Transformation of India Post for Vision 2020

Volume 1
Executive Summary and Presentation Synopsis

Supported by

THE WORLD BANK
Seminar on

Transformation of India Post
for Vision 2020

Delivering Efficient, Postal, Financial and Information Technology Services in the Context of a Viable Postal Institution

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Executive Summary and Presentation Synopsis

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Foreword

India Post has a value well beyond that of a postal and savings outlet for India’s more than one billion people. But with its core business activity of postal services in decline and with recurring operating losses (partly on account of non-definition of its universal service obligation and lack of reimbursement for this), India Post faces great pressure to reduce costs, increase revenue and operate on a far more commercial basis. Part of the answer will lie in improving its postal services and adapting them to the needs of a rapidly evolving and increasingly technology-driven world. India Post will also need to focus on non-core activities—financial, non-financial, and information technology–based services, provided mainly through partnerships with foreign and domestic private firms. Indeed, these services, especially financial services, already account for an increasingly important part of the revenue stream for India Post, as they do for many other post offices around the world.

With an extensive network of post offices supported by an immense human infrastructure, India Post has great potential power. Supported by an electronic network, its capacity to “deliver development the last mile” would be unsurpassed almost anywhere in the world. Post offices could continue to sell postal services while also offering a wider range of financial services (savings, pensions, insurance, microfinance, ATM access, prepaid cards), non-financial services (information, data mining, property registration), and information technology–based services (e-business, e-government, electronic information).

Indeed, through such services India Post has immense potential to bring development into virtually every Indian village and to touch the life of every Indian citizen. Beginning to address the challenge of realizing that potential for the benefit of the citizens of India was the purpose of this seminar. This report, prepared with inputs from PriceWaterhouseCoopers, who were engaged to document the seminar, provides a record of our understanding of the seminar discussions and presentations.
### Acronyms and Abbreviations

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<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tr>
<td>ARCEP</td>
<td>Autorité de régulation des communications electroniques et des postes (telecommunications and posts regulator, France)</td>
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<td>ART</td>
<td>Autorité de régulation des télécommunications (telecommunications regulatory authority, France)</td>
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<td>ATM</td>
<td>Automated teller machine</td>
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<td>CEO</td>
<td>Chief executive officer</td>
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<td>CII</td>
<td>Confederation of Indian Industry</td>
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<td>DPAG</td>
<td>Deutsche Post AG</td>
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<td>EMS</td>
<td>Express mail service</td>
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<td>EPM</td>
<td>Electronic postmark</td>
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<td>EU</td>
<td>European Union</td>
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<td>FICCI</td>
<td>Federation of Indian Chambers of Commerce and Industry</td>
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<td>HR</td>
<td>Human resource</td>
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<td>ICRA</td>
<td>Investment Information &amp; Credit Rating Agency</td>
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<td>ICT</td>
<td>Information and communications technology</td>
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<td>IIM</td>
<td>Indian Institute of Management</td>
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<td>IP</td>
<td>India Post</td>
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<tr>
<td>IT</td>
<td>Information technology</td>
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<tr>
<td>MFIs</td>
<td>Microfinance institutions</td>
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<td>NABARD</td>
<td>National Bank for Agriculture and Rural Development</td>
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<tr>
<td>PCO</td>
<td>Public calling office</td>
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<tr>
<td>RRBs</td>
<td>Regional rural banks</td>
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<tr>
<td>SHG</td>
<td>Self-help group</td>
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<td>SMS</td>
<td>Short message service</td>
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<td>STD</td>
<td>State trunk dialing</td>
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<td>UPU</td>
<td>Universal Postal Union</td>
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<td>USO</td>
<td>Universal service obligation</td>
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<tr>
<td>USPS</td>
<td>U.S. Postal Service</td>
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<tr>
<td>V-SAT</td>
<td>Very Small Aperture Terminal</td>
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<td>XML</td>
<td>Extensible Markup Language</td>
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Executive Summary

With 155,000 post offices India Post is the largest postal network in the world. It is also an increasingly important player in financial services, channeled through its vast branch network. In addition to providing money orders, India Post is the country's largest savings bank, with deposits of more than Rs260,000 crore (US$60 billion, 16 percent of the banking sector's total deposits). In recent years India Post has developed new areas of business to compete with the private sector and meet the needs of business customers, often through partnerships with private entities. It has a fast-growing partnership with Western Union for money transfers, links with mutual fund and asset management companies (IDBI-Principal, UTI), and partnerships with other financial institutions for warrant payments (ICICI Bank, Citibank).

Despite these new business developments and the growing revenues from financial services (now 45 percent of the total), India Post continues to make substantial losses. Revenues grew by 6 percent in 2003/04, to Rs 4,260 crore (US$980 million). But expenditures rose by 5 percent, to Rs 5,630 crore (US$1.3 billion), leading to a net loss of Rs 1,370 crore (US$320 million). Contributing to the losses, mail volumes have dropped by around 25 percent since 1999/2000.

India Post faces great challenges. For some it is a symbol of government authority, with more extensive links to rural networks than any other government department. For others it is a commercial organization that must pay its own way. Recent signals from the highest levels of government suggest that the subsidy that India Post receives to maintain its vast network must be reduced and that it must increasingly rely on its own revenues to fund the network.

**Goals and Structure of the Seminar**

These circumstances set the context for the seminar, organized jointly by the Department of Posts and the World Bank with the support of the Swiss Agency for Development and Cooperation. The seminar was aimed at highlighting the benefits of reform to India Post, the Government of India, and users of the postal service. It brought the participants together to debate the issues faced by India Post and to develop a road map of reform that could take it toward a more viable future while still enabling it to fulfill its social obligation and maintain its reach. The move toward more viable operations needs to be supported at least in part by more efficient delivery of postal, financial, and information technology-based services, and that formed an important theme for the seminar. It also helps explain the variety of participants in the seminar—not only key stakeholders from the government and the Department of Posts but also representatives from customers, suppliers, banks, the private sector, and other interested parties. The seminar also brought together a range of speakers from postal administrations in China, France, and Germany and experts from the financial services sector, including ING Bank. The seminar built on the foundations laid at an earlier one, in November 2002, on harnessing the outreach of India's postal network.

The seminar was split into seven sessions:

- **Opening and Strategic Overview of the Postal Sector in India**—to review the challenges faced by India Post.
- **Reengineering and Restructuring Experiences**—to discuss postal reforms being undertaken throughout the world and reform and restructuring being undertaken in Indian banks.
- **Operational Experiences**—to share best practices in the transformation of postal operations in Germany and France.
- **Technology and Financial Service Solutions**—to assess the opportunities for and importance of providing financial services through postal networks and the technology required to support such activities.
- **Breakout Groups**—to discuss the role of technology and financial services in India Post and review postal sector restructuring and new business opportunities.
- **Reinvention of India Post**—to review a strategy, based on discussions in earlier sessions, for taking India Post forward in the medium term.
Closing Session—to hear closing remarks by the Secretary Posts, the Member Operations, the Sector Manager, World Bank, and the Expenditure Secretary of the Ministry of Finance as well as a formal closing address by the Cabinet Secretary.

This report on the seminar is in two volumes. The first summarizes the seminar, providing a brief synopsis of the sessions and the key messages from each presentation and identifying the steps required in the next stage of the transformation of India Post. The second serves as a detailed reference document, reproducing each presentation in detail and covering the ensuing question-and-answer sessions.

