in this regard, but these should be separately fixed for Savings Bank and Cash Certificates work as this will help the Department to identify the areas of under performance in each of these activities and remedial measures can be taken accordingly. The Committee also find that against a revenue target of ₹ 2992.55 crore for year 2007-08 various Circles could generate revenue to the tune of ₹ 2362.29 crore which is 78.89 per cent of the target fixed. The Committee find it disconcerting that several Circles have missed their revenue targets by sizable margins. With account targets and revenue targets fixed in tandem in future, the Committee expect that the declining trend in achieving the targets will be reversed. The concrete action taken in this regard should be intimated to the Committee.

Reply of the Government

For the year 2008-09, Ministry of Finance has made a provision of ₹ 2907.20 crore in the Budget Estimate (BE) for remuneration on account of management of Savings Bank and Savings Certificate work. The Department has now fixed both revenue targets and targets for opening new accounts for the Circles. The performance of the Circles is being regularly monitored and is also being reviewed with Circle Officers.

Recommendation (Para No. 7)

The Committee note that Post Office Savings which enjoy tax concession on interest accrued, have a ceiling of ₹ 1 lakh in single and ₹ 2 lakh in joint accounts. Based on representations received from general public, DoP have requested the Ministry of Finance to raise this limit. MoF have in turn taken up the matter with Central Board of Direct Taxes (CBDT) to increase the limit to ₹ 3 lakh. The

Department of Revenue (CBDT) have, however, taken a stand that there will be a revenue loss if the demand is acceded to. The Committee are of the view that the tax concession on interest accrued is an added benefit of Post Office Savings Scheme. A suitable increase in the limit would be a definite addition attracting more depositors in the Post Office Savings and stem the current declining trend. The Committee, therefore, recommend that the Government should give favourable consideration to the proposal of DoP.

Reply of the Government

Department of Posts requested Ministry of Finance to raise the maximum limit of deposit in savings account *vide* letter No. 113-23/2005-SB dated 26.5.2008. The Ministry of Finance did not agree to the proposal. The matter was again taken up *vide* D.O. letter No. 113-23/2005-FS dated 03.12.2008. It may be stated that the recommendations of the Standing Committee has also been sent to Ministry of Finance for necessary action under intimation to Department of Posts. Ministry of Finance again intimated on 14.1.2009 that there is no change in their earlier decision.

Comments of the Committee

(Please *see* Para 21 of Chapter–I)

Recommendation (Para No. 8)

The Committee note that the MoF have recently reintroduced a bonus of 5 per cent on MIS and tax exemption on investments in Five year Term Deposits and Senior Citizens Savings Scheme. The Committee strongly feel that a lot more needs to be done to make POSB Schemes more attractive to the investing public. It is inexplicable why sufficient incentives have not been introduced with focus on rural India that is the predominant clientele of the Schemes of the Department and for most of whom tax benefits have no meaning, as they generally do not come within the Income Tax net. The Committee desire that the Department should work out in tandem with the Ministry of Finance to provide some additional incentives for the vast membership of POSB Schemes in rural areas.

Reply of the Government

In the recent past, Government has taken the following steps to make the small savings schemes more attractive and investor friendly:

(i) The restriction on opening of more than one account during a calendar month under the Senior Citizens Savings Scheme has been removed with effect from 24th May, 2007.

(ii) All categories of pensioners have been allowed to open and maintain 'Pension Account' under Post Office Savings Account Rules, with effect from 11th July, 2007.

(iii) With effect from 10th February, 2007, the penalty on pre-mature withdrawal of deposits under the Post Office Monthly Income Account (POMIA) scheme has been rationalized from 3.5% to 2% on withdrawal on or before expiry of three years and 1% on withdrawal after expiry of three years.

(iv) The maximum deposit ceilings of ₹ 3.00 lakh and ₹ 6.00 lakh under the Post Office Monthly Income Account (POMIA) Scheme has been raised to ₹ 4.50 lakh and ₹ 9.00 lakh in respect of single and joint accounts respectively.

(v) Bonus at the rate of 5% on the deposits made under Post Office Monthly Income Account (POMIA) Scheme on or after 8th December, 2007 upon the maturity of the deposit, has been reintroduced.

(vi) The benefit of Section 80C of the Income Tax Act, 1961 has been extended to the investments made under 5-Year Post Office Time Deposits Account and Senior Citizens Savings Scheme, with effect from 01.04.2007.

(vii) Measures are also taken to promote and popularize these schemes through print and electronic media as well as holding seminars and meetings, providing training to the various agencies involved in mobilizing collection in Small Savings Schemes etc.

(viii) A website of the National Savings Institute under Government of India, Ministry of Finance has also been launched to facilitate interface with the public through wider dissemination of information on small savings and on-line registration and settlement of investors grievances. The website address is *nsiindia.gov.in.*

Department of Posts is providing additional incentive of benefit of Accidental Insurance through Oriental Insurance Company for 1 lakh to the Post Office savings account holders with nominal premium of ₹ 15.

Since Ministry of Finance is the nodal Ministry in respect of Small Savings Schemes, the recommendation of the Committee has been sent to Ministry of Finance *vide* ID No. 116-10/2007-SB dated 28.11.2008 for taking further necessary action.

Comments of the Committee

(Please *see* Para 25 of Chapter–I)

Recommendation (Para No. 9)

The Committee further note that the Department have in the recent years requested MoF for starting some new Schemes for girl child, working women, rural women, etc. in the light of direction of MoF on gender budgeting. The Committee find strong merit in these proposals of DoP and desire that these should be pursued in right earnest with MoF to fructify them at the earliest.

Reply of the Government

Since starting of any new schemes under Small Savings Schemes is the prerogative of Ministry of Finance, the recommendation of the Committee has been sent to Ministry of Finance *vide* ID No. 116-10/2007-SB dated 28.11.2008 for taking necessary action.

Comments of the Committee

(Please *see* Para 25 of Chapter–I)

Recommendation (Para No. 13)

Eleventh Five-Year Plan Scheme of 'Banking & Money Transfer Operations': An Analysis

The Committee note with appreciation that to fully realise the potential of vast customer base and capitalise on the good will of India Post in the area of banking and money transfer operations and in order to develop the Post Office network in the manner of financial service provider, the Department have taken up the Scheme of Banking and Money Transfer Operations' during the Eleventh Plan. A sum of ₹ 142.50 crore has been provided, under the Scheme for the Plan period with emphasis on technology infrastructure options, hardware and software requirements and networking. The Committee, however, observe that during the first year of the Plan, the performance of the Department has been very poor. A sum of ₹ 22.50 crore was allocated for the Scheme at BE stage for the year 2007-08. This was pruned down drastically to ₹ 8.82 crore and the actual expenditure upto December, 2007 has been a paltry ₹ 0.08 crore *i.e.* less than 1 per cent of the RE allocation. On the physical achievement side too, against the targets of one consultancy, upgradation of IT infrastructure and networking system integration in 33 Post Offices, setting up of 84 PFMs, extending instant money order services to 6350 Post Offices and providing training to 100 officials in relation to setting up of Postal Bank of India, the Department have nil achievements as on 31 December, 2007. This is clearly indicative of the unsatisfactory planning and execution processes in the Department, which needs rectification. The Committee, therefore, desire that at least in the remaining years of the Eleventh Plan, the Department should make all possible efforts to judicially and maximally utilise the allocated amount. This will certainly help the Department in having Centralised Banking Solutions which would make the operations efficient and cost effective and further strengthen the network for exploring untapped segments for fee-based services while broadening the Department's revenue generation base.

Reply of the Government

It may be stated that the year 2007-08 was the first year of the 11th Plan period (2007-2012). Procedural formalities like preparation of SFC/EFC Memo, technical evaluation of the project, etc. in consultation with other Government Departments like Planning Commission and Ministry of Finance and obtaining approval of EFC/SFC are to be completed before incurring expenditure under plan activities. In these circumstances, expenditure could not be incurred in 2007-08.

However, it may be stated that in April 2008, a training programme in banking function was organized at National Institute of Bank Management (NIBM), Pune for officers of the Department of Posts for the purpose of setting up of Post Bank of India (PBI). The Memorandum of the Project on Anytime Anywhere Any branch Banking (Core Banking Solution) for Post Office Small Savings Scheme has been approved by the Expenditure Finance Committee in its meeting held on 31.10.08. Further necessary action is being taken for the implementation of the Project.

As regards Postal Finance Marts, it is intimated that upto the Financial Year 2006-07 a total of 313 Postal Finance Marts have been set up across the country. A target for setting up of 500 Postal Finance Marts has been fixed for the Eleventh Five Year Plan. For the year 2008-09 funds to the tune of ₹ 5.85 crores have been allocated to all the circles for setting up of a total of 122 Postal Finance Marts.

Recommendation (Para No. 14)

ELECTRONIC FUND/MONEY TRANSFER MECHANISM

The Committee note that two very useful Schemes operated by the Department *viz.* Electronic Fund Transfer (EFT) and Warrant Payment Scheme (WPS) were rendered non-functional due to discontinuation of VSAT network. While EFT facilitated end-to-end fund transfers by banks on behalf of corporate sector and capital markets, the WPS facilitated redemption of dividend warrants. The Department are now proposing to set up Core Banking Solutions (CBS) enabling 'Anytime–Anywhere' banking in 4000 Post Offices all over the Country. Once the infrastructure is in place in these 4000 Post Offices, Schemes like EFT and WPS could be considered for re-introduction. The Committee expect that the CBS facility will be made functional at the earliest at these 4000 Post Offices followed by time bound expansion of the Scheme throughout the country as this will enable the development of seamless transfer of information and a coordinated platform for various financial activities for all the customers, employees and the management in an integrated and comprehensive manner.

Reply of the Government

Department of Posts is considering to introduce Anytime, Anywhere, Anybranch Banking through Core Banking Solutions (CBS) for Post Office Small Savings Schemes during the 11th Five Year Plan (2007-12) with a financial outlay of ₹ 106 crores. The Scheme envisages setting up 4000 CBS branches (Head Post Offices and major Sub Post Offices throughout India) during the Plan period. The system so setup would enable providing new services such as National Electronic Fund Transfer (NEFT), Electronic Clearing Service (ECS), and Real Time Gross Settlement (RTGS), etc. The Project after implementation will also pave way for delivery channels like ATM, etc. The Expenditure Finance Committee in its meeting held on 31.10.08 has approved the Memorandum of this Project. Further necessary action is in progress.

Recommendation (Para No. 15)

The Committee further note that Schemes like Instant Money Order (IMO) and facility of electronic Clearance Scheme (ECS) for MIS have been introduced by the Department. The International Money Transfer Service in association with Western Union Money Transfer has also been generating revenue for the Department. The Committee appreciate these initiatives of the Department and desire that the Department should link the domestic instant money order service with the Savings Bank (SB), Electronic Fund Transfer (EFT) and other domestic services which can be further linked to the Universal Postal Union's International Financial Systems (IFS)/Eurogiro/SWIFT and other relevant international systems without any further delay in order to facilitate two way money transfer facility between India and other Countries. Considering the fact that India receives the highest amount of remittances anywhere in the world and there is still a huge potential for money transfer on account of large Indian diasporas across the globe, these linkages ought to be accorded top priority by the Department.

Reply of the Government

International Financial System (IFS) service has been introduced for inward International Electronic Money Order Service from UAE to India. To expand the business covering more postal administrations, we are in discussion with partner countries.

The Eurogiro service has already been launched for updating of international remittance service provided by India Post.

In addition to partnering with other postal administrations, the Department is also putting in place partnerships with private international remittances organizations to tap this market.

Recommendation (Para No. 16)

POST BANK OF INDIA (PBI)

The proposal for setting up of a Post Bank of India has been under consideration of the Government for several years now. Numerous queries of the Committee in connection with their previous Reports met with a stoic answer that the Post Bank was at the conceptual stage. While examining the present subject, the Committee were informed by DoP that Post Bank was proposed to be set up during the Eleventh Five Year Plan. However, during the oral evidence, the representative of MoF informed the Committee that in the present trend of consolidation and mergers, RBI was very reluctant to issue fresh license for banks. The Committee have also been given to understand that RBI had already come out with its guidelines on banking correspondent and banking facilitator models. The banking correspondent model foresees Post Offices being used by the banks as their banking correspondents, who can collect deposits for the banks, give small credit facilities from the banks, perform remittance facility, etc. Under this banking correspondent model, the Department presently have a tie-up with the State Bank of India on pilot basis in about 100 Post Offices in five postal Circles *viz.* Tamil Nadu, Andhra Pradesh, Karnataka, Maharashtra and Jharkhand. The Committee are unhappy over the state of indecision that has prevailed in DoP and MoF with regard to Post Bank of India for years together. Now that a more achievable and practical banking correspondent model has been identified and is under implementation, the Committee hope that on the basis of experience gained through the pilot project, the Department would extend it to other Circles and cover more Post Offices in a phased manner and also make use of the opportunities created by growing retail services in an innovative way by forging tie-ups with various Government/Private institutions/agencies.

Reply of the Government

The proposal to set up Post Bank of India is in conceptual stage. State Bank of India entered into a tie up with Department of Posts on 29th June, 2007 to sell its Assets and Liability products through identified post offices in rural and semi urban areas under banking correspondent scheme. Initially the scheme was started in five circles. It was later extended to 10 circles. The scheme is being closely monitored and performance of the tie up is reviewed regularly. As on 31st October, 2009, the total Assets products sold amount to 14.85 crores. The total number of different kind of accounts opened through post offices is 1,33,278.

Recommendation (Para No. 17)

As the Department have the edge in terms of institutionalized banking structure and immense goodwill, the Committee feel that the Department can very efficiently bridge the gaps in credit availability and enhance the institutional credit framework in the rural and semi-urban areas and also ensure better revenue generations. More significantly, the vast network of Post Offices can become the ideal delivery platform for various rural development Schemes of the Government. In this regard, the Committee may like to refer to their recommendation made in Fifty-sixth Report on Demands for Grants 2008-09 of DoP, whereby it has been recommended to capture rural sector by the strategy of opening Savings Bank accounts of every BPL family under the NREGA and any other Central sponsored Scheme, whereby the Post Offices have been involved with the objective of financial inclusion. The Committee hope that the Department would have been taking the desired initiatives. The Committee would like to be apprised of the outcome of the initiatives taken by the Department in this regard.

Reply of the Government

Keeping in view of the objective of financial inclusion in the rural and semi urban areas of the country the Department of Posts has taken the following steps:

(i) NREGS (National Rural Employment Guarantee Scheme)

The Department has taken the responsibility to disburse the wages through post offices by opening savings bank accounts in the name of NREG Scheme beneficiaries. Starting with Andhra Pradesh Postal Circle in 2005, the payment of wages under NREGS is currently operational in 19 postal circles comprising of 21 states. The scheme is operational through 1,02,739 post offices (including Head Offices/Sub Offices/Branch Offices). As on 30.11.2009 a total number of 3.82 crore NREGS accounts have been opened. Implementation of the scheme is being monitored at appropriate levels in coordination with Ministry of Rural Development on regular basis.

(ii) India Post/SBI tie-up

State Bank of India entered into a tie up with Department of Posts on 29th June, 2007 to make its Assets and Liability products (**ASSET PRODUCTS Retail Assets**: Home Loans/Loans against property, Auto Loans, Loans against TDR/Securities/KVP/NSC, Gold Loans **Business Assets**: Non Agro SME Loans, General Purpose Credit Cards, Kisan Credit Cards **LIABILITY PRODUCTS:** Current Account, Saving Account with balance more than one lakh, Term Deposit Accounts having currency less than one year and more than five years, Recurring Deposit Account having currency less than three years and above five years) through identified post offices in rural and semi urban areas. Initially the scheme was started in five circles. Now the scheme is operational in 19 Postal Circles barring Assam, Delhi and J&K. The scheme is operational in 5226 Post Offices. The scheme is being closely monitored and performance of the tie up is reviewed regularly. As on 31st October, 2009, the total Assets products sold amount to 14.85 crores. Total number of different kind of accounts opened through post offices is 1,33,278.

(iii) Disbursal of Microcredit to Self Help Groups

The Department of Posts in collaboration with NABARD is providing the facility of micro credit to Self Help Groups (SHGs) through mutually identified post offices on agency basis. Upto December 2009, 1121 Self Help Groups have benefited from the scheme. The Revolving Fund Assistance (RFA) of ₹ 1 crore has been given by NABARD in appropriate installments. Loans are disbursed to SHGs at the interest rate of 9% p.a. One third of the interest earned on loan repayments comes to DoP as commission. The repayment has to be made in 24 installments by SHGs. The actual repayment is nearly 126% which is a very encouraging fact. The Pilot is in operation in five districts comprising nine postal divisions of Tamil Nadu Circle.

(iv) Indira Gandhi National Old Age Pension Scheme (IGNOAPS)

The department is also opening SB pension accounts for the beneficiaries of Indira Gandhi Old Age Pension Scheme. The disbursals under NSAP/IGNOAPS are made either through POSB accounts of Money Orders or through both the services.

In respect of total No. of Money Orders under IGNOAPS and No. of beneficiaries with amount all the Circles have been addressed. On receipt of information the same will be updated.

Recommendation (Para 21)

The Committee observe that the Department have provided ₹ 35 crores for the Scheme 'Insurance Operations' for the development of insurance software for online operations, computerization of PLI/RPLI, publicity of insurance products/training of marketing personnel in insurance marketing and for the training of Circle Office personnel in under writing for the Eleventh Plan. The Committee are, however, unhappy with the performance of the Department in execution of this Scheme. In the very first year of the Eleventh Plan, out of an earmarked Outlay of ₹ 7.06 crore not even a single rupee could be spent upto December, 2007 *i.e.* during the first nine months of the fiscal. As in the case of the schemes meant for banking activities, this scheme for insurance activities also could not take off due to non-receipt of requisite clearances and approvals. While appreciating the limitations of the Department in this regard, the Committee want them to ensure that the funds allocated under the scheme are prudently and fully utilised in the rest of the Eleventh Plan so that the Department are able to provide all the facilities at par with other players and are in a position to compete effectively and efficiently with them on an equal footing.

Reply of the Government

The funds under plan head were released during Jan.–Feb. 2008 after approval of the Plan schemes. The utilization till 31.03.2008 was as under:

Schemes	Allotment (₹ in crores)	Expenditure (₹ in crores)
Online operation upto HO/Div. level (Computerization)*	0.50	0.42
Computerization of PLI/RPLI (Software Development)*	0.25	0.23
Training of Circle Office personnel and marketing personnel**	0.11	0.10
Publicity of Insurance Product ***	2.00	1.90

* The scheme was approved on 10.03.2008.

** The scheme was approved on 04.02.2008.

*** The scheme was approved on 09.01.2008.

Allotment and Expenditure under Plan schemes during 2009-10 (30.11.2009) is as under:

Schemes	Allotment (₹ in crores)	Expenditure (₹ in crores)
Online operation upto HO/Div. level (Computerization)	0.74	0.033
Computerization of PLI/RPLI (Software Development)	0.60	0.450
Training of Circle Office personnel and marketing personnel	0.57	0.189
Publicity of Insurance Product	0.34	0.270

The Plan outlays during the remaining period of plan schemes 2007-12 will also be utilized purposefully to the fullest extent.

Recommendation (Para No. 22)

The Committee note that in pursuance of the directive of the Ministry of Finance (Budget Division), the incremental accretion to

POLIF and RPOLIF will now have to be invested as per Insurance Regulatory and Development Authority (IRDA) [Investment] regulations, 2000 as amended in 2001. Accordingly, the corpus of POLIF and RPOLIF would be frozen on a specific cut-off date and converted into dated securities over a period of three years offering a mix of maturities to be decided. The corpus of POLIF and RPOLIF and the accretions to the fund after the cut off date will no longer form part of the Special Deposit Scheme of the Ministry of Finance. The fund will now be invested in the market by the Department as per the guidelines of IRDA. The Committee also note that though as a Government Department, the DoP are not a part of IRDA but they have voluntarily chosen to follow IRDA norms for investment of this Fund. The Department are planning to set up an Investment Board for the purpose which will be assisted by an Investment Division. The Committee appreciate the initiative of the Department of voluntarily choosing to follow the IRDA norms for investment. This would send a very positive signal to investors, both the current and prospective ones about the Insurance Schemes being operated by DoP. The compliance with IRDA norms would also put the services rendered by the Department in insurance sector at par with other players in the field. The Committee, therefore, desire that all preparatory works for setting-up of Investment Board, Investment Division, secueritisation of corpus after the cut off date, etc. may be completed in a stipulated time frame. The new Scheme of fund investment is an uncharted course and devolves the responsibility of safe keeping and fund management by the Department for the first time. The Committee, therefore, hope that the Department would make earnest efforts to have the best available professional talent included in the Investment Board so as to ensure that the Fund is managed judiciously and efficiently in the years to come. Further, the Investment Board should have very clearly defined duties, responsibilities and powers. In addition, since IRDA Investment regulations do not permit out-sourcing of investment functions, the Department need to develop their own cadre of investment personnel to take care of every aspect of the investment function and investment strategy besides taking care of day to day activities within a short period of three to four year *i.e.* till the time PLI & RPLI Fund comes under IRDA norms. This is an onerous task and the committee desire that the Department should take all measures to achieve it. The Committee would like to be apprised of a definite roadmap, including targeted dates for each of these activities, at the earliest.

Reply of the Government

In pursuance of approval of the Union Cabinet, Investment Board has since been formed. The Board includes three outside experts, selected from a panel sent by the Ministry of Finance. The entire Board has been briefed of its responsibilities and role in a meeting held on December 30, 2008. Department of Posts is now working to fill up the newly created positions in Investment Division who are to take day to day decisions on the matters relating to the management of the funds under the guidelines framed by the Investment Board. This position in the Investment Divisions will be filled up initially on deputation/contract, by the experts who are having requisite background in Public Sector Banks/financial institutions. These arrangements will be purely on *ad hoc* basis for a period of one year or till regular arrangements are made based on recruitment rules to be framed. Personnel Division of the Department of Posts has already decided the eligibility criteria for *ad hoc* selection against these positions.

Decisions of the Investment Division will be implemented through two Public Sector Asset Management Companies under 'passive' or 'non-discretionary' mode of Fund Management. The agreement with the Fund Managers has been signed, the Investment Division is functioning and the investment of POLIF/RPOLIF has commenced w.e.f. November 2009.

Recommendation (Para No. 24)

COMPUTERISATION AND MODERNISATION OF POST OFFICES

The Committee observe that the Department have computerised 8263 Post Offices, all Circle Offices, Regional Offices, Postal Account Offices, 206 Divisional Offices, Speed Post Centres and 816 Head Post Offices throughout the Country in the Tenth Plan. The Committee further note that the Department have plans for computerizing remaining 17598 Departmental Post Offices and 64000 Branch Post Offices during the Eleventh Plan and are developing and implementing various softwares for effective and prompt services. The Committee while appreciating Department's efforts think that the focus on technology induction with an increased emphasis on rural areas should continue and the approach for network access needs to be reviewed with the introduction of alternative mechanisms like franchising, etc. The Committee, in view of the increased financial activities of the Department recommend that the project for restructuring/process reengineering and modernisation and total networking and computerization of the Accounts Wing of the Department should also be carried out expeditiously. The Committee are confident that the network of fully computerised Post Offices, besides augmenting revenue generation through consolidation of existing services, introduction of new value added services, increased banking and insurance activities, will also support the e-governance initiatives of the Central Government particularly the NeGP.

Reply of the Government

The Department is in the process of engaging professional consultant(s) to develop a technology strategy and action plan for process re-engineering total networking and computerisation of post offices, administrative offices and offices of the accounts wing. Department have constituted internal team of officers for carrying out business process re-engineering exercise in consultation with the stakeholders. Based on the advice of the Consultant(s) further action will be taken to engage Technology partner(s) for developing integrated modular software and a network of fully computerized of offices during the Eleventh Plan.

The Department has since engaged the services of a professional consultant to develop a technology strategy and action plan for computerization.

Recommendation (Para No. 25)

The Committee during the examination of Demands for Grants (2008-09) of DoP observed that the National Data Centre has been developed and the Department have proposals for setting up some Regional Data Centres. The Committee think that the National Data Centre will have to be strengthened to network various categories of Post Offices and Administrative Offices and to enable all levels to access management information on real time basis, thus helping to take quicker decisions and cut processing costs. Further, as the Department are a data repository, the Committee opine that with proper data management they can also provide business intelligence with substantial possible commercial spin off.

Reply of the Government

The Department is in the process of engaging professional Project Consultant(s) to advise the Department in conceptualization and implementation of the Project. Based upon the advice of Project Consultant(s), a comprehensive IT roadmap will be developed for network architecture, integrated software, proper data management including strengthening/ establishment of National Data Centre(s) and Disaster Recovery Centre.

The Department has since engaged the service of a professional for conceptualization and implementation of the project.

Recommendation (Para No. 26)

POSTAL FINANCE MARTS (PFMs)

The Committee note that the Department have plans for setting up of 500 PMFs in addition to the 300 odd PFMs set up during the Tenth Plan as a one stop shop for all financial services. The Committee, however, note with concern that none of the 84 Postal Finance Marts earmarked for 2007-08 could be opened due to want of mandatory clearances and approvals of various agencies. For the year 2008-09 a target of 120 PFMs has been projected by the Department. Keeping in view the immense importance of the PFMs in giving the much needed fillip to the activities of the Department in financial sector, the Committee exhort them to take all necessary measures for expediting the requisite clearances and approvals so that the Plan target of 500 PFMs is atleast achieved in the remaining four years of the Plan. The Committee are sure that the PFMs would help in creating a distinct identity and brand for the Department and also serve as a front end for the tie-ups with various financial institutions and banks for vending their retail services. The Committee would also like the Department to equip the PFMs with all the utility products ranging from photocopying facility to facsimile, stationery, packaging material, internet connectivity, etc. to meet the growing customer expectations and competition and to increase business volume.