The following sections report on the key issues discussed in the seminar, highlighting areas that require more focus if India Post is to be successfully transformed into a more efficient and viable operation.

**Sector Policy**

India Post is so much a part of the social and economic fabric of India that talk of restructuring it can take place only within a broader discussion of the policy for the sector as a whole as well as for other sectors. The structure of the postal market is changing around the world, as are customer habits and needs—and these changes are being driven by technology. This transformation has broad policy implications for the definition of universal service, for market liberalization, and for sector regulation. And because the postal sector touches on other sectors, postal sector policy needs to be consistent with policies in such sectors as finance, information technology, and government services (including e-government).

The traditional universal service obligation in the postal sector calls for daily delivery throughout a territory at an affordable price. For India Post that raises several issues. Daily delivery is costly, requiring postmen to pass every address point six days a week. Given the volumes posted in India—eight pieces per capita a year—this represents a substantial investment, one ultimately subsidized by Indian taxpayers. The emphasis on affordability of tariffs has led to postage being priced substantially below cost on a range of products, notably postcards, letter cards, newspapers, and printed books. Although some rebalancing of tariffs has taken place in the past few years, more work needs to be done to determine whether the price subsidies are reaching those who need them. Subsidies for postage on newspapers and printed books, for example, are most likely to benefit those who can afford to pay market price for the service—the literate, the well educated, and the economically well-off.

Liberalization policy in the sector needs to be defined. India Post already faces competition in business mail (its most lucrative sector), as businesses seek alternative service providers that can meet their ever increasing demands more efficiently and effectively. India Post has introduced some new services to compete with these operators, but its institutional framework is not designed to allow it to compete effectively in the open market. The main concern for sector policy should not be the existence of competition but the lack of suitable regulation to ensure that all providers are meeting specified standards of service. So, in tandem with defining liberalization policy, the government needs to define how the sector will be regulated in the future. International practice is to move toward independent regulation, either by stand-alone regulators or by part of a multi-sector regulatory authority.

The purpose of India Post also needs to be defined. Is India Post simply a post office with an obligation to provide universal postal service and broaden its range of services to make efficient use of its extensive network? Or is it a vehicle for providing government and private services to the vast rural population? If the government settles on the second option, it will need to identify what services it wishes India Post to provide throughout rural India. And even that mandate does not preclude India Post from acting as a commercial organization. It simply means that India Post must be compensated in a transparent way for providing the services, which could include financial and information technology–based services as well as postal services.

**Universal Service Obligation**

Universal provision of postal service in India rates among the best in the world. With the number of post offices having grown from 23,344 after independence in 1947 to 155,000 in 2005, there is a post office for every 6,500 people in India. Moreover, 89 percent of these post offices are in rural areas, opened with the tacit knowledge that
they would be loss making. This situation is not unique to India—rural post offices around the world lack sufficient transactions to make them viable. In France 20 percent of all post offices are active for less than an hour a day, and in the United Kingdom 90 percent of rural post offices are loss making. The U.K. government has recognized the community value of rural post offices and provides Royal Mail an explicit subsidy to maintain them.

In India the issue is whether the current method of providing rural post offices is the most cost-effective way of achieving universal service goals. India Post needs to explore whether franchising or using agents, or simply selling basic products through other outlets, would be a more efficient way to increase access. And it is critical to understand how to increase revenues by channeling financial and information technology-based services through the vast rural branch network—and even more important to implement this.

A second key aspect of the universal service obligation is mail delivery. The vast changes in communications in recent years raise the question of whether all postal users still need mail delivery six days a week. The expansion of mobile phones and electronic communications has greatly altered the profile of mail in many countries and is gradually doing so in India. Thus policymakers should look at the needs of the market to help reshape the universal service obligation. In the European Union the commitment to daily delivery is written into law, but many question, whether this is really a market-based need. Business customers will demand daily delivery and their volume of mail will warrant that service, but whether residential customers require the same frequency of service is unclear. The feasibility of segregating business and domestic mail for delivery is also an issue. These issues merit greater investigation, to establish the implications of any changes for customers, service and cost.

Who benefits from affordable tariffs is another question that needs consideration. There appears to be little merit in setting tariffs for core services that clearly do not cover the cost of providing the services and that potentially benefit the better-off and in some cases business customers. The tariff structure of services such as Speed Post, introduced to compete with courier operators, also needs review. According to India Post’s 2004/05 annual report, revenues from Speed Post do not cover costs. That means that the government is effectively subsidizing competitive products and services being provided by India Post.

**MARKET LIBERALIZATION AND REGULATION**

A clear message from the seminar is that market liberalization needs to be approached cautiously. Yet market liberalization is already taking place. India Post faces competition in some of its most important markets. Courier companies are already well established in India, and these companies could grow to provide additional services to the business community, further eroding India Post’s revenues.

The European Union has tackled liberalization by slowly reducing the reserved area for postal services. On January 1, 2006, all mail over 50 grams will be open to competition. But in most EU member countries around 95 percent of the market will probably still be reserved for the incumbent postal administration. Thus Indian policymakers and India Post should not be too cautious in their approach to market liberalization. At the very least liberalization will mean that the operators now providing valuable services outside the law will be working within the requirements of the law.

Liberalization brings with it a need to establish an independent regulatory body that can provide knowledgeable and impartial arbitration in the sector. The present situation, with the Department of Posts acting as both operator and regulator, benefits neither India Post nor the competitors the department is supposed to regulate.

**RESTRUCTURING OF INDIA POST TO DELIVER EFFICIENT SERVICES**

Seminar participants largely agreed that it was time to reconsider the status of India Post as a government department. Changing market requirements demand a more commercial focus that would enable India Post to respond to an increasing array of competitors and rapid changes in technology. Despite facing growing competition in its core areas of competence, India Post should be able to diversify its products over the medium term to increase revenue, providing a wider array of business mail and financial services.

Participants also agreed that India Post has remarkable outreach and so is well placed to provide pension, insurance, and a full range of
banking services, particularly to underserved poor and rural clients. Yet there was little consensus on how best to do this. Some felt that India Post could provide financial services directly and assume the financial and business risks in its own name. Many others felt strongly that India Post should serve merely as a conduit or service provider, acting on behalf of an existing financial institution or the government.

While no resolution was reached, perhaps the next steps for India Post in either scenario should center on piloting financial products and services, with the results of these initiatives forming the basis for its future strategy. The emphasis should continue to be on broadening the range of financial services offered through the postal network and piloting new products. In addition, while there have been some initial successes with Western Union and some of the mutual fund companies, much untapped potential remains in this area. Depending on progress on this front and the successes and failures in any new products or partnerships pursued by India Post, the longer-term strategy could then be developed.

Regardless of what this strategy is, there is a clear consensus on the need to fully realize India Post’s potential to leverage its network and strengths to deliver a greater range, depth, and quality of financial services, especially in rural areas. That would not merely improve operational efficiency and boost revenues but it would also contribute significantly to the development of the financial sector in India.

Another consensus of the seminar was on the need for technology to be a key enabler for whatever strategy India Post pursues. Better technology would bring many benefits—greater efficiency in operations, better financial management and accountability, and increased revenue from the sale of information technology–based services (such as e-government and logistics services) through the postal network.

More broadly, the seminar reached strong consensus on the need for change to enable India Post to increase its efficiency. That would require reinventing the organization through a move to action and implementation, emphasized by both the Secretary Posts and Member Operations along with many others at the seminar. Seminar participants widely agreed that greater and a greater range of postal, financial, and information products and services would be the drivers in creating a more viable India Post—an agile, market-responsive, and efficient organization capable of making the best possible use of its considerable assets of trust and goodwill, its human resources, and its branch infrastructure. Still, translating the ideas for new postal, financial and information technology–based services, and for new partnerships, into activity on the ground remains a challenge for India Post, as the following sections outline.

**Key Operational Issues**

The sheer size and vast outreach of India Post give it great potential. If India Post can harness its strengths and address its weaknesses, it could become a viable, customer-focused organization (Table 1).

**Management Autonomy**

Under India Post’s current structure, its management lacks the autonomy to make commercial decisions. Several other factors also undermine the capacity of India Post to act as a commercial organization—a policy of internal recruitment, a promotion policy based on seniority rather than merit, and a lack of incentives in the salary structure. Without a change in the status of India Post, management is unlikely to gain significant autonomy. Still, some short-term measures could be taken to improve the situation, including giving managers, greater budgetary control to empower them to make decisions, encouraging efficiency by measuring results and comparing the performance of circles (benchmarking), and decentralizing decision making to the circle level to the greatest extent feasible.

In addition, India Post needs to take a more commercially focused approach to business planning so that it can react more quickly to the

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1 Implicit in such a vision for India Post is the conception of a corporate entity, which could be either the entire postal department or just a part of the current department structured as a corporate entity (bank) to provide financial services.
Table 1. Strengths and Weaknesses of India Post

<table>
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<th>Strengths</th>
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<tr>
<td>♦ Network of 155,000 branches</td>
<td>♦ Recurring deficit and budget subsidies</td>
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<tr>
<td>♦ Rural coverage serving all sections of society</td>
<td>♦ Limited capital expenditure (1 percent of total revenue)</td>
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<tr>
<td>♦ Largest savings bank in India</td>
<td>♦ Non-economic pricing</td>
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<td>♦ Second largest life insurance provider</td>
<td>♦ Lack of adequate compensation for agency functions</td>
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<td>♦ Largest pension distributor</td>
<td>♦ Slow growth in traditional products and cream skimming by competitors</td>
</tr>
<tr>
<td>♦ Dedicated and trusted workforce</td>
<td>♦ Slow growth in core products</td>
</tr>
<tr>
<td>♦ Largest retail network, carrying multiple products and services</td>
<td>♦ Lack of management autonomy</td>
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Market. The five-year planning cycles designed for government administrations are clearly inadequate for organizations working toward commercial objectives.

Marketing Strategy and Business Development

As a government department, India Post lags behind its more commercial competitors in marketing. But with all the strengths it possesses, a clearly defined marketing strategy should reap quick dividends. The marketing strategy should focus on developing, marketing, and selling current products and services as well as developing new products to benefit from economies of scope. Key priorities are diversifying services (including development of databases to promote direct mail services and providing logistics services), focusing on core competencies, and introducing value added products. Another critical area of focus is improving product design, such as providing one-stop mailing solutions for business customers. And for key business customers India Post needs to consider moving toward a system providing trained sales staff dedicated to meeting customer needs.

Key to success for all the new products and services that India Post seeks to offer is developing media know-how, improving its corporate brand positioning, and honing its advertising strategy. These initiatives will need to go hand-in-hand with the upgrading of retail outlets and be supported by high-quality internal and external communication campaigns. Also requiring urgent attention is the creation of a better sales culture for all employees, but especially for those who deal directly with clients, particularly in value added services. Indeed, technical and marketing training for staff will be a critical input into the development and launch of new products. This is particularly true for high-end postal, financial, and information technology-based services, all relatively new product areas for India Post.

Operational Efficiency

The seminar focused on many areas in which India Post can improve its operational efficiency and better use its infrastructure. For example, improving operational processes could enhance the quality of postal services. And increasing the use of mobile post offices could improve India Post's outreach.

A critical effort is better leveraging the vast rural network of branches, especially in providing financial services. Some steps in this direction have been taken, but the untapped potential remains immense. The possibilities include enhancing the outreach and service quality of the finance marts and scaling up partnerships, such as the partnership on the self-help group program with the National Bank for Agriculture and Rural Development (NABARD). In addition, a greater range of partnerships with banks, insurance companies, and microfinance institutions—if structured and implemented well—could provide an excellent channel for delivering financial services while also providing a sound revenue source for India Post.

Other efforts to sharpen operational efficiency could focus on computerizing operations and reviewing the rules of rural post office provision to extend access without increasing operational costs. In addition, India Post could plan a large-scale communication exercise to build a commitment to increasing efficiency among a large number of employees. And it could create and implement a
quality standard to achieve Six Sigma results in all operations.

Yet another critical element of reform is shifting the accounting system to a cost-based approach. Without cost-based accounting, India Post cannot achieve optimal results in assessing financial performance, formulating business strategies, pricing products and services, analyzing the performance of product lines, or negotiating partnerships.

Identifying and Implementing Enablers

Seminar participants identified three key enablers of change for India Post: technology, partnerships, and human resources and capacity building.

Technology. Technology is the key enabler for transforming physical networks into electronic networks, creating connectivity that could bring significant benefits in strengthening banking and logistics operations and the rural network. Introducing new technology could also enable post offices to provide new products and services, such as e-services, data mining, computerization of land records, and registration of property. To yield full benefits, technology adopted by India Post would need to be integrated, to reflect best practice, and to permit upgrading and the addition of new components down the line.

A computerization and automation program would entail substantial capital expenditure for India Post. Thus technology should be rolled out sequentially through the network based on return-on-investment analysis, with priority given to the most strategic revenue-generating services and operational centers. In introducing new technology, India Post needs to partner with appropriate organizations in sharing and developing skills and knowledge and bringing investments into the sector. In addition, if India Post is to develop as a logistics hub, it needs to build capacity through proper training of employees to handle new lines of service.

Partnerships. The initial successes India Post has achieved in partnerships with such companies as Western Union should be replicated with other banks, microfinance organizations, insurance providers, and other rural service providers. The provision of financial and information services, offers tremendous scope for developing such partnerships, which could make a big contribution to India Post’s revenues. The unparalleled trust that India Post commands and its vast human resources and branch network also offer a strong base for partnerships, and as many seminar participants pointed out, these attributes need to be leveraged much more effectively.

Interest in such partnerships from both public and private sector entities appears to be immense. The challenge is to form as many of these partnerships as make business sense. That means structuring them in a way that maximizes their value to India Post while also satisfying the business objectives of the partner. Agencies like the World Bank could help India Post move ahead on such initiatives by bringing in international best practice and expertise where needed, particularly through pilot projects and studies, and by helping to formulate business strategies and providing transactional advice for partnerships. In addition, industry associations such as the Confederation of Indian Industry and the Federation of Indian Chambers of Commerce and Industry could provide an excellent platform for regular interaction between India Post and the private sector—to exchange ideas and feedback on operational experiences. This sharing of ideas and experience could help put these partnerships into operation faster than would otherwise be possible.