Reply of the Government

Upto the Financial Year 2006-07 a total of 313 Postal Finance Marts have been set up across the country. A target for setting up of 500 Postal Finance Marts has been fixed for the Eleventh Five Year Plan. For the year 2008-09 funds to the tune of ₹ 5.85 crores have been allocated to all the circles for setting up of a total of 122 Postal Finance Marts. The Postal Finance Marts provide Post Office Savings Bank services like Saving Bank, Recurring Deposit, Monthly Income Scheme, Time Deposit, Senior Citizen Savings Scheme, National Saving Certificate, Kisan Vikas Patra as well as other financial services like Postal Life & Non-life insurance, Mutual Funds & Bonds, Government Securities, Pension Schemes, International Money Transfer, Money

Order, Instant Money Order etc. under one roof as 'One Stop Shop for Financial Services' in a fully computerized office supported by technology and in a customer friendly ergonomically improved environment at par with the reputed banking institutions. The facilities like Internet connectivity, availability of forms & stationery and comfortable sitting arrangement for the customers are already provided in Postal Finance Marts.

Recommendation (Para No. 27)

The Committee note that during the financial year 2004-05, 2005-06 and 2006-07 the Department have spent ₹ 72.70 lakh, ₹ 198.25 lakh and ₹ 194.43 lakh respectively for marketing of various POSB allocated for marketing and advertising of financial services, which is a substantial increase over past allocations. However, the Committee are dismayed to note that only 1.00 crore each have been allocated for the purpose during the first two fiscals of the Plan. It is inexplicable why such meagre allocations have been made during the first two years and 90 per cent allocations have been left for the remaining three years of the Plan. The Committee would impress upon the Department to ensure an evenly spread of allocation of the funds meant for marketing and advertisement of Financial Services so that not only the earmarked activities do not suffer but the Department are also not compelled to surrender precious funds.

Reply of the Government

Being the first year of the XIth Plan period approval of outlay was received from Planning Commission only during September 2007. Only thereafter action could be initiated by the Department for obtaining the approval of the schemes, hence minimum funds to the extent of ₹ 1 crore was only allocated during 2007-08. The scheme was approved during March 2008. Subsequently proposal to the extent of ₹ 6 crore was projected during the BE proposal 2008-09 but the fund was restricted to the extent of ₹ 1 crore due to reduction of BE outlay 2008-09 by the Planning Commission. Keeping the above fact in view the remaining fund has been proportionately distributed for the remaining three years. During the year 2009-10, a total of ₹ 20 lakh have been allocated for advertising and publicity of Financial Services under the concerned Plan Scheme. However, the Department will ensure that the fund earmarked for the activity will be fully utilized.

Recommendation (Para No. 28)

The Committee point to the fact that as the Department have to function in a competitive market, their advertising/branding exercise should be professional, quick in response and focused in approach to the segment targeted. This calls for involving print and electronic media and they should be optimally utilized according to the DAVP regulations. All new Schemes and services, changes in existing banking and insurance Schemes must be showcased in all the Post Office through standardised, well designed, attractive posters and notices so that they immediately catch the attention of the customers. They should also be well published through newspapers and hoardings in order to establish an ongoing interaction with the customers. Further, for due publicity of the banking and insurance products there is an urgent need to have coordination with local governing bodies too. The forum of Gram Sabha meetings can be the best platform to make the rural people aware of the schemes of the Post Offices. The Committee further want the Department to evolve an effective marketing strategy, multi pronged marketing action strong evaluation mechanism and strive for research based product development.

Reply of the Government

Business Development & Marketing Directorate, which has the responsibility for advertising/publicity has adopted an extensive Media Plan, which include the following modes of Marketing:-

Print Media–Newspaper & Magazine

Electronic Media–TV Channel, Radio

Out-door Publicity-Hording, Banners at Air Port, Metro Station etc.

e-enabled Marketing-advertisement on Website through SMS

In sales promotion, maximum stress is being placed on strengthening delivery system in rural areas. Instructions have been issued to Circles to restore the confidence of public in financial Services by publicity of Saving Schemes, Money Order Service through electronic media, proper display of posters, Sign Boards, and pamphlets. The value added financial services are also being highlighted among the public. Circles have been asked to coordinate with local bodies namely Village Pradhan/Sarpanch/Gram Secretary/ Distt. Panchayat Officer and Gram Sabha to make the rural population aware of Schemes of the Post Offices. Thus an effective marketing strategy, multi-pronged marketing action and strong evaluation mechanism are being pursued to promote products and services of the Department of Posts.

(ii) Separately for promotion of Insurance related products PLI Directorate has prepared the Media Plan for the 11th Five-year Plan period, which is presently under implementation. In the plan period 2007-12, a sum of ₹ 10 crore has been approved for advertisement, sales and publicity. In the media plan, 20% is proposed to be spent in advertisement in print media including preparation of brochures and leaflets on PLI/RPLI, another 20% is proposed to be spent on outdoor media *viz*. hoardings, canopies, posters, scrolls and in organizing Road Shows and 10% is proposed to be spent on Radio/ TV Channel. Remaining 50% of the Plan fund on promotion is spent

- in organizing seminars on PLI in places which are having potential client base,
- in organizing RPLI melas in villages and in supplying brochures on PLI/RPLI through these seminars/melas and through Post Offices.

In sales promotion, maximum stress is given in direct contact. Whereas, the major chunk of the PLI business is organized through Departmental employees, almost the entire RPLI business is mobilized through Gramin Dak Sevaks. Departmental employees and the Gramin Dak Sevaks are paid incentives at a very moderate rate to canvas business in Sundays/Holidays and outside office hours in normal working days. This helps PLI in keeping the cost of operation extremely low compared to other Insurance Companies and the surplus is passed on to the insurants in the form of higher bonus. A proposal is being pursued with the Department of Personnel to allow employees of other Government Departments to take up the work of sale of PLI outside their working hours.

Recommendation (Para No. 29)

To sum up, the foregoing paragraphs identify certain key areas in the administration of the Financial Services of the Department of Posts, particularly the Banking and Insurance activities, which requires urgent attention. Some of the tasks to be achieved and impediments and shortcomings which need to be handled with utmost seriousness and promptitude on the banking side include, arresting the declining trend of deposits and the rising withdrawals from the Savings Deposits; the alarming decrease in the number of accounts in POSB Schemes in several States; shortfalls in Savings Certificates operations; the need for revision of rates of interest on POSB Schemes in rural areas; introduction of a centralized monitoring and evaluation system at the Headquarters for banking operations; settlement of the long pending remuneration charges for agency services in consultation with MoF; extension of banking correspondent model in a phased manner from pilot project to a pan India presence etc. The points emerging in the Insurance Sector include, the need for maintaining the increasing trend of policies and income from premia of PLI & RPLI; pursuing vigorously with the MoF, the withdrawal of conditionalities imposed about launching of new Schemes to ensure a level field with other players in the Insurance Sector; charting out at the earliest, a definite and time bound roadmap for transition to the new investment pattern of PLI and RPLI funds to ensure expeditious implementation of the Scheme etc. There is also a need for judicious utilization of funds allocated for Banking and Insurance Sector Schemes for the Eleventh Plan to avoid slippage; and establishment of a regulatory mechanism to oversee the multifarious activities of the Department including postal operations, banking insurance and money transfer activities. The imperatives for re-orienting/restructuring the administrative organization including human resource development need hardly be over emphasized. The Committee expect the Department to take necessary action in right earnest so that India Post not only make their valuable contribution to national growth in an effective way but also improve their financial health in the process.

Reply of the Government

- Department of Posts has taken up the matter of raising interest rates on post office small savings schemes even at the level of Minister. But Ministry of Finance has not agreed to raise interest rates as interest on small savings schemes are benchmarked to the average yield on Government Securities of comparable maturity in the secondary market. The recommendation of the Standing Committee matter has been sent to Ministry of Finance for examination.
- After sustained efforts of the Department of Posts, the Ministry of Finance has now agreed to constitute a new Expert Committee to review the agency charges. However, the terms of reference and constitution of the Committee are awaited. Ministry of Finance is being pursued to expedite the matter.
- The proposal to extend the banking correspondent scheme to 5000 post offices throughout the country is under consideration in consultation with SBI.
- Department is also proposing to introduce Anytime Anywhere Banking through Core Banking Solution (CBS)

for Post Office Small Savings Schemes in the 11th Five Year Plan. It is hoped that CBS once started will go a long way to meet the technological need of POSB customers and will increase the customer base of the Department.

- The Department is already providing Accidental Insurance through Benefit Oriental Insurance Company for ₹ 1 lakh to the Post Office savings account holders with nominal premium of ₹ 15.
- A comprehensive IT roadmap will be developed for network architecture, integrated software, proper data management including strengthening/establishment of National Data Centre(s) and Disaster Recovery Centre.
- The issue of removal of conditionality for extension of client base of PLI and for introduction of new products will be pursued with the Insurance Division of the MoF and recommendation of the Standing Committee will be taken up with the MoF.
- Recent initiatives relating to investment of Post Office Life Insurance Fund (POLIF) and Rural POLIF are being steered with extreme caution.
- Every effort is being taken for effective and proper utilization of Plan fund.
- Innovative promotional measures are being taken for maximum direct contact with potential customers.

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES OF THE GOVERNMENT

—NIL—

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH THE REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation (Para No. 10)

MARKET SHARE OF POSB

The Committee are perturbed to note that despite the advantages in terms of reach, network and goodwill, the Department have a meagre market share in the country's banking sector. Curiously, the Department do not even maintain any data on the market size, market share, etc. under the plea that they are not the sole operator of such Schemes. From the data submitted to the Committee by the Department from the Reserve Bank of India website, it is noted that the aggregate deposits of the Savings Schemes of Scheduled Commercial Banks in the Country as on March, 2007 stood at ₹ 2608309 crore. The outstanding balance of all POSB Schemes excluding Savings Certificates was ₹ 351590 crore on the corresponding day. According to the Department, this is 11.88 per cent of the aggregate national deposits. On a relook, the Committee found that in percentage terms, the balance in Post Office Savings Bank Schemes as on March, 2007 worked out to 13.47 per cent of the aggregate deposits of Savings Schemes of Scheduled Commercial Banks and not 11.88 per cent. All this is indicative of lack of seriousness on the part of the Department towards an activity, which has all the potential to act as the much needed lifeline for the Department to enable them to sustain their operations. For their banking operations to succeed and expand further to their real potential, the Department ought to evolve a centralised monitoring and evaluation system at the Headquarters level. This system, manned by senior officials with relevant professional qualifications should keep an eye on the market size, market development and trends on a day to day basis so as to provide the much needed directional support and guidance to the field offices

Reply of the Government

The foundation of the Government Savings Bank was laid in the year 1833 when first bank was opened in Calcutta for investment of the savings of all classes—British and Native. In 1860, the scheme of District Bank was drawn up and sent to State Governments. The establishment of District Savings Banks was announced on 16.5.1870. The Government passed "Government Savings Bank Act, 1873 in 1873. By 1881, 171 District Banks, 3 Presidency Banks, 14 Railways Banks and 183 Regimental Banks had been established. The Government decided to engage Post Office as an agency for execution of any Savings Scheme under this Act and on 1.4.1886 , the Post Office Savings Banks were opened all over India. From 1.4.1886, the District Banks were merged with Post Office Savings Banks.

Department of Posts is functioning as an operative agency of the Ministry of Finance. All policy decisions on launching of small savings schemes and management of funds collected/mobilized are taken by Ministry of Finance. Department of Posts was given the task of operationalising the Government sponsored schemes. The rules of the Small Savings Schemes are framed by the Ministry of Finance in consultation with National Savings Institute (NSI) which is under control of Ministry of Finance, Department of Economic Affairs. Promotion of the business in the Post Office Savings Bank is mainly the concern of the National Savings Institute. The Institute is solely responsible for the publicity of the various savings schemes and works for promotion of the ideal thrift as a way of life among the people and for mobilization of their household savings for the national development. NSI is also responsible for collection and collation of data and providing policy inputs to the MoF, structuring of different financial products/schemes, launching of new financial products, designing, structuring of new financial products, co-ordination with State Governments for mobilization of small savings.

All deposits under small savings schemes are credited to the 'National Small Savings Fund' (NSSF), established in the Public Account of India with effect from 1.4.1999. All withdrawals by the depositors are made out of the accumulations in this Fund. The balance in the Fund is invested in special Government securities as per norms decided from time to time by the Central Government.

The sums received in NSSF on redemption of special securities are being reinvested in special Central Government securities. The debt servicing of Central/State Government securities is an income of the Fund while the cost of the interest paid to the subscribers and cost of management of small savings schemes are expenditure of the Fund. The special Central Government securities issued to NSSF constitute a part of the internal debt of the Government of India.

Briefly therefore, the Post Office Savings Bank is operated by the Department of Posts on behalf of the MoF and its mandate is limited to the collection and disbursement of the funds deposited therein and maintenance of records. The actual fund management is undertaken by the MoF. However, this Department takes a proactive role in expanding small savings customers' base by marketing the products at grassroot level through its Postmasters and Gramin Dak Sevaks (GDS) who command trust of common man. Efforts of the Department to disburse wages under NREG Scheme is a step in this direction. The progress in expansion of customer base and quality of banking service provided is regularly monitored at Circle level and at the level of Directorate in FS Division. Various workshops and training programmes are being held in reputed institutions to enhance capacity building in this regard.

Comments of the Committee

(Please *see* Para No. 29 of Chapter–I)

Recommendation (Para No. 11)

ORGANISATIONAL STRUCTURE

The Committee note that though the Department have a defined organizational structure at various levels for carrying out banking and other financial activities, no professional qualifications have been laid down by the Department for the personnel manning these specialised financial areas. The Committee are not convinced with the Department's explanation that it has not been done since they are not doing full fledged banking and other financial activities though some training is provided to persons entrusted with such work. Such reasoning would have sounded logical in the past when the Department were largely focused on postal services and related activities. Now when the Department are looking more and more towards the numerous avenues for revenue generation through financial services, it is but imperative that personnel specifically qualified for the purpose are also in place in the Department. Moreso, when the activities of the Department as a banking correspondent have become well defined now, would lead to substantial increase in their banking and related activities. The Committee would also like the Department to provide for specialised intensive in-house training for the existing staff entrusted with these works. The Department should, in this context, also seek outside professional guidance and help in designing and carrying out training modules and activities for ushering highest levels of professionalism in the personnel carrying out these activities.

Reply of the Government

To train/update officers and staff about the development taking place in the field of financial services, operationalisation and management specialization training is imparted to them from time to time through specialized institutions such as Postal Training Centres and National Institute of Bank Management (NIBM) (for training in banking related processes). Department is also imparting training at regular intervals to its staff through Induction and Refresher Courses at specialised training centres for updating their knowledge in Post Office Savings Bank rules and procedures, Public customers relations, soft skill, etc. The mutual fund companies namely Principal, UTI, SBI, Franklin Templeton and Reliance provide training to postal staff to enable them to pass Association of Mutual Fund of India (AMFI) test so that staff could retail the mutual fund product effectively. Similarly, The ICICI Prudential Life Insurance Co. Ltd. provide the training to staff about its pension product.

Comments of the Committee

(Please *see* Para No. 32 of Chapter–I)

Recommendation (Para No. 18)

INSURANCE ACTIVITIES

INSURANCE SCHEMES OF DEPARTMENT OF POSTS

The Committee note that Postal Life Insurance (PLI) was introduced in the year 1884 as a Scheme initially meant for the welfare of the postal employees and was gradually extended to the employees of the Telegraph Department, Central and State Governments, Public Sector Undertakings, Universities, Government aided Educational Institutions, National Banks, Local bodies, etc. The Rural Postal Life Insurance (RPLI) was introduced in March, 1995. It is open to all between the age of 19 and 60 years having a rural address. The prime objective of RPLI is to benefit weaker sections and women workers of rural areas and to spread insurance awareness among the rural populace. The Committee further note that unlike Post Office Savings Bank Schemes, the products and their features under PLI and RPLI are designed by the Department of Posts though with the concurrence of the Ministry of Finance. The total number of policies under PLI is 32,97,825 as on 31st March, 2007 and the number of policy holders under RPLI stands at ₹ 52,46,673 on the corresponding date. The total sum assured under the two Schemes is ₹ 26,753.17 crore and ₹ 33,865.65 crore respectively. The corpus of PLI at the end of 2006-07 is ₹ 10,342.61 crore. The corpus of RPLI at the end of fiscal 2006-07 stood at ₹ 2284.92 crore. The Committee note with satisfaction that the premium income of DoP from these two Schemes has also shown an encouraging upwards trend. The income from premium from PLI rose by about 30 per cent from ₹ 904.58 crore in 2004-05 to ₹ 1211.79 crore in 2006-07. Similarly, the income from the premium of RPLI grew by more than 50 per cent from ₹ 380.88 crore in 2004-05 to ₹ 601.03 crore in 2006-07. The Committee expect that DoP will maintain this trend in the years to come

Reply of the Government

The business growth of PLI and RPLI over last few years is given below:—

Year	No. of PLI Policies as on 31st March	Sum assured of PLI policies procured in the year (₹ in crores)	No. of RPLI policies as on 31st March	Sum assured of RPLI policies procured in the year (₹ in crores)
2000-01	19,52,639	10,405.08	8,23,566	2,898.17
2001-02	20,08,574	11,870.30	11,33,013	4,403.92
2002-03	20,98,577	13,676.80	17,95,070	7,464.53
2003-04	22,08,683	15,917.61	26,66,485	12,385.11
2004-05	23,91,662	19,105.44	37,38,798	18,520.93
2005-06	30,90,248	22,951.60	47,02,776	25,229.66
2006-07	32,97,825	26,753.17	52,46,673	33,865.65
2007-08	35,50,084	31,469.01	61,67,928	41,846.09
2008-09	38,41,539	38,403.00	73,56,446	53,072.10

The above table confirms that PLI is maintaining a consistent trend in upward growth of business. This growth is reflected also in terms of growth in the premium mobilized and also in the growth of the corpus size. Premiums mobilized over the years and the corpus size as on March 31 of the corresponding year is given below.

Year	Premium Mobilized from PLI Schemes (in ₹ crores)	Cropus size of PLI fund as on 31st March (in ₹ crores)	Premium Mobilized from PLI Schemes (in ₹ crores)	Cropus size of RPLI fund as on 31st March (in ₹ crores)
2000-01	436.58	4,462.27	67.98	235.17
2001-02	503.07	5,090.16	94.97	341.05
2002-03	592.22	5,797.30	171.63	510.69
2003-04	699.46	6,619.81	245.96	756.48
2004-05	906.10	7,686.43	381.31	1127.61
2005-06	1080.48	8,933.59	475.72	1624.77
2006-07	1213.73	10,342.61	601.87	2284.72
2007-08	1482.49	12,081.71	665.43	3003.78
2008-09	1862.51	14,152.59	879.24	3994.36

Recommendation (Para No. 19)

The Committee note that the number of policies under PLI have increased from ₹ 2098577 in 2002-03 to ₹ 3297825 in 2006-07 *i.e.* by about 80 per cent during the Tenth Plan Period. The RPLI policies have shown an almost 300 per cent growth from ₹ 1795070 in 2002-03 to ₹ 5246673 in 2006-07. The total sum assured under PLI almost doubled during this period from ₹ 13677 crore to ₹ 26753 crore. The Sum Assured under RPLI also increased almost four and a half times during the Tenth Plan period from ₹ 7465 crore to ₹ 33866 crore. The estimated growth rates of PLI and RPLI has been 15 per cent and 40 per cent per annum respectively. While fully appreciating the strides taken by the Department for expanding their insurance activities, the Committee note that these achievements are the proverbial tip of iceberg and the full potential of the Insurance Schemes operated by DoP is yet to be exploited. Inspite of lower premium rates and higher bonus rates as compared to similar policies of other players in the insurance sector, the market share of DoP is a meagre 2.7 per cent. In the opinion of the Committee this tardy progress is mainly because of the fact that the insurance activities of DoP are, even in this era of the fact that the insurance activities of DoP are, even in this era of liberalization, shackled with norms that are highly restrictive. They are required to seek directions of the Ministry of Finance (Insurance

Division) in terms of their letter No.97 (25)/INS.II/93 dated 20 September, 1993 for all policy matters like extension of scope so as to cover other clientele, introduction of new products etc. While other players are having freedom to come up with all sorts of products, DoP cannot even introduce Unit Linked Insurance Products (ULIPs) inspite of the market demand just because the concurrence of MoF is not forthcoming. The Committee find this a very unsatisfactory situation. They are of the opinion that DoP should also be given at least as much freedom, if not more, as enjoyed by other players in the insurance sector. They, therefore, strongly recommend that the conditionalities imposed on DoP by the communication of 1993 regarding mandatory concurrence of Insurance Division when launching any fresh initiatives ought to be withdrawn forthwith and DoP should be allowed to extend their clientele and introduce new products on their own after exercising due diligence. The Committee further recommend that the Department should consider the desirability of going in for tie-ups with other Government/Private insurance agencies in rural and semi-urban areas for various life and non-life products like medical insurance, farming vehicle/equipment insurance products, etc. as these schemes have a readymade market and may definitely help the Department to substantiate their revenue generation. The Committee feel that given this much needed functional freedom and diversification, DoP would continue their good work in insurance sector and improve their market presence.

Reply of the Government

PLI/RPLI is having 2.7% of the total market share. The fact may be appreciated in the light of following limitations:

- In urban areas PLI can be sold only to the employees of Government and semi-Governmental organizations.
- PLI has got only traditional insurance products in its basket *viz*. Whole Life Assurance Policies, Endowment Assurance Policies and Anticipated Endowment Assurance Policies (Money Back).

In terms of premium underwritten in the year 2006-07 in the 'Individual Non-single Premium Group/position of PLI/RPLI was 4th amongst other public sector and private sector life insurance companies. Premium underwritten by the major life insurance companies of the country in the year 2006-07 is given below (source : IRDA Journal).

Name of the Organization	Premium Underwritten (in ₹ Crores)
Life Insurance Corporation of India (LICI)	23,899
ICICI–Prudential	3,925
Bajaj Allianz	3,028
PLI/RPLI	1,815
HDFC–Standard	1,220
SBI Life	1,199

The issue of bringing certain categories of employees within the fold of PLI was taken up with the MoF (Banking & Insurance Division) *vide* PLI Directorate letter No. 25-06/2000-LI dated 07.01.2007, 13.07.2007 and 03.06.2008. The Ministry asked to prepare a road map for coming under IRDA *vide* their letter No. S-11019/10/2006-Ins.III dated 18th June, 2008. But unless PLI is corporatised, it is not possible to bring it under the regulations of IRDA. However, the recommendations of the Standing Committee are being brought to the notice of the Insurance Division of the Ministry of Finance so that the restrictions imposed to PLI in terms of their letter No.97(25)/ Ins.II/93 dated 20th Sept., 1993 for extension of scope so as to cover other clientele, introduction of new products/schemes etc. are withdrawn and Department of Posts is given a level playing field with other operators in the life insurance sector.

The matter is still under correspondence with the Ministry of Finance regarding removal of restrictions imposed on PLI for extension of scope so as to cover other clientele, introduction of new products/ schemes etc.

However, PLI does not have any mandate to sale non-life products *viz*. Medical Insurance, Crop Insurance, Vehicle Insurance etc. In this connection, it may be stated that premium mobilized through sale of PLI/RPLI policies, do not add to revenue of the Department. All the premia gets accrued to Post Office Life Insurance Fund (POLIF) and Rural POLIF. Even the returns on these funds are accrued to the fund itself. Department of Posts recovers the administrative expenses in running the schemes out of this fund at some predetermined rate.

Comments of the Committee

(Please *see* Para 47, 48, 49 & 50 of Chapter–I)

Recommendation (Para No. 20)

The Committee expect that while persisting with their current strategy of luring individual customers, the Department while devising new Schemes and marketing strategies should also keep in mind the need and requirements of corporate and institutions as their potential clients. The Committee would like the Department to take initiatives with regard to signing MoUs with various bodies/institutions for their Postal Life Insurance Schemes by way of offering certain attractive discounts on bulk membership. This will also help the department to ensure timely payment of premium and mitigate the risk of default.

Reply of the Government

Providing attractive discounts in the premium for bulk membership is possible only in respect of Group Insurance Schemes. As on day PLI is not having any Group Insurance Scheme for bulk membership. Such schemes designed in past for BSNL employees did not get approval of the Insurance Division of the Ministry of Finance. As such idea of signing MoUs with various bodies/institutions for their Postal Life Insurance Schemes by way of offering attractive discounts on bulk membership can be implemented only when Insurance Division, Ministry of Finance, gives necessary authority and freedom to the Department of Posts, similar to the authority enjoyed by other players in the Insurance Sector to design such products. However, the observations of the Standing Committee are being taken up with the Ministry of Finance at appropriate level.

As stated in para 19 above, the matter is still under correspondence with the Ministry of Finance.