Human resources and capacity building. Initiatives centered on human resources need to be an integral part of the efforts to improve efficiency and increase the range and quality of products. Capacity building initiatives need to include training to enhance skills, service quality, and productivity. They should also include use of performance-based contracts for managers and outsourcing partners.
**Next Steps**

There was a clear consensus among seminar participants that the entire postal sector—not just India Post—needed reform. While India Post is the dominant player in the sector today, there are clear goals that need to be pursued in developing the sector as well as India Post.

**Reform of the Postal Sector**

Reform of the postal sector should hinge on five key areas: developing a postal policy, defining the universal service obligation, enacting a new law, establishing an independent regulatory authority, and moving gradually toward corporatization of India Post. Box 1 outlines a detailed set of actions in each of these areas.

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**Box 1: Key Actions for Reforming the Postal Sector**

**Developing a postal policy**
Postal policy should drive the direction of reform in the postal sector. The policy should cover such issues as:
- Definition of universal service.
- Market liberalization.
- Regulation.
- Postal employees.

Postal policy should take into account the views of all stakeholders, including customers, employees, and competitors. And it should be consistent with policy for other cross-cutting sectors, such as finance, government services, and information and communications technology.

**Defining universal service**
The work to define universal service should involve several steps:
- Redefine and clearly understand the role of the universal service obligation.
- Define delivery targets based on market need.
- Determine the density of post offices based on market and social need.
- Reassess the role of subsidies with respect to individual products, delivery points, and the provision of retail outlets.
- Assess alternative models for providing universal service and determine the cost of each.
- Determine a suitable method for financing universal service.

**Enacting a new law**
India Post is governed by a law enacted in 1889 by the British colonial government. Whether this outdated law can provide the flexibility to adjust to a fast-changing sector is questionable. Changes to the law are needed to update the legal environment in which India Post operates.

**Establishing an independent regulatory authority**
Establishing an independent regulator is essential in the current climate. Independent regulation should be developed to carry out the following functions:
- Setting tariffs for the universal service operator.
- Awarding licenses to postal operators and collecting license fees.
- Ensuring the provision of universal service.
- Monitoring the market and collecting statistics from all competitors.
- Policing the market to ensure a level playing field.
- Ensuring that reserved areas are protected for the benefit of the universal service provider.
- Ensuring access to the universal service provider network.
- Ensuring that the universal service provider does not cross-subsidize competitive products and services.

**Gradually corporatizing India Post**
In line with the international experiences presented at the seminar, many participants felt that the status of India Post needed to be changed to allow management greater commercial flexibility to build on the strengths of the organization and compete on a level playing field. Participants pointed to the examples of Deutsche Post, La Poste, and China Post as demonstrating the benefits of moving toward a more commercial environment through corporatization. While Deutsche Post has since been privatized as part of a three-stage plan extending over a long period, the first stage was its turnaround.

Corporatization of India Post could facilitate its turnaround by enabling:
- Greater transparency and accountability.
- Creation of a management information system for post office operations and development of a web-enabled platform for the department.
- Restructuring of human resources to facilitate knowledge transfer and empowerment of employees to make business decisions.
- A more market-focused approach to advertising, new product development, private sector partnerships, and sales of products and services.
- Better management of costs that are cascaded through the organization.
Transformation of India Post for Vision 2020

Reform of India Post

Regardless of the organizational form that India Post ultimately takes, it will need considerable reform and restructuring. The reform will clearly depend on the policy goals of the government. If the government chooses to maintain India Post’s status as a government department, it will leave its management with less commercial flexibility to introduce reform. Still, clear priorities for reform can be identified.

The first step in reform for India Post hinges on identifying its core competencies and formulating an appropriate business strategy—identifying its core products and services, its key customers, and the areas most under threat from competition and developing a strategy to defend the position of each. Special attention needs to be given to identifying key customers and analyzing the products, costs, and revenues associated with each. India Post also needs to develop an understanding of its competitors and their products and identify which of its own products are losing market share. Based on its findings, India Post can then develop existing products as well as new value added products to compete against new market entrants. In addition, India Post needs to measure the quality of its service and undertake diagnostics to identify any underlying problems. Where service is failing, it will need to take action to correct the problems.

Another important step is identifying non-core competencies. India Post should review areas where it can develop new products and services, particularly those that would use its network. Given the great scope for providing financial services, it is especially important that India Post review the options for these activities, including partnerships with banks and insurance companies and the creation of a postal bank, and carefully evaluate the implications of each. It also needs to prepare and implement an action strategy for providing government services, logistics services, and telecenters (and creating links to programs already providing telecenters). Much will depend on how well India Post is able to initiate action on the ground—including pilot studies and pilot projects (such as the finance marts and the self-help group program)—and how well it learns from these. These pilot initiatives could play a critical part in designing products and services that can thrive in a marketplace that is ever changing, highly competitive, and driven by technology and service quality.

As noted, reforming the accounting system is critical. Creating a robust, cost-based accounting system not only would enable India Post to assess the true costs and revenues associated with each of its products and services, it also would aid decision making and provide critical information on the organization’s financial performance. Equally important is undertaking human resource reforms, centered on service-oriented training for staff that differentiates between the requirements of corporate customers and those of other customer groups. India Post also needs to focus on implementing technology initiatives and computerization. India Post intends to have computers in all its departmental post offices by the end of the Eleventh Five-Year Plan, and maximizing the benefits of connectivity at this level will require integrated, best practice software and hardware solutions. But while computerization is the enabler for all other initiatives, the costs and benefits of computerizing all branches must be carefully considered.

The theme of the seminar was reinventing India Post through more efficient delivery of a wide range of postal, financial, logistics, and information technology–based services. In line with that theme, implementing new products and services and new initiatives that help India Post realize its full potential will do much to support its reform. Its success at reinventing itself will depend on how well the organization is able to move from ideas to action while also steadily reforming and restructuring.
PRESENTATION SYNOPSIS

WELCOME ADDRESS

Mr. Michael Carter, Country Director, World Bank

Mr. Carter delivered the welcome address to seminar participants.

The Indian postal system offers unique outreach throughout the country: with 155,000 branches, no citizen lives more than three to five miles from a post office. This network allows access not only to traditional mail services but to many financial and other services—including deposits, money orders, pension schemes, life insurance, and e-services—all needed for the broader economic development of India.

India Post, while diversifying its products and services, would need to emphasize its core competencies and the provision of high-quality services to citizens. And while the potential to leverage its resources is enormous, the challenges it faces are significant too. Cutting operational losses and improving sustainability, broadening its range of products, improving efficiency and quality, and training and developing post office staff are all important issues that need to be addressed.

At this stage it is critical for India Post to define a long-term vision for transformation, learning from international experiences and taking advantage of such enablers as information technology and strategic partnerships. Indeed, the World Bank, which has long experience in postal reform, is keen to provide support for such reform to the government of India.

OUTPUT FROM THE LAST SEMINAR AND OBJECTIVES OF THIS SEMINAR

Mr. Simon Bell, Sector Manager, South Asia Finance and Private Sector, World Bank

Mr. Bell set the context for the seminar by linking back to the 2002 India Post–World Bank seminar and summarizing its lessons.

The seminar in 2002 stressed the importance of public-private arrangements, the need to define the universal service obligation in the postal sector, and the need to increase the provision of information technology-based services (particularly financial services) in rural areas. Participants discussed many new prospects for public-private partnerships with India Post, including microfinance, e-government activities, distribution of pension products, and accessing and linking rural markets. Presentations were made on the successful corporatization of Deutsche Post, Dutch Post, New Zealand Post, and Royal Mail. And the seminar emphasized the need to develop both core (postal) and non-core services to achieve optimum efficiency, economies of scale, and development impact.