Comments of the Committee

(Please *see* Para 47, 48, 49 & 50 of Chapter–I)

Recommendation (Para No. 23)

The Committee in their earlier Report on Demands for Grants (2008-09) of DoP, considering the increased activities of the Department in the various fields of postal operations, banking, insurance and money transfer activities, have recommended that the Government should consider setting up of a regulatory mechanism in this regard. In view of the Department to have some sort of regulatory mechanism on an urgent basis so as to make their functioning more transparent and accountable and win the trust and faith of the clients. The Committee would like to be informed of the action taken in the matter.

Reply of the Government

Postal Life Insurance and Rural Postal Life Insurance (PLI/RPLI) are exempted insurers under Section 118(c) of Insurance Act, 1938 and also under Section 44 (d) of the LIC Act, 1956. These Schemes do not come under the purview of IRDA Act, 1999 and consequently, not regulated by IRDA.

Recommendation of the Committee in respect of other activities will be kept in view while drafting the IPO Act, Amendment (Bill).

Comments of the Committee

(Please *see* Para 47, 48, 49 & 50 of Chapter–I)

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH THE REPLY IS INTERIM IN NATURE

Recommendation (Para No. 3)

BANKING ACTIVITIES

POST OFFICE SAVINGS BANK (POSB)

The oldest and the largest banking institution in the country, the Post Office Savings Bank (POSB), functions as an agency of the Ministry of Finance, (MoF) Government of India. MoF pay an annual remuneration to DoP for the performance of the Savings Bank function. The Committee note that the Department at present through the Post Office Savings Bank are offering products like Savings Bank Account (SB), Recurring Deposits (RD), Time Deposits (TD), Monthly Income Scheme (MIS), Public Provident Fund (PPF), Kisan Vikas Patra (KVP), National Savings Certificates (NSC) and Senior Citizen Saving Scheme (SCSS). The total number of accounts under different Schemes as on 31 March, 2007 are 172397269 with a total deposit of ₹ 351547.72 crore. The Committee are constrained to observe that the Savings Deposits are showing a declining trend. Their examination revealed that the deposits of ₹ 130474 crore during the year 2005-06 came down to ₹ 116085 crore during 2006-07. On the other hand, the withdrawals have shown an increasing trend being ₹ 76740 crore during the year 2005-06 and swelling further to ₹ 90922 crore during the year 2006-07. Since the Post Office Savings have been the most preferred investment/savings option of the general public, the Committee find this negative trend of declining deposits and rising withdrawals very perturbing and a reflection of the shrinking popularity and trust of the people in the Schemes of the Department. The Committee desire that the Department should thoroughly look into the reasons for this and take corrective measures at the earliest. The Committee would like to be apprised of the initiatives taken by the Department to revive the Savings deposits as the foremost investment option of the people.

Reply of the Government

The negative trend in growth is a matter of concern to the Department. Efforts to increase the accounts base of the Post Office by fixing circle-wise targets etc. are being made. It is seen that broadly there is a difference in performance of investment based schemes wherein long term investments are being made and small deposit based schemes where the customer is mainly looking for facility for small savings. There has been an annual increase in number of small deposit based account holders like Savings Accounts even in the last few years. It is expected that there may also be an increase in number of investment based account holders in view of the current market conditions. In case of PPF and SCSS schemes, the rate of interest offered by Banks is equivalent to the rate of interest given by the Department and the account base has increased. However, in respect of investment based schemes like MIS, TD and RD (no upper limit of deposit) the declining trend is noticed. A table showing the number of accounts in the major Post Office Savings Schemes is given below:

No. of Accounts Scheme-wise

	SB	MIS	RD	TD	PPF	SCSS
2005-06	61492639	24625490	64723609	8576579	1981703	489931
2006-07	64342873	24921140	67027234	12429827	2111082	752260
2007-08	69107518	23224188	66169851	11916977	2157675	855311
2008-09	78046881	24737525	74372853	8898668	2209780	1014296

Comments of the Committee

(Please *see* Para 15 & 16 of Chapter–I)

Recommendation (Para No. 4)

The Committee find from the data furnished by the Department relating to the Circle-wise position of number of accounts of All Savings Schemes that there is an alarming trend of decline in the savings account. Out of 22 Circles, declining trends have been observed in 13 Circles *viz.* Assam, Base (Army Postal Circle) Delhi, Gujarat, Haryana, Jammu & Kashmir, Kerala, North-East, Orissa, Tamil Nadu, Uttar Pradesh, West Bengal and Uttarakhand. The worst is the position in Haryana where the number of accounts during the year 2005-06 has sharply declined almost by 30 per cent of the total accounts. The Committee strongly recommend that the reasons for the sharp decline in the number of Savings Scheme Accounts in the aforesaid States be analysed State-wise and corrective actions be taken in this regard. The Committee may be kept apprised of the concrete action taken by the Department.

Reply of the Government

A statement detailing the number of accounts in the major Post Office Savings Schemes is given below:

No. of Accounts Scheme-wise

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	61492639	24625490	64723609	8576579	1981703	489931
2006-07	64342873	24921140	67027234	12429827	2111082	752260
2007-08	69107518	23224188	66169851	11916977	2157675	855311
2008-09	78046881	24737525	74372853	8898668	2209780	1014296

From the above table, it may be seen that there is increase in number of accounts in the Savings Bank (SB), Public Provident Fund (PPF) and Sr. Citizen Savings Scheme (SCSS) during the last four years. In MIS/RD/TD also, the number of accounts increased in 2006-07 as compared to previous year 2005-06. However, in 2007-08 the decreasing trend was observed in these three schemes. Again the number of accounts increased in MIS and RD in 2008-09 as compared to 2007-08.

In respect of the 13 circles referred to in the report, broad trend shows that account base of investment based scheme is declining and that of small deposit based scheme is increasing with exception in some circles. Position on the trend observed in 13 circles referred to in the report about their account base in the last four years is given below.

No. of Accounts Scheme-wise (Haryana Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	1377587	567639	1356080	455008	64744	13252
2006-07	1495316	586203	1398797	480991	68908	21092
2007-08	1589198	575318	1330917	391431	72411	22405
2008-09	1705529	562511	1253868	354963	76481	21830

In Haryana Circle, there is increase in number of accounts in the Savings Bank (SB) and Public Provident Fund (PPF) during the last four years. However, in 2008-09, the number of accounts in Sr. Citizen

Savings Scheme (SCSS) decreased as compared 2007-08. In MIS/RD/TD also, the number of accounts increased in 2006-07 as compared to previous year 2005-06. However, in 2007-08 and 2008-09 the decreasing trend was observed in these three schemes.

No. of Accounts Scheme-wise (U.P. Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	13515417	1461071	3985274	905606	133885	42591
2006-07	14028668	1474457	4502359	1438779	136056	45621
2007-08	14656722	1473619	4487137	1362184	137709	53276
2008-09	8086733	1930157	8646202	1484674	140364	72235

In UP Circle, there is increase in number of accounts in the Public Provident Fund (PPF) and Sr. Citizen Savings Scheme (SCSS) during the last four years. However, in 2008-09, the number of accounts in the Savings Bank decreased as compared to 2007-08. In MIS/RD/TD also, the number of accounts increased in 2006-07 as compared to previous year 2005-06. However, in 2007-08 the number of accounts decreased in these three schemes. Again in 2008-09, the increasing trend was observed in these schemes.

No. of Accounts Scheme-wise (Assam Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	1154114	160888	1265222	73966	29334	2112
2006-07	1240690	177411	1331551	91936	30365	3564
2007-08	1060231	168251	1059455	96961	29051	3663
2008-09	1655120	225312	1314050	125146	19424	4652

In Assam Circle, there is decrease in number of accounts in the SB/PPF and MIS/RD in 2007-08 as compared to 2006-07, though increasing trend was observed in these schemes in the year 2006-07 as compared to 2005-06. The account base of TD/SCSS increased during the last four years. There is increase in number of accounts in all the schemes except PPF in 2008-09 as compared to 2007-08.

No. of Accounts Scheme-wise (Base–Army Postal Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	188458	17294	248243	10424	3170	166
2006-07	205673	19525	286099	7776	3653	246
2007-08	226153	19148	323083	4111	3842	257
2008-09	192855	19645	359017	3055	4228	269

In Army Postal Circle (Base), the account base of PPF/SCSS and RD has increased during the last four years. There is decrease in number of accounts in the MIS in 2007-08 as compared to 2006-07, though increasing trend was noticed in the scheme in the year 2006-07 as compared to 2005-06. Decreasing trend is also observed in TD during the last four years. In SB, the increasing trend was observed from 2005-06 to 2007-08. However, the number of accounts in the SB decreased in 2008-09 as compared to 2007-08.

No. of Accounts Scheme-wise (Delhi Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	832286	912722	634063	202766	182664	76033
2006-07	870530	899572	642079	201951	190769	96307
2007-08	901259	844198	606809	157362	195933	95712
2008-09	906263	775730	601254	133892	186758	92078

In Delhi Circle the account base of SB has increased during the last four years. Decreasing trend in number of accounts in the SCSS/RD has been observed during the last three years though number of accounts in the Scheme in the year 2006-07 increased as compared to 2005-06. Decreasing trend is noticed in TD/MIS scheme during the last four years. In PPF, the increasing trend was observed from 2005-06 to 2007-08. However, the number of accounts in the PPF decreased in 2008-09 as compared to 2007-08.

No. of Accounts Scheme-wise (Gujarat Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	1706619	2077922	561992	721017	177916	29552
2006-07	1891881	2166578	5766338	778199	183785	61466
2007-08	1881936	2621365	3664715	713295	201569	96793
2008-09	3013302	3040093	3936021	845666	226848	98829

In Gujarat Circle, number of accounts in SB decreased in 2007-08 as compared to 2006-07. However, in 2008-09 the increasing trend has been observed in number of accounts in SB as compared to 2007-08. The number of accounts of PPF and SCSS increased during the last four years. Account base of MIS also increased during the last four years. In TD/RD also, the number of accounts increased in 2006-07 as compared to previous year 2005-06. However, the account base of TD/RD decreased in 2007-08 as compared to 2006-07. Again in 2008-09, the account base of TD/RD increased as compared to 2007-08.

No. of Accounts Scheme-wise (J&K Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	534621	86942	1316837	175655	7700	0
2006-07	557596	92567	1318497	183304	7282	3306
2007-08	584051	89835	1348256	298809	7588	3494
2008-09	382104	97154	183971	129364	5015	3474

In J&K Circle, there is increase in number of accounts in SB/SCSS and RD/TD from 2005-06 to 2007-08. However, the number of accounts in these schemes decreased in 2008-09 as compared to 2007-08. The account base of PPF decreased in 2006-07 as compared to 2005-06 whereas it increased in 2007-08 as compared to 2006-07. But again in 2008-09, the account base decreased. In MIS, the account base decreased in 2007-08 as compared to 2006-07 whereas the increasing trend was observed in 2006-07 as compared to 2005-06 in the scheme. Again in 2008-09, the account base in MIS increased.

No. of Accounts Scheme-wise (Kerala Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	1757771	1003925	5729989	231152	17964	22867
2006-07	1907167	1049229	5459814	232088	25740	38680
2007-08	2054454	1002615	5765564	218772	26682	37390
2008-09	2611540	734949	5908044	198715	22456	23613

In Kerala Circle, there is increase in number of accounts in SB during the last four years. In PPF, the increasing trend was observed from 2005-06 to 2007-08. However, the number of accounts in the PPF decreased in 2008-09 as compared to 2007-08.

Decreasing trend in number of accounts in the SCSS, MIS and TD has been observed during the last three years though the number of accounts in the schemes in the year 2006-07 increased as compared to 2005-06. In RD, the number of accounts increased in 2007-08 as compared to 2006-07 whereas the accounts in the scheme decreased in 2006-07 as compared to 2005-06. Again in 2008-09, number of accounts in RD increased.

No. of Accounts Scheme-wise (NE Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	512860	138049	545676	71044	17691	487
2006-07	451989	131789	653621	52222	10536	1283
2007-08	510054	94136	546670	42150	10114	2584
2008-09	726668	52009	457160	32264	7082	1811

In NE Circle, in SCSS, the increasing trend was observed from 2005-06 to 2007-08. However, the number of accounts in the SCSS decreased in 2008-09 as compared to 2007-08. Decreasing trend was observed in PPF during the last four years. In SB, the account base decreased in 2006-07 as compared to 2005-06 though increasing trend was observed from 2006-07 to 2008-09. In MIS/TD, the decreasing trend was observed during the last three years. In RD, the number of accounts increased in 2006-07 as compared to 2005-06 whereas the accounts in the scheme decreased from 2006-07 to 2008-09.

No. of Accounts Scheme-wise (Orissa Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	2374512	239689	628652	109844	8660	9525
2006-07	2490955	251337	753870	124255	9732	13660
2007-08	2609996	251101	773104	120492	10154	14161
2008-09	4610603	458810	1559016	200506	12212	12266

In Orissa Circle, there is increase in number of accounts of SB/PPF and RD during the last four years. There is increase in number of accounts in SCSS from 2005-06 to 2007-08. However, the number of accounts in the scheme decreased in 2008-09 as compared to 2007-08. In MIS/TD, the account base decreased in 2007-08 as compared to 2006-07 though the accounts in the scheme increased in 2006-07 as compared to 2005-06. Again in 2008-09, number of accounts increased in these schemes.

No. of Accounts Scheme-wise (Tamil Nadu Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	6766498	1804153	7203955	762471	218732	62806
2006-07	7543502	2414610	7420662	787789	242772	95329
2007-08	8183028	800114	7418267	705542	253908	94361
2008-09	6626316	1660124	7040397	624729	261423	91131

In Tamil Nadu Circle, there is increase in number of accounts of PPF during the last four years. There is increase in number of accounts in SB from 2005-06 to 2007-08. However, the number of accounts in the scheme decreased in 2008-09 as compared to 2007-08. Decreasing trend in number of accounts in the SCSS, RD and TD has been observed during the last three years though number of accounts in these schemes in the year 2006-07 increased as compared to 2005-06. In MIS, the account base decreased in 2007-08 as compared to 2006-07 whereas the increasing trend was observed in 2006-07 as compared to 2005-06 in the scheme. Again in 2008-09, the account base in MIS increased.

No. of Accounts Scheme-wise (Uttaranchal Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	760386	155892	843635	213220	15155	7215
2006-07	842489	162642	930224	3063594	15874	9199
2007-08	1043789	160342	965565	3046203	17436	9542
2008-09	2111886	168558	1100823	251926	18192	8209

In Uttaranchal Circle, there is increase in number of accounts of SB, PPF and RD during the last four years. In SCSS there is increase in number of accounts from 2005-06 to 2007-08. However, the number of accounts in the scheme decreased in 2008-09 as compared to 2007-08. In MIS the account base decreased in 2007-08 as compared to 2006-07 though the account in the schemes increased in 2006-07 as compared to 2005-06. Again in 2008-09, the account base in MIS increased. Decreasing trend in number of accounts in TD has been observed during the last three years though number of accounts in the scheme in the year 2006-07 increased as compared to 2005-06.

No. of Accounts Scheme-wise (West Bengal Circle)

Year	SB	MIS	RD	TD	PPF	SCSS
2005-06	7368160	7066004	6023256	1747903	92829	60051
2006-07	5324475	6159699	5289631	1398928	119393	114433
2007-08	5628344	6091422	4704853	1369209	104382	153577
2008-09	7161774	5423625	4449339	1260588	127211	155784

In West Bengal Circle, there is increase in number of accounts of SCSS during the last four years. In PPF, the account base decreased in 2007-08 as compared to 2006-07 though the account in the scheme increased in 2006-07 as compared to 2005-06. Again in 2008-09 the account base in PPF increased. In SB, the account base decreased in 2006-07 as compared to 2005-06 though increasing trend was observed from 2006-07 to 2008-09. In RD/MIS/TD, the account base decreased during the last four years.

In this connection, it is submitted that investment in any instrument depends on investor's choice for effecting personal savings. The decline in number of accounts in these savings scheme may be apparently due to lower rate of interest as compared to similar schemes in the Commercial Banks.

Department of Posts has taken up with Ministry of Finance to raise interest rates on post office saving schemes. Ministry of Finance intimated that interest rates on small saving schemes are benchmarked to the average yields on Government Securities of comparable maturity in the secondary market, as recommended by the Committee on Administered Interest Rates under the Chairmanship of Dr. Y.V. Reddy, the then Dy. Governor, Reserve Bank of India and reviewed from time to time. After the review made in February, 2007, Ministry of Finance has decided to maintain status quo in the matter.

A statement indicating the comparison of interest rates of post office savings schemes *vis-à-vis* Government Securities is given below:

Post Office Savings: Comparison with Government Securities Rates

			Government Securities				
				Average Yield (%)		Spread (bps)	
Scheme	Tenor (Years)	Existing Interest Rate (p.a.)	Term to Maturity (Years)	2008-09	2007-09 (weighted average for 2 years)	Over 1 year average	Over 1 year weighted average
1	2	3	4	5	6	7	8
Post Office Time Deposits (POTD)							
1 Year	1	6.25	1	7.15	7.30	-90	-105
2 Year	2	6.50	2	7.25	7.39	-75	-89

1	2	3	4	5	6	7	8
3 Year	3	7.25	3	7.39	7.50	-14	-25
5 Year	5	7.50	5	7.52	7.60	-2	-10
Post Office Recurring Deposit (PORD)	5	7.50	5	7.62	7.60	-2	-10
Senior Citizens Savings Scheme (SCSS)	5	9.00	5	7.52	7.60	148	140
Post Office Monthly Income Account (POMIA)	6	8.00	6	7.57	7.64	43	36
National Savings Certificate (NSC)-VIII Issue	6	8.20	6	7.57	7.64	63	56
Kisan Vikas Patra (KVP)	8 Years 7 Months	8.40	9	7.65	7.71	75	69
Public Provident Fund	15	8.00	15	8.10	8.09	-10	-9

Notes:-

1. Weighted Average: Weighted for 2007-08 is 33% and for 2008-09 is 67%
2. Two years period is from April, 2007 to March, 2009

However, with a view to sustaining investors' interest, various improvements and amendments to the small savings schemes have been carried out from time to time. In the recent past, Government has taken the following steps to make the small savings schemes more attractive and investor friendly:

(i) The restriction on opening of more than one account during a calendar month under the Senior Citizens Savings Scheme has been removed with effect from 24th May, 2007.

(ii) All categories of pensioners have been allowed to open and maintain 'Pension Account' under Post Office Savings Account Rules, with effect from 11th July, 2007.

(iii) With effect from 10th February, 2007, the penalty on pre-mature withdrawal of deposits under the Post Office Monthly Income Account (POMIA) scheme has been rationalized from 3.5% to 2% on withdrawal on or before expiry of three years and 1% on withdrawal after expiry of three years.

(iv) The maximum deposit ceilings of ₹ 3.00 lakh and ₹ 6.00 lakh under the Post Office Monthly Income Account (POMIA) Scheme has been raised to ₹ 4.50 lakh and ₹ 9.00 lakh in respect of single and joint accounts respectively.

(v) Bonus at the rate of 5% on the deposits made under Post Office Monthly Income Account (POMIA) Scheme on or after 8th December, 2007 upon the maturity of the deposit, has been reintroduced.

(vi) The benefit of Section 80C of the Income Tax Act, 1961 has been extended to the investments made under 5-Year Post Office Time Deposits Account and Senior Citizens Savings Scheme, with effect from 01.04.2007.

(vii) Measures are also taken to promote and popularize these schemes through print and electronic media as well as holding seminars and meetings, providing training to the various agencies involved in mobilizing collection in Small Savings Schemes etc.

(viii) A website of the National Savings Institute under Government of India, Ministry of Finance has also been launched to facilitate interface with the public through wider dissemination of information on small savings and on-line registration and settlement of investors grievances. The website address is *nsiindia.gov.in.*

Comments of the Committee

(Please *see* Para 15 & 16 of Chapter–I)

Recommendation (Para 5)

The Committee further note that the figures of the total amount mobilised under the Post Office Savings Bank Schemes also showed a declining trend. They note that the total funds mobilised under various Schemes declined to ₹ 119883 crore in the year 2006-07 from ₹ 133498 crore during the year 2005-06. Similar shortfalls are also noticed in the case of Savings Certificate operations. The number of certificates issued during the year 2005-06 were ₹ 7.11 crore and the amount mobilised was ₹ 39810.14 crore which declined to ₹ 6.38 crore and ₹ 34534.73 crore respectively during the year 2006-07. The declining trend in the Post Office savings was attributed to several factors including the increasing options for the investors in more promising areas of returns like mutual funds, etc. The Committee, however, find that an important reason for this phenomenon was that the rates of interest on POSB Schemes have not been increased by MoF though the commercial banks have been permitted to do so. For instance, in term Deposit Schemes of one and two years, the leading bank SBI is offering interest at the rate of 9.50 per cent for general category whereas POSB are offering interest at the rate of 6.25 per cent and 6.50 per cent respectively. Besides, for senior citizens, SBI is offering 10 per cent rate of interest for one year and two year term deposit schemes which is 0.50 per cent more than the general category whereas in case of POSB no such extra benefit is being provided to senior citizens. Although the Department had taken-up the matter with MoF, which was followed-up at various levels, yet, inexplicably, no relief has been forthcoming. In the opinion of the Committee, DoP ought to be provided with a level playing field and their case for increasing the rates of interest in various Small Savings Schemes at par with the banks deserves serious consideration. Undoubtedly, decrease in POSB mobilisation will adversely impact the developmental activities of the States as well. The Committee, therefore, desire that without wasting further time DoP should take the matter with MoF at the highest level to ensure that the matter regarding making the interest rates on POSB Schemes comparable to Banks is sorted out at the earliest and the POSB Schemes are restored to their previous role of the most favoured investment option of the common man.

Reply of the Government

Department of Posts has taken up the matter with Ministry of Finance at the level of Minister but Ministry of Finance (MoF) has not agreed to raise interest rates as interest on Small Savings Schemes are benchmarked to the average yield on Government Securities of comparable maturity in the secondary market. The interest rates of various schemes are decided by Ministry of Finance through the Committee on Administered Interest Rates and the Post Office only collects the small savings on behalf of the MoF.

Comments of the Committee

(Please *see* Paras 15 and 16 of Chapter–I)

Recommendation (Para No. 12)

RATE OF REMUNERATION FOR AGENCY SERVICES

The Committee note that based on the recommendations of an Expert Committee set up by MoF in 1993-94, the Department of Posts were to be paid agency charges by MoF with an annual increase of

10 per cent over the preceding year's remuneration. However, the Ministry paid agency charges to DoP as per this formula for a few initial years but have thereafter, failed to adhere to the recommendations of their very own Committee. Finding merit in the contention of the plea of DoP, the Committee have been recommending a positive consideration by MoF in the matter in their successive Reports. Midway through the examination of the present subject, the Committee asked DoP and MoF to reconcile their differences in this regard at the earliest. As a result, MoF have increased the rate of remuneration for the year 2008-09 by 4.6 per cent over the last year. The Committee while appreciating this move of MoF still feel that this increase is nowhere near the 10 per cent benchmark. The Post Office Savings Schemes with more than 17 crore accounts and a bevy of services to offer entail a lot of additional workload on DoP. The massive corpus of these Schemes is a significant contributor to the developmental efforts. The Committee, therefore, desire that as recommended in their Fifty-sixth Report on the Demands for Grants (2008-09), the Department should continue to vigorously pursue with MoF for securing the annual 10 per cent increase in the rate of remuneration as per the recommendations of the Expert Committee.

Reply of the Government

After sustained efforts of the Department of Posts, the Ministry of Finance has constituted a new Expert Committee to review the agency charges.

Comments of the Committee

(Please *see* Para 37 of Chapter–I)

NEW DELHI;
13 *August*, 2010
22 *Sravana*, 1932 *(Saka)*

RAO INDERJIT SINGH,
Chairman,
Standing Committee on
Information Technology.

APPENDIX I

MINUTES OF MEETING TO DISCUSS ISSUES RAISED BY DEPARTMENT OF POSTS BEFORE THE STANDING COMMITTEE ON I.T.

Date: 19 April, 2010

Venue: Room No. 131A, North Block, New Delhi-110001

A meeting was held under the Chairmanship of Finance Secretary (FS) to discuss the issues raised by the Department of Posts in the Standing Committee on IT. Secretary, Department of Expenditure, Secretary, Department of Revenue (DoR), Secretary, Department of Posts, other representatives of Department of Post and Joint Secretary, Department of Financial Services attended the meeting. Joint Secretary (Budget) and Director National Savings Institute, Nagpur were also present. Following issues were discussed.

1. **Ceiling on Post Office Saving Account (POSA):** Secretary, DoP explained that the there is an existing ceiling of Rs. 1 lakh/ 2 lakh for single/joint POSA and this acts as a source of inconvenience for the account holders. DoR has in the past held the view that since the interest accrued on the balances in these accounts are exempt from tax, removal of ceiling will lead to revenue loss. DoP had, in its response, suggested that while keeping the tax exemption limited to the interest accrued on the balances upto the existing ceiling, the administrative ceiling can be removed. Secretary, DoR indicated that on the condition of Post Offices deducting the tax on the interest on balances above the ceiling at source, this proposal may be agreed to.