India Post has taken many initiatives since that seminar, particularly on partnerships in financial service provision. At this seminar there is a need to emphasize a more concerted and integrated effort at reinventing India Post by leveraging its strengths of branch network and trust.

The objective of this seminar is to define an action plan and a road map for its implementation—not just for India Post but for the sector as a whole. Elaborating such a plan requires developing a postal sector policy; defining the roles of owner, operator, and regulator; preparing restructuring and business plans for India Post; pursuing business opportunities in postal, financial, and information technology–based services; and initiating pilot projects in partnership with private entrepreneurs. Only through action can India Post achieve a revolution similar to that achieved by telecommunications reform in the 1990s, to the overall benefit of India.

OVERVIEW OF INDIA POST AND PERSPECTIVE ON CHALLENGES AHEAD

Dr. U. Srinivasa Raghavan, Member Operations, Department of Posts, Government of India

Dr. Raghavan provided a succinct summary of the potential of India Post and the challenges it faces.

India Post, with its 155,000 branches, provides an unparalleled network for meeting universal service
10 Transformation of India Post for Vision 2020

obligations and reaching all members of society. It is the country's largest savings bank, largest pension distributor, and second largest life insurance provider. And its trusted and dedicated workforce delivers in even the most difficult terrain. All these factors provide a strong foundation for more efficient delivery of a broader range of services by India Post.

But India Post also confronts big challenges—recurring deficits, limited capital expenditure (at only 1 percent of total expenditure), the preponderance of staff costs (salaries, wages, pensions), an adverse net operating ratio (expenditure coverage ratio), lagging circles, unsuitable costing methods, non-economic pricing, and lack of commercial orientation.

India Post also needs to deal with the emergence of electronic alternatives to mail, improve the quality of its products and services to satisfy ever more demanding customers, and respond proactively to market competition. It is critical that India Post reinvent itself and respond to the challenges posed by globalization, corporatization, liberalization, technology, changing markets and environments, and ever more demanding customers.

Investing in information technology systems and building staff capacity will be important enabling factors. Upgrading technology is critical to attain operational efficiency, and the Department has committed itself to computerizing all departmental post offices by the end of the Eleventh Plan period.

**OPENING ADDRESS**

Mr. R. Ganesan, Secretary Posts, Department of Posts, Government of India

Mr. Ganesan strongly emphasized the need to reform India Post and thanked the World Bank on behalf of India Post for facilitating the seminar.

One important outcome of the seminar is expected to be the translation of the brainstorming discussions into an action plan for the government and India Post. A blueprint for implementing reforms would help ensure that India Post moves in the right direction.

India Post is keen to change and has already taken steps to survive in a market driven by competition. While it has initiated several internal changes, the restructuring process needs to be strengthened by consulting with stakeholders to assess their objectives and expectations and by drawing on successful international experiences.

A basic priority is to concentrate on core competencies and fulfill the universal service obligation cost-effectively. At the same time, however, it is important to introduce premium services—customized for different categories of customers—that will be important revenue earners for India Post. Enablers for moving in this direction include adopting market-savvy practices, introducing new technology, forming strategic partnerships, and implementing "out of the box" solutions to address specific market needs.

Some steps have already been taken in restructuring India Post. The ministry has appointed two committees, one for granting heads of circles greater financial and administrative powers and the other for restructuring India Post by designing an administrative structure in line with the strategic vision while doing away with bureaucratic approaches. Other measures include appointing the School of Planning and Architecture to design a new look for post offices consistent with a changed brand image and awarding a consulting contract for development of a blueprint for India Post. The blueprint will outline policy, structure, practices, internal operations, a diversified product portfolio, and an appropriate market mix. So the process of change has already been initiated at India Post, with studies aimed at making it a more viable organization. The seminar discussions and follow-up will contribute to this process.

**KEYNOTE ADDRESS: VISION 2020 AND INDIA POST**

Mr. D.P. Raman, Minister of Communication and Information Technology, Government of India

In the keynote address (delivered by Secretary Posts), Mr. Raman thanked the World Bank and the Department of Posts for organizing the seminar and wished India Post success in its endeavors. He emphasized that drawing on lessons from the past is very important in charting the future for India Post.

India Post has been an important agent in the country's development, helping to develop
communications as well as mobilize savings. But to be a viable organization in 2020, India Post needs to build momentum for growth. That will require adopting key enablers such as technology, diversifying services, and drawing on and implementing key lessons from international best practice.

India Post has initiated some steps in this direction. It has brought computerization and V-SAT technology to the traditional bastion of the post office, is moving toward the networking of post offices, and has started to automate its sorting centers. All these efforts will help capture larger parts of the business mail market. In addition, starting in the 1990s India Post moved beyond its traditional mold and developed such services as business mail and Speed Post for higher-end customers with an aim of increasing revenues. In the midst of these efforts it is extremely important that the quality of service be excellent to ensure that the customer base remains loyal to India Post.

While fulfilling its universal service obligation, India Post must also concentrate on commercial aspects of its business with a view to reducing subsidies. Distinguishing between universal service and other services is important, as the government would be required to financially compensate India Post for meeting the universal service obligation. Thus while it is critical that India Post rapidly roll out a commercial accounting system enabling it to improve management, in parallel it will also need to develop a cost accounting system allowing it to assess the costs associated with the universal service obligation.

In drawing up the plan for 2020, India Post needs to understand both the multiple opportunities and the complex threats that the future holds. And it needs to recognize the competition from courier services and electronic alternatives to mail. Though India Post is keen to change and is making headway toward reforms, it must gradually overcome bureaucratic obstacles and persevere. Training is an important part of restructuring as well as an important tool for India Post. But the training needs to be reoriented to ensure that post office staff can move up the value and quality chain and help improve efficiency in the delivery of services. If India Post can respond adequately to the challenges, it has the potential and resilience to transform itself into an organization that is viable, self-sustainable, technology driven, commercially competitive, and capable of providing high-quality service to its customers.


*Mr. Graeme Paul Lee, Senior Postal Policy Specialist, Global Information and Communication Technology Department, World Bank*

Mr. Lee presented an overview on the status of postal services throughout the world and the status of reforms in a number of countries.

India Post has one of the densest postal networks in the world, with a density comparable to that in Western Europe and greater than that in the United States. But in India as well as abroad, rural postal networks are costly to maintain and are usually underutilized and loss making. Some countries are seeking to lower network costs and increase commercial orientation through franchising schemes—partnering with private businesses to extend postal services to underserved remote and rural areas. In the United Kingdom the government gives Royal Mail an explicit subsidy for the provision of loss-making rural post offices.

In the United States a key issue identified by the U.S. Postal Service is the changing profile of mail, leading to lower revenues for each delivery point. The volume of first-class mail is falling, while the volume of less-time-critical direct mail is rising. One issue that the government of India might consider is what this changing profile means for the definition of the universal service obligation.