The proposal of DoP to remove the ceiling on maximum balance and restricting the tax benefit to interest accrued on the balances as per current ceiling was accepted, subject to the condition that the tax accrued will be deducted at source as per the existing provisions of TDS. FS observed that DoP may move a formal proposal for amendment to relevant law and guidelines/rules.

Action: Department of Post/Budget Division

2. **Appointment of Small Savings agents:** Secretary, DoP explained that currently the agents are appointed by the State Governments, and in many cases, where the agents are involved in

cases of frauds, DoP finds difficult to enforce discipline. Director NSI explained that this responsibility was originally with the National Savings Organisation, which after reorganization of the NSO, was delegated to the States. States being the main stakeholder in the whole scheme of affair, it may be advisable to leave this activity with the States.

After discussion, it was felt that the power of State Governments to appoint/remove agents cannot be taken away. However, FS suggested that concurrence of DoP may be inserted as one of the conditions for issue and renewal of license to the agents by State Government authorities. With this, DoP will gain enough influence to instill desired discipline amongst the agents. DoP was requested to move a proposal on these lines.

Action: Budget Division/Department of Posts

3. Delegation of Powers in operating schemes: Secretary, DoP explained that currently, for certain relaxation of Rules like premature closure of accounts, regularisation of irregular accounts etc. the proposals need to come to Ministry of Finance. She suggested that some delegation may ease the process and make it quicker. JS (Budget) explained that most of the important schemes with large base are also being operated by the Banks. Hence, this proposal has a wider implication. It was therefore decided that the proposal would be examined on file. FS requested DoP to send a proposal, accordingly clearly stating the list of cases for which delegation is being sought.

Action: Department of Post/Budget Division

4. Grant of Loans against NSC/KVP/TD: Secretary, DoP explained that currently. subscribers can avail loans against deposits under Recurring Deposits and Public Provident Funds (PPF). However, the same facility is not available for other schemes. The proposal of DoP was accepted and DoP was requested to propose relevant changes in existing guidelines in this regard. It was acknowledged that this change would make these schemes more popular and attractive.

Action: Department of Post/Budget Division

5. Starting of New schemes: Department of Posts indicated that they have sent a proposal for new scheme for women/girl child. It was explained during the meeting that the Small Saving Schemes are issued as Rules under the Savings Certificate Act and thus specific proposal should be sent giving full details and the structure of the proposed scheme.

The suggestion of DoP to start new schemes for women/girl children was agreed in principle. DoP was requested to formulate the scheme accordingly and send it to MoF.

Action: Department of Posts

6. **Remuneration on Small Savings Accounts and Zero Balance Accounts:** Secretary, DoP mentioned that this has been a long pending issue. She also mentioned that DoP should also be paid remuneration on zero balance accounts being maintenance for various government schemes as maintenance of these accounts entail higher number of transactions than even a regular savings account. JS (Budget) informed that the banks are not charging any extra amount for these accounts. It was also informed that the Committee to decide on the remuneration has already been constituted.

It was decided that the Committee may be asked to give its recommendations in 3-4 months and that the issue of remuneration on zero balance accounts may be referred to the Committee as additional ToR.

Action: Budget Division

7. **Expansion of insurance activities of DoP:** Secretary, DoP explained that DoP has proposed an expansion of the Life Insurance scheme offered by it to the IRDA. However, IRDA has opined that it is not competent to regulate activities of the sovereign. JS, DFS explained that IRDA has pointed out two issues, *viz*., the premium calculations of the DoP are not on actuarial basis and thus may lead to long term deficit in the scheme and implicit liability on the Government; and that IRDA is not competent to regulate activities of the Government. He explained that since the scheme is implicitly underwritten by the Government, low premium may eventually devolve upon the Government. Secretary DoP explained that the issue of IRDA regulating the insurance activity of DoP can be posed to Law Department for their opinion. DoP expressed that they are not against corporatization of the insurance business of DoP but it is not proper to withhold expansion till corporatization. FS felt that in long run, it may be better for DoP to corporatize the insurance activity and an in-principle decision needs to be taken and a time bound road map needs to be prepared, if DoP decides in favour of corporatization.

It was decided that opinion of Law Department may be sought on IRDA's competence to regulate DoP's insurance activity. DoP may pro actively examine the issue of corporatization of the insurance activity in long run and DoP may interact with IRDA on other issues regarding costing etc. raised by IRDA.

Action: Department of Posts/Department of Financial Services

APPENDIX II

F.No.18/1/2008-NS-II
Ministry of Finance
Department of Economic Affairs
(Budget Division)

New Delhi, the 7th June, 2010.

OFFICE MEMORANDUM

Sub: Oral evidence on Action Taken Notes relating to Sixty-second Report (Fourteenth Lok Sabha) on the subject "Management of funds by the Department of Posts through Banking and Insurance activities".

In continuation of Department of Economic Affairs' OM of even number dated 26th May, 2010 it is stated that in so far as the issue relating to "providing competitive rates of interest for various Small Savings Schemes" is concerned, the Thirteenth Finance Commission in its report submitted to the President on 30th December, 2009, has made recommendations to provide debt relief to States in which the Commission has *inter alia* recommended that the interest rate on loans contracted by the States till 2006-07 and outstanding at the end of 2009-10 be reset at a common interest rate of 9 per cent per annum in place of 10.5 per cent or 9.5 per cent. The Commission has recommended that all aspects of the design and administration of the National Small Savings Fund (NSSF) be examined with the aim of bringing transparency, market linked rates and other much needed reforms to the scheme.

2. The Government has accepted, *in principle*, the recommendations of the Commission relating to interest rate reset on NSSF loans to the States. However, since the recommendations are comprehensive and cover other structural aspects like interest rate mismatch, tenor mismatch and other administrative matters, it was decided that Ministry of Finance will constitute a Committee to work out detailed modalities for implementation of this recommendation.

3. The Government has accordingly decided to set up a Committee with Smt. Shyamala Gopinath, Deputy Governor, RBI as the Chairperson. The other members of the Committee are as under:

(i) Joint Secretary (Budget), Ministry of Finance, DEA	Member

(ii)	Shri Anil Bisen, Economic Adviser, Ministry of Finance, DEA	Member
(iii)	Dr. Rajiv Kumar, Director & Chief Executive, Indian Council for Research on International Economic Relations (ICRIER)	Member
(iv)	Shri J.M. Garg, Chairman & Managing Director, Corporation Bank	Member
(v)	Finance Secretaries of State Governments of Maharashtra and West Bengal	Members

4. The terms of reference of the proposed Committee will be as under:

(a) To review the existing parameters for the Small Saving Schemes in operation, and recommend mechanisms to make them more flexible and market linked.

(b) To review the existing terms of the loans extended from the NSSF to the Centre and States and recommend on the changes required in the arrangement of lending the net collection of small savings to Centre and States.

(c) To review other possible investment opportunities of the net collection from small savings and the repayment of NSSF loans extended to States and Centre.

(d) To review the administrative arrangement including the cost of operation.

(e) To review the incentives offered on the small saving investments by the States.

5. While making its recommendations, the Committee would be requested to consider the following:

(a) The importance of small savings in the overall savings in the economy especially its contribution in promoting savings amongst small investors.

(b) The need of NSSF to be a viable fund, ensuring that the expenditure in form of interest payment to investors and administrative costs are met by the return on investment made from the net collections of small savings.

6. Orders for setting up the aforesaid Committee will be issued shortly after receipt of concurrence from the State Governments of West Bengal and Maharashtra for inclusion of their Finance Secretaries in the Committee.

(NARESH MOHAN JHA)
Deputy Secretary to the Govt. of India

To

Ms. Sudesh Luthra,
Director,
Lok Sabha Secretariat, Parliament House Annexe,
New Delhi.

APPENDIX III

STANDING COMMITTEE ON INFORMATION TECHNOLOGY
(2009-10)

MINUTES OF THE NINTH SITTING OF THE COMMITTEE

The Committee sat on Thursday, 7th January, 2010 from 1500 hours to 1600 hours in Committee Room No. B, Parliament House Annexe, New Delhi.

PRESENT

Shri Inder Singh Namdhari—*Acting Chairman*

MEMBERS

Lok Sabha

2. Shri Rajendra Agrawal
3. Shri Nikhil Kumar Choudhary
4. Shri Charles Dias
5. Shri Rajen Gohain
6. Smt. Darshana Jardosh
7. Shri Abdul Rahman
8. Shri Prem Das Rai
9. Shri Tufani Saroj
10. Shri Tathagata Satpathy
11. Shri Adhalrao Patil Shivaji
12. Dr. Bhola Singh
13. Shri Sushil Kumar Singh
14. Shri C. Sivasami

Rajya Sabha

15. Prof. Alka Balram Kshatriya
16. Shri Dharam Pal Sabharwal
17. Shri Prabhat Jha
18. Shri P. Rajeeve
19. Shri M.P. Achuthan
20. Shri Raj Kumar Dhoot
21. Shri Jesudas Seelam

SECRETARIAT

1. Shri T.K. Mukherjee	—	*Joint Secretary*
2. Smt. Sudesh Luthra	—	*Director*
3. Shri H.R. Kamboj	—	*Deputy Secretary*

2. In the absence of the Chairman, the Members present at the sitting chose Shri Inder Singh Namdhari under rule 256(3) of the Rules of Procedure and Conduct of Business in Lok Sabha to preside over the sitting.

3. The Chairman then welcomed the newly appointed Member Shri Jesudas Seelam, MP, Rajya Sabha who is nominated *w.e.f.* 31 December, 2009 and other Members to the sitting of the Committee.

4. Thereafter, the Committee took up the draft Action Taken Report on Sixty-second Report (Fourteenth Lok Sabha) on the subject 'Management of funds by the Department of Posts through Banking and Insurance Activities' for consideration and adoption. After some deliberations, the Committee observed that some of the crucial issues *viz*. the need for revision of rates of interest on Postal Savings Bank Schemes comparable with those of the commercial banks, raising the maximum limit of deposit in postal savings account, starting of some new Schemes for girl child, working women, rural women etc. and securing the annual ten percent increase in the rate of remuneration for agency services, etc. as recommended by the Committee in the Sixty-second Report are long pending with the Ministry of Finance. Not only that some of these issues have consistently been recommended by the Committee in their earlier Reports too. The action taken replies indicate that these matters are still being considered by MoF. In view of this, the Committee, decided to take oral evidences of the nodal Department and the Ministry of Finance before finalizing the Draft Action Taken Report.

The Committee then adjourned.

APPENDIX IV

STANDING COMMITTEE ON INFORMATION TECHNOLOGY
(2009-10)

MINUTES OF THE TENTH SITTING OF THE COMMITTEE

The Committee sat on Wednesday, 10th February, 2010 from 1500 hours to 1530 hours in Committee Room No. 53, Parliament House, New Delhi.

PRESENT

Shri Rao Inderjit Singh — *Chairman*

MEMBERS

Lok Sabha

2. Shri Rajendra Agrawal
3. Shri Nikhil Kumar Choudhary
4. Shri Charles Dias
5. Shri Rajen Gohain
6. Smt. Darshana Jardosh
7. Shri Inder Singh Namdhari
8. Shri Abdul Rahman
9. Dr. Bhola Singh
10. Shri Dhananjay Singh
11. Shri C. Sivasami

Rajya Sabha

12. Shri Dharam Pal Sabharwal
13. Shri Jesudas Seelam
14. Shri Prabhat Jha
15. Shri P. Rajeeve
16. Shri Shriram Pal
17. Shri N. R. Govindrajar
18. Shri M.P. Achuthan
19. Shri Raj Kumar Dhoot

SECRETARIAT

1. Shri T.K. Mukherjee	—	*Joint Secretary*
2. Smt. Sudesh Luthra	—	*Director*

WITNESSES

Ministry of Communications and Information Technology
(Department of Posts)

1. Ms. Radhika Doraiswamy	—	Secretary
2. Shri S. Samant	—	Member (Tech)
3. Dr. Uday Balakrishnan	—	Member (PLI)
4. Shri S.K. Sinha	—	CGM (PLI)
5. Ms. Suneeta Trivedi	—	CGM (BD&MD)
6. Smt. Annie Moraes	—	JS&FA

Ministry of Finance
(Department of Financial Services)

1. Shri J. Hari Narayan	—	Chairman (IRDA)
2. Shri Tarun Bajaj	—	Joint Secretary (I&P)
3. Shri Lalit Kumar	—	Director

Ministry of Finance
(Department of Economic Affairs)

1. Shri Shakti Kanta Das	—	Joint Secretary (Budget)
2. Shri Alok Chopra	—	Director (Budget)

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. He stated that the sitting was convened to take oral evidence of the representatives of Department of Financial Services and Economic Affairs of the Ministry of Finance and Department of Posts of the Ministry of Communications and Information Technology on Action Taken Notes on Sixty-second Report (Fourteenth Lok Sabha) on the subject "Management of Funds by the Department of Posts through Banking and Insurance activities" as decided by the Committee at the sitting held on 7th January, 2010. He further informed the Members that the Secretary, Department of Economic Affairs of Ministry of Finance in a fax message received on 9th February, 2010 had requested him to postpone the oral evidence as he was fully preoccupied with the Union Budget preparation, which

he did not agree, in the case of Department of Financial Services of Ministry of Finance, a correspondence was received from the Secretary today to permit the Joint Secretary to represent the Department on his behalf. He also informed that the replies to the list of points sent by the Secretariat in the context of today's sitting were sent to the aforesaid Ministries/Departments. The replies of the Department of Financial Services (Ministry of Finance) and Department of Posts (Ministry of Communications and Information Technology) were received and circulated to Members. However, in the case of Department of Economic Affairs (Ministry of Finance) the replies have been brought by the representatives at the sitting only.