To increase revenues, public postal operators are increasingly diversifying the range of services distributed through post offices. In the Republic of Korea all post offices with sufficient space provide free access to telecenters, thereby meeting a social and development objective on behalf of the government. Brazil has developed a post bank in partnership with a private bank, which targets mainly communities that previously lacked access to banks. They have also introduced an easy export product that simplifies overseas trade for small and medium-size enterprises.
To counter growing competition, postal operators must be given greater autonomy from government control so that they can operate on a more commercial basis. In the 25 EU member countries only 1 postal operator is a public administration, while 12 are state-owned public companies, 9 are statutory corporations, and 3 are private. In Trinidad and Tobago introducing commercial management practices improved service and increased volumes, revenues, and productivity. India Post too needs to introduce commercial practices if it is to compete in its markets. It also needs to consider the implications of market liberalization. The trend worldwide is to liberalize the market to allow customers greater choice in service providers. Independent regulation may be introduced to protect consumer interests and ensure a level playing field.

To develop a viable and sustainable business model, India Post needs to build on the strengths of its network and staff. There are many lessons that have been applied around the world from which India can learn. From targeted subsidies to franchising, from diversification of services to provision of social services, the opportunities for India Post are extensive. But they must be pursued in a coordinated way.

**DEUTSCHE POST: MODERNIZATION—NEW BUSINESS OPPORTUNITIES, LIBERALIZATION, STRATEGY AND STRUCTURE, COMPETITION**

*Mr. Amin Saidoun, Director, UPU Affairs, Deutsche Post*

Mr. Saidoun described the reform of the German post office, Deutsche Post.

Postal reform in Germany was carried out in three phases in 1990–2006—to respond to the challenges of globalization, liberalization, and digitalization. Before 1989 Deutsche Post suffered huge deficits, lacked political consensus on reform, and faced strong competition and tough unions opposed to radical change. But once initiated, the reform of Deutsche Post was backed by government legislation that prevented interference in the process.

The first phase (1990–97) focused on reducing costs, creating efficient processes, and improving the quality of service in the domestic market. The second (1998–2000) focused on expanding the product range and offering new services along the value chain. Value added services include direct marketing centers (providing knowledge, information, and solutions to communication problems for direct mailers), Deutsche Post Print Com (providing high-volume print production for mass mailers), and pack stations (offering high-tech lockers where parcels are delivered and customers can pick them up after receiving notification through Short Message Service, or SMS). The third phase (2001–06) consists of consolidating cross-selling potential, taking advantage of all possible synergies and developing integrated products and solutions.

Learning from the German experience, the Indian government and India Post could aim in the short term for reducing the costs of operation, defining the scope of the universal service obligation, accelerating the reform process by setting up a regulatory authority (separating the functions of owner, operator, and regulator), and providing high-quality, customer-driven services with greater revenue and profit potential. India Post would then need to diversify its product base and strive to invent products to compete with courier service providers.

The German experience shows that a postal service, to compete effectively, needs an efficient organization and dynamic leadership to develop and implement high-quality, customer-oriented products. It also suggests that in the long run India Post could both compete with and cooperate with other service providers. For example, Deutsche Post cooperates with postal organizations throughout the world through the Universal Postal Union and competes directly with them through its ownership of DHL. Similar “coopetition” exists with other service providers, where post offices provide services on behalf of suppliers such as banks and insurance companies.

A final message from the transformation of Deutsche Post: the reform took much time, and it was underpinned by strong, consistent support from the government.
ROLE OF TECHNOLOGY FOR POSTAL SYSTEMS AND CHALLENGES FOR INDIA

Mr. Sanjay Mirchandani, Regional Vice President, Microsoft Asia

Mr. Mirchandani described ways to manage the postal sector business by using information technology as a key enabler.

There are four pillars of strategic change and development for a postal system: empower the customers, employees, and partners through great services and solutions; broaden the use of the post office and transform it into a gateway for value-added services; measure operational costs, productivity, and customer value; and improve the productivity of service delivery and employees. Information technology supports all four of these pillars.

Both the United States and New Zealand have successfully used information technology platforms to integrate their postal networks. The U.S. Postal Service built a strong information technology infrastructure to support electronic postmarks and cost-effective delivery of services. And New Zealand Post introduced an e-government platform for delivering customized services.

India Post could integrate its vast network through a platform such as XML (Extensible Markup Language). That would help in implementing different applications in different post offices and support scaling up in the future. Information technology would enable India Post to increase its physical outreach and efficiency by improving the tracking and sorting of mail and strengthening the customer interface at each stage of the value chain (collection, sorting, transport, delivery). Because all postal transactions would be computerized, technology would also help reduce corruption at the grassroots level and enable management to keep a check on employees—while also leading to cost savings. And information technology would help improve human resource management by supporting better employee records and online training and capacity building.

More generally, information technology could improve the core operations of India Post, increase credibility and transparency, reduce costs, and increase profitability in the longer run. It would also help in staff development. And as international examples show, information technology would allow online feedback from customers and participation by employees in the management process.

India Post understands the importance of computerization and has already taken steps in this direction, setting a target of connecting all departmental post offices by the end of the Eleventh Plan period. But maximizing the returns on technology investments requires sustained efforts in implementation and integrated, best practice technology solutions.

TRANSFORMATION OF INDIAN BANK INTO A PROFIT-MAKING, CUSTOMER-FOCUSED BUSINESS

Ms. Ranjana Kumar, Chairperson, National Bank for Agriculture and Rural Development; and former Chairperson and Managing Director, Indian Bank

Ms. Kumar presented a case study on the restructuring of Indian Bank, a public sector organization.

Unlike India Post, Indian Bank needed immediate restructuring because of a serious financial crisis. This crisis resulted from two structural issues: weak business performance and a flawed human resource policy.

A first attempt at reenergizing the bank failed in the late 1990s, costing the government significant resources to recapitalize the bank. In a second attempt a management advisory group was created. This group identified several critical problems: mismanagement, neglect of market opportunities, and a total lack of accountability. Indian Bank focused on completely reforming its top management and brought in a dynamic team of professionals. That introduced great flexibility in the bank’s decision making. The management advisory group prepared a restructuring plan for 2000–03 that was so successful that after a decade of losses the bank earned a net profit in just two years.

Business performance and human resource management were the two important areas of improvement for Indian Bank. The government allowed a two-tranche recapitalization, and more than 3,000 staff left under the voluntary retirement scheme. The bank improved human resources by
upgrading skills through training, improving promotion and transfer policies, and giving managers the freedom to make important decisions. It also defined key indicators for regularly measuring performance.

This example demonstrates that strategic reform is possible in the public sector—and that it can transform organizations with complex financial and operational issues into vibrant institutions. For India Post the case study offers critical lessons on the importance of addressing employee motivation, establishing a dynamic management team, and pursuing a more aggressive marketing strategy in order to thrive in the market.

**DISCUSSION ON INTERNATIONAL EXAMPLES AND RESTRUCTURING EXPERIENCES RELEVANT FOR INDIA POST**

Mr. M. V. Rajasekharan, Ex Officio Member of the Planning Commission and Minister of State for Planning, Government of India

Mr. Graeme Paul Lee, Senior Postal Policy Specialist, Global Information and Communication Technology Department, World Bank

Mr. Amin Saidoun, Director, UPU Affairs, Deutsche Post

Mr. Sanjay Mirchandani, Regional Vice President, Microsoft Asia

Mr. Simon Bell, Sector Manager, South Asia Finance and Private Sector, World Bank

Mr. Amrit Pandurangi, Executive Director, PricewaterhouseCoopers Private Limited

Mr. R.R. Rao, Joint Managing Director, ICRA

This discussion captured key messages for India Post from international experiences and suggested strategies for restructuring the organization.

The international examples—and especially the restructuring of Deutsche Post—demonstrate that postal sector reform is a long-term process. They also show that reforms, to have a chance of success, must be based on clear consensus and support from the government. For India Post defining the universal service obligation and separating the functions of owner, operator, and regulator are crucial. Also critical is to consider outsourcing non-core functions (catering, cleaning, building and vehicle maintenance) while focusing on making functions that generate revenue more competitive and profitable. Other important steps toward building a viable post include diversifying the product portfolio and improving the marketing strategy. And developing partnerships with private firms interested in accessing the unparalleled post office distribution network could increase both efficiency and revenues.

Information technology is a key enabler, and here India Post is moving in the right direction. An information technology system is like a plug-and-socket arrangement: if the socket (integrated platforms like XML) is installed at the appropriate places, post offices can be plugged in as they become ready. Indeed, information technology offers immense benefits through the potential to improve service delivery, reduce corruption, diversify into related lines of service, and build capacity within the organization through online training and customer feedback. Information technology would also support the provision of greater financial services through the postal network.

The Indian Bank case study provides thoughtful insight into a successful strategic reform process in India’s public sector. It shows that it is indeed feasible to build strong public sector institutions through restructuring plans directed at improving business and human resource strategies.

**MODERNIZING POSTAL COMMUNICATIONS SERVICES AND LOGISTICS: THE OPERATIONS OF DEUTSCHE POST**

Mr. Amin Saidoun, Director, UPU Affairs, Deutsche Post

Mr. Saidoun focused on two primary aspects of modernization: modernizing retail distribution and modernizing operations (transport, sorting centers, delivery, and quality).

The modernization of Deutsche Post took place on two fronts: reducing the number of operating centers and improving quality.
The reform reduced Deutsche Post's sorting centers from 368 to 116, its delivery bases from 11,000 to 3,700, and its retail outlets from 30,000 to 13,000. In addition, automation was introduced, processes were standardized, and retail outlets were franchised to maintain outreach throughout the country.

Quality improvement efforts focus on end-to-end quality. This indicator, measured by an independent institute, improved from 89.1 percent next day delivery in 1995 to 95.3 percent in 2004. Districts are ranked to encourage quality improvement, with the winning district awarded a prize by the chief executive officer. Automation is key in enhancing quality, enabling automated redirection of mail as well as faster and more accurate sorting. In addition to next-day delivery, Deutsche Post sets a number of other quality targets relating to such issues as redirections, documentation of parcels, and damage to postal items. In international mail Deutsche Post must meet strict quality standards in delivering to other European countries or face penalties.

Deutsche Post has also made other improvements. These include address management, evaluation of customer satisfaction through online surveys and telephone interviews, and introduction of the “one-stop shop” concept in retail outlets to enable customers to obtain all Deutsche Post products in one location.

The Deutsche Post experience offers lots of best practice that could benefit India Post. Rationalizing and standardizing processes in each operational center has improved quality and made management easier. Using independent evaluation of quality and customer satisfaction has identified where quality is failing and where improvements are needed. And introducing automation and information technology has improved quality and led to new opportunities for generating revenues. But perhaps a key point for India Post is that the success in transforming Deutsche Post was based on involving employee organizations in the process.

EXPERIENCES FROM LA POSTE

Mr. Daniel Le Goff, Deputy Director, International Development, La Poste, France

Mr. Le Goff described the reform of the French postal operator, La Poste.

The reform of the French public postal operator began in 1991 with the separation of policy and regulation from the operation. La Poste was transformed into a state-owned enterprise and since then has produced breakeven results or slight profits. Only recently has the government taken action to split the policy and regulatory functions. The new joint posts and telecommunications regulator (ARCEP) is expected to be operational in November 2005. It was formed from the telecommunications regulator (ART).

Before 1991 La Poste was a government administration with strong labor unions, and it was social tensions and strikes in the late 1980s that motivated the government to undertake reforms. La Poste now has 320,000 employees (mainly civil servants) and 17,000 branches throughout the country. It also has a majority or minority stake in 200 subsidiaries focusing on specific segments of the postal market. These subsidiaries, targeted to generate profits within two years, provide La Poste with greater flexibility in employment.

La Poste's main objectives are to increase revenues, reduce costs, improve service quality, and take advantage of new opportunities. La Poste has tackled the issue of unprofitable rural post offices by partnering with supermarkets, general stores, and local governments to maintain reach while reducing infrastructure and staff costs.

In the past 10 years La Poste has significantly improved its postal financial services by reengineering its operations and renewing its strategic vision. With the agreement of the Ministry of Finance, La Poste plans to set up a limited license bank by January 2006. The process of establishing this bank has taken more than 10 years of policy negotiations with the Ministry of Finance, debates with other stakeholders about cross-subsidies and ensuring a level playing field, and capacity building within La Poste. The license will first allow the postal bank to provide housing loans without preliminary savings, at a level playing field with other commercial banks. To ensure a successful launch, La Poste has been working hard to increase customer awareness of its new financial services.

The La Poste model differs from the Deutsche Post one but nevertheless provides learning opportunities for India Post. The franchising of rural post offices by partnering with local businesses has led to greater reach and customer service while
reducing costs. The creation of subsidiaries has given La Poste the flexibility that a government administration lacks. The move to a limited license bank focusing on designated sectors and products may also be a model of interest to India Post. Explicit funding for the universal service obligation provides transparency in accounting. Finally, as with Deutsche Post, the reform of La Poste has taken considerable time.

**DISCUSSION ON CHALLENGES AND PROBLEMS OF INDIA POST**

Ms. Asha Swaroop, Additional Secretary, Ministry of Commerce, Government of India

Mr. Amitabh Verma, Joint Secretary, Financial Sector, Ministry of Finance, Government of India

Mr. Amin Saidoun, Director, UPU Affairs, Deutsche Post

Mr. Daniel Le Goff, Deputy Director, International Development, La Poste, France

This discussion reviewed challenges that India Post faces both internally and externally.

India Post needs to clearly analyze its market and formulate a corporate strategy aimed at improving its performance in the face of growing competition. The government, for its part, owes India Post compensation for costs related to the universal service obligation as well as greater corporate autonomy and flexibility. That calls for updating the legal, regulatory, and institutional framework for the postal sector, which could be announced in a postal sector policy to be adopted by the government.

In moving forward, India Post can emulate international models that have been used under conditions similar to those in India. One important direction is diversifying its product base to provide financial and e-services, with a focus on rural areas. With its significant branch presence in rural areas, India Post can act as a channel for such services, supporting the government's aims, under its Common Minimum Programme, of providing microcredit and reducing transaction costs for small borrowers in rural areas.

Two key areas for India Post are quality of service and modernization of infrastructure. The infrastructure requirements of the postal department are substantial, with 62 percent of the funds allocated to the department in the Tenth Five-Year Plan designated for modernization of the postal department.

**POSTAL FINANCIAL SERVICES FOR ANYWHERE, ANYTIME BANKING**

Mr. Johannes Petrus Boon, Postal Financial Services Specialist, ING PostBank

Mr. Boon described the restructuring of the Dutch PostBank and discussed the findings of a worldwide study on the development of postal financial services.

The post office network in the Netherlands is jointly owned by TPG Post and Postbank (each with a 50 percent stake). Dutch law requires that there be a minimum of 2,102 postal outlets in the country and that 95 percent of consumers be within 5 kilometers of a full-service outlet. Post offices in the Netherlands provide a one-stop shop for postal, financial, and other services, including books and leisure, entertainment, and stationery products. PostBank is one of the most advanced postal banking networks in the world in terms of market coverage and financial performance. Its success is based on careful definition of its market and commercial strategies and heavy investment in information technology.

A World Bank study on postal financial services in 63 developing countries shows how extensive these services are. In 73 percent of the countries post office branches outnumber the combined total of bank branches and microfinance outlets. Moreover, post office branches are more evenly spread, with greater representation in rural areas. Postal financial services are used by more than 600 million people, hold more than US$90 billion in savings accounts, and carry out more than 3.5 billion cash-based money order transactions a year. In 54 percent of the countries financial services are the largest revenue earner for the postal operator.

Postal financial services worldwide show common institutional patterns: they are either a business unit or a subsidiary of the postal administration, and some have developed partnerships with private firms. Most offer a full range of financial services (payments, savings, pensions, credit, insurance, bill payments). Basic postal financial services tend to be limited to payments and savings, however, with the other services provided through an agency agreement with a partner.
While financial services are an extremely important revenue generator for many postal operators, the study shows that in many countries they also face problems: limited investment, cost inefficiency, uncompetitive products, antiquated and poor-quality services, and lack of marketing, security, and customer focus. These findings suggest a four-step process for postal operators, to go from strategy to action:

- Undertake market analysis and diagnosis.
- Develop a strategic concept.
- Pursue short-term steps
  - Optimize current postal financial services.
  - Strengthen international payments.
  - Consolidate cash management.
  - Build a business unit with a cost allocation and management information system.
- Implement the strategy
  - Launch pilot projects.
  - Interact with stakeholders.
  - Build partnerships.
  - Solve financing issues.
  - Strengthen regional and international cooperation.

**FINANCIAL SERVICES FOR POSTAL OPERATORS: INTERNATIONAL EXPERIENCES AND THEIR RELEVANCE TO INDIA**

Mr. Joydeep Sengupta, Partner, McKinsey and Company

Mr. Sengupta discussed ways to enhance India Post's existing ... and described different operating models for postal financial services in the European Union as well as some successful business models (the German and Italian models) for operating in the mass retail market.

As India's largest savings bank, with 160 million customers and deposits of Rs 260,000 crore (US$60 billion), India Post earns around 45 percent of its revenues from financial services. Tapping the mass retail market, particularly in rural areas, could be a very profitable option for India Post—as such initiatives have been in Europe. Postal operators in many European countries provide a range of financial services: in France, La Poste distributes home mortgages linked to state savings schemes; in Italy, Poste Italiane pays pensions and enables customers to pay utility bills; and in Sweden, Posten provides fixed price basic banking services to less profitable customers, with the government financing the services.

Postal operators in the European Union use diverse models for offering postal financial services, ranging from a fully or majority-owned bank to a joint venture with an established bank, an integrated model (where the postal operator distributes services for multiple partners while controlling the product offerings, the marketing, and the client database), a distribution model (where the postal operator distributes services for one partner and does not control marketing), and a shared network. In both Germany and Italy the postal operator plays the role of a retail bank.

If India Post is to diversify and deliver high-quality services, it will be important to develop new skills within the post office network, starting with product differentiation and pricing. A key step toward providing customers with financial instruments such as bonds might be to enter into strategic partnerships or joint ventures with commercial banks, as postal operators in some European countries have done. And important steps toward better service delivery might include fostering a sales culture for all branch employees, enhancing the utilization of outlets, adopting the service model used by Brazil's Banco Postal, and improving communications (such as through a down-to-earth advertising campaign like those in Brazil and Germany).

**FINANCIAL AND RETAIL NETWORK SOLUTIONS**

Ms. Li Shuang, Program Manager, Postal Savings and Remittance Bureau, China Post

Ms. Shuang described new financial services introduced by China Post, which, like India Post, maintains an extensive rural network and serves a large customer base with varied demands over a diverse terrain.

China Post has 76,000 post offices (61 percent in rural areas), of which 33,230 offer savings services and 25,000 remittances. The institution manages 260 million savings accounts with deposits totaling more than Rs 619,200 crore (US$143 billion, 9 percent of the market). A new law passed in August 2003 allows China Post to invest these postal savings funds using its own strategy rather than channeling them to the Treasury. China Post has done well in
Managing the funds, investing them in bonds and other financial instruments.

China Post earns its biggest share of revenues from financial services (44 percent, with 80 percent of this share coming from interest payments on deposits at the Central Bank). The rest of its revenues come from public services (27 percent), philately (14 percent), express mail service (10 percent), and logistics (5 percent). China Post offers five main lines of products: retail, savings, domestic remittances (some carried out electronically), international money transfers (with Western Union), and agency services (for pensions, insurance, lottery, Treasury bonds, utility bill payments, and the like).

To build its retail financial business, China Post has focused on improving its brand image and introducing a range of postal financial services to meet customer needs. In addition, it has entered into strategic relationships with commercial banks, rural credit organizations, and other financial institutions. And it has worked to improve its performance by concentrating on several efficiency indicators.

In reform, China Post has followed a step-by-step process. By the end of 2005 it aims to complete the consolidation of its electronic remittance system and postal savings system. Its key enablers include introducing technology for connecting networks and for implementing the Green Card system (online postal savings), partnering with strategic stakeholders in providing a broad range of services alongside the universal service, and constantly upgrading quality to meet efficiency targets.

**DISCUSSION ON FINANCIAL SOLUTIONS FOR INDIA POST**

*Dr. Nachiket Mor, Executive Director, ICICI Bank*

*Mr. Johannes Petrus Boon, Postal Financial Services Specialist, ING PostBank*

*Mr. Joydeep Sengupta, Partner, McKinsey and Company*

*Ms. Li Shuang, Program Manager, Postal Savings and Remittance Bureau, China Post*

This discussion, chaired by Dr. Mor, focused on the presentations by Mr. Boon, Mr. Sengupta, and Ms. Shuang.

The important messages from the presentations by Mr. Boon, Mr. Sengupta, and Ms. Shuang center on emphasizing the present strengths of India Post, assessing its potential customer base, and tapping that base effectively by providing customized commercial services as well as universal service. Technology, capacity building, and strategic partnerships with such organizations as banks, rural credit organizations, and e-service providers could also be key factors for success. In addition, India Post will need to further strengthen its credibility and brand image through better service delivery and better marketing of postal products.

India Post could take two possible directions for growth: tapping existing opportunities by improving the quality of existing services—or diversifying services by targeting the mass market, which constitutes 57–60 percent of the total income pool. For the diversification route, one strategy that India Post might consider is venturing into difficult terrain such as the Northeast, where the regional rural banks and other financial institutions are unable to provide high-quality service. Partnering with such organizations as Bhoomi and e-Seva would enable India Post to provide e-solutions in rural areas. India Post could also introduce such options as smart cards for e-transactions in rural areas and create extensive retail databases. Providing a wide range of services effectively would require developing the necessary skills, however.

Among the current challenges facing India Post are the fall in volumes and revenues due to product substitution and private courier competition, the decline in credibility in some states because of corruption at the ground level, inefficiencies in service delivery, and institutional and regulatory constraints. Participants suggested that many of these problems could be solved