[The representatives of the Department of Posts (Ministry of Communications and Information Technology) and Departments of Financial Services and Economic Affairs (Ministry of Finance) were then called in]

3. The Chairman welcomed the Secretary, Department of Posts (Ministry of Communications and Information Technology), and Officers of the Department of Financial Services and Economic Affairs (Ministry of Finance) to the sitting of the Committee. The Committee noted that the Departments of Financial Services and Economic Affairs of the Ministry of Finance have not been represented by their respective Secretaries even when the Hon'ble Chairman did not agree to their requests to postpone the sitting/represent the Officers other than the Secretary to the Meeting. The Committee took the matter seriously and placed their displeasure on record. The representatives of the Departments of Economic Affairs and Financial Services (Ministry of Finance) present were requested to convey this to their Secretaries. The Committee also decided that the agenda of today's sitting would now be taken up on 4th March, 2010.

A verbatim record of the proceeding has been kept.

The Committee then adjourned.

APPENDIX V

STANDING COMMITTEE ON INFORMATION TECHNOLOGY
(2009-10)

MINUTES OF THE ELEVENTH SITTING OF THE COMMITTEE

The Committee sat on Thursday, the 4th March, 2010 from 1500 hours to 1645 hours in Room No. 62, Parliament House, New Delhi.

PRESENT

Shri Rao Inderjit Singh — *Chairman*

MEMBERS

Lok Sabha

2. Shri Rajendra Agrawal
3. Shri Nikhil Kumar Choudhary
4. Shri Milind Deora
5. Shri Charles Dias
6. Shri Rajen Gohain
7. Smt. Darshana Jardosh
8. Shri Mithilesh Kumar
9. Shri Abdul Rahman
10. Shri Tufani Saroj
11. Shri Tathagata Satpathy
12. Dr. Bhola Singh
13. Shri Dhananjay Singh
14. Shri C. Sivasami
15. Shri Dharmendra Yadav

Rajya Sabha

16. Prof. Alka Balram Kshatriya
17. Shri Ravi Shankar Prasad
18. Shri P. Rajeeve
19. Shri M.P. Achuthan

Secretariat

1. Shri T.K. Mukherjee	—	*Joint Secretary*
2. Smt. Sudesh Luthra	—	*Director*

Witnesses

Ministry of Communications and Information Technology (Department Of Posts)

1.	Ms. Radhika Doraiswamy	—	Secretary (Posts)
2.	Shri S. Samant	—	Member (Tech)
3.	Dr. Uday Balakrishnan	—	Member (PLI)
4.	Shri S.K. Sinha	—	CGM (PLI)
5.	Ms. Suneeta Trivedi	—	CGM (BD)
6.	Smt. Annie Moraes	—	JS&FA
7.	Shri A.S. Prasad	—	DDG (FS)
8.	Shri Ashok Pal Singh	—	DDG (Tech)
9.	Ms. Meera Handa	—	DDG (PO & I)
10.	Ms. Aindri Anurag	—	DDG (CP)

Ministry of Finance (Department of Financial Services)

1.	Shri R. Gopalan	—	Secretary (DFS)
2.	Shri J. Hari Narayan	—	Chairman (IRDA)
3.	Shri Tarun Bajaj	—	Joint Secretary (I&P)
4.	Shri Lalit Kumar	—	Director

Ministry of Finance (Department of Economic Affairs)

1.	Shri Ashok Chawla	—	Finance Secretary
2.	Shri Shaktikanta Das	—	Joint Secretary (Budget)

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee convened to take oral evidence of the representatives of the Departments of Economic Affairs and Financial Services of the Ministry of Finance and Department of Posts of the Ministry of Communications and Information Technology on Action

Taken Notes as received from the Department of Posts on Sixty-second Report on the subject 'Management of funds by the Department of Posts through Banking and Insurance Activities'. Before the witnesses were called in for oral evidence, he informed that the Committee during the course of examination of Demands for Grants (2009-10) had decided to select the subject 'Allocation of Spectrum' for examination and report to Parliament. Since some of the issues related to the matter are *sub judice,* the matter was placed before the Hon'ble Speaker in the light of the extant rules and procedure. As per the orders of Hon'ble Speaker, the Committee can formally select the subject 'Allocation of Spectrum' except the issues which are currently before the Hon'ble Court.

3. About examination of the subject 'Growth of Television Channels in India and Content Regulation Mechanism', as selected by the Committee for examination and report to Parliament, the Committee decided that for wider consultations, the views of the experts, interest groups and public at large should be invited by giving advertisement in the print and electronic media through DAVP. About another subject 'Progress of Implementation of National e-Governance Plan', the Committee observed that consultations with the State Governments was necessary since various e-Governance projects are being implemented by the State Governments. As such it was decided that the written views of the State Governments might be obtained by the Committee followed by evidence of the officials of the State Governments after seeking the permission of the Hon'ble Speaker as per Direction 60 (1) of the Directions by the Speaker, Lok Sabha.

[The witnesses were then called in]

4. The Chairman welcomed the representatives of the Department of Posts of the Ministry of Communications and Information Technology and Departments of Economic Affairs and Financial Services of the Ministry of Finance to the sitting of the Committee. At first instance, the Secretary, Department of Posts explained about the initiatives taken by them to pursue with the Ministry of Finance with regard to various recommendations made by the Committee in their Sixty-second Report on 'Management of funds by the Department of Posts through Banking and Insurance Activities'. The issues recommended *inter alia* include providing autonomy to the Department of Posts on the issues of rates of interest provided by DoP for various Small Savings Schemes, increasing the ceiling of Deposits in Single and Joint Accounts of the Postal Savings Bank, starting of new schemes under Small Savings Schemes, in terms of policy matters with regard

to insurance activities of DoP and positive consideration in fixing the rate of remuneration provided to DoP for various agency services, etc. Thereafter, the Secretaries of the two Departments of the Ministry of Finance placed their views on the matter. The Committee deliberated at length on various issues. However, decision on the aforesaid issues could not be arrived at. As such the Committee requested the Secretaries of the Departments of Economic Affairs and Financial Services and Posts to sort out various long pending issues. The Committee also decided that after a month, the representatives of the two Departments of the Ministry of Finance and the Department of Posts would again be called after giving due intimation to them.

A copy of verbatim proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX VI

STANDING COMMITTEE ON INFORMATION TECHNOLOGY
(2009-2010)

MINUTES OF THE NINETEENTH SITTING
OF THE COMMITTEE

The Committee sat on Thursday, the 10th June, 2010 from 1100 hours to 1230 hours in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Rao Inderjit Singh — *Chairman*

MEMBERS

Lok Sabha

2. Shri Nikhil Kumar Choudhary
3. Shri Charles Dias
4. Shri Rajen Gohain
5. Smt. Darshana Jardosh
6. Shri Mithilesh Kumar
7. Shri Sadashivrao Dadoba Mandlik
8. Shri Inder Singh Namdhari
9. Shri Abdul Rahman
10. Dr. Bhola Singh
11. Shri Dhananjay Singh
12. Shri Sushil Kumar Singh
13. Shri Dharmendra Yadav

Rajya Sabha

14. Prof. Alka Balram Kshatriya
15. Shri P. Rajeeve
16. Shri M.P. Achuthan
17. Shri Rajkumar Dhoot

SECRETARIAT

1. Shri T.K. Mukherjee — *Joint Secretary*
2. Smt. Sudesh Luthra — *Director*

WITNESSES

MINISTRY OF COMMUNICATIONS &
INFORMATION TECHNOLOGY
(DEPARTMENT OF POSTS)

1.	Ms. Radhika Doraiswamy	Secretary (Posts)
2.	Shri S. Samant	Member (Tech.)
3.	Dr. Uday Balakrishnan	Member (PLI)
4.	Shri S.K. Sinha	CGM (PLI)
5.	Smt. Annie Moraes	JS&FA
6.	Shri A.S. Prasad	DDG (FS)
7.	Ms. Aindri Anurag	DDG (CP)

MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)

1.	Shri R. Gopalan	Secretary (DFS)
2.	Shri J. Hari Narayan	Chairman (IRDA)
3.	Shri Tarun Bajaj	Joint Secretary (I&P)
4.	Shri Lalit Kumar	Director (Ins.)

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

1.	Shri Ashok Chawla	Finance Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee convened to take further oral evidence of the representatives of the Department of Posts (Ministry of Communications and Information Technology) and the Departments of Economic Affairs and Financial Services (Ministry of Finance) on the long pending issues contained in the Sixty-second Report (Fourteenth Lok Sabha) on the subject 'Management of funds by the Department of Posts through Banking and Insurance Activities'.

[The witnesses were then called in]

3. The Chairman welcomed the representatives of the Department of Posts (Ministry of Communications and Information Technology) and Departments of Economic Affairs and Financial Services (Ministry of Finance) to the sitting of the Committee. Thereafter, the Secretary, Department of Posts informed the Committee that in the meeting

held on 19th April, 2010 with the Finance Secretary a number of issues have been resolved which *inter-alia* include enhancement of ceiling of deposits in single and joint accounts in Post Office and starting of new scheme by the Department of Posts. The rate of remuneration on small savings scheme and zero balance account, which is a long pending issue of the Department of Posts, has been referred to the expert Committee. Regarding insurance activities by the Department of Posts, the matter has been taken up with the Department of Financial Services which has made a reference to the Ministry of Law. The Chairman, IRDA also informed the Committee about the proposal of the Department of Posts on insurance activities. The members also sought certain clarifications on various issues relating to the subject and the representatives of the respective Ministries/Departments responded to the same.

A copy of verbatim proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX VII

STANDING COMMITTEE ON INFORMATION TECHNOLOGY
(2009-2010)

MINUTES OF THE TWENTY FIRST SITTING
OF THE COMMITTEE

The Committee sat on Tuesday, the 10th August, 2010 from 1600 hours to 1800 hours in Room No. '62', First Floor, Parliament House, New Delhi.

PRESENT

Shri Rao Inderjit Singh — *Chairman*

MEMBERS

Lok Sabha

2. Shri Rajendra Agrawal
3. Shri Milind Deora
4. Shri Charles Dias
5. Smt. Darshana Jardosh
6. Shri Mithilesh Kumar
7. Shri Inder Singh Namdhari
8. Shri Abdul Rahman
9. Shri Prem Das Rai
10. Shri Tufani Saroj
11. Shri Tathagata Satpathy
12. Dr. Bhola Singh
13. Shri Dharmendra Yadav

Rajya Sabha

14. Prof. Alka Balram Kshatriya
15. Shri Prabhat Jha
16. Shri M.P. Achuthan

SECRETARIAT

1. Shri T.K. Mukherjee — *Joint Secretary*
2. Smt. Sudesh Luthra — *Director*

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2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. The Committee then took up first item on the agenda i.e. consideration and adoption of two draft Action Taken Reports (i) Draft Action Taken Report on Sixty-second Report (Fourteenth Lok Sabha) on 'Management of Funds by the Department of Posts through Banking and Insurance activities'; and (ii) *** **** . After deliberations, the Committee adopted the aforesaid draft reports without any modification.

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A verbatim record of the proceedings has been kept.

The Committee, then, adjourned.

APPENDIX VIII

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS/ OBSERVATIONS CONTAINED IN THEIR SIXTY-SECOND REPORT (FOURTEENTH LOK SABHA)

[*Vide* Paragraph No. 5 of Introduction]

(i)	Recommendations/Observations which have been accepted by the Government Paragraph Nos:- 1, 2, 6, 7, 8, 9, 13, 14, 15, 16, 17, 21, 22, 24, 25, 26, 27, 28 & 29	
	Total	19
	Percentage	65.52
(ii)	Recommendations/Observations which the Committee do not desire to pursue in view of the replies of the Government Paragraph No:- Nil	
	Total	Nil
	Percentage	0
(iii)	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and require reiteration Paragraph Nos:- 10, 11, 18, 19, 20 & 23	
	Total	06
	Percentage	20.69
(iv)	Recommendations/Observations in respect of which replies are of interim nature:- Paragraph Nos:- 3, 4, 5 & 12	
	Total	04
	Percentage	13.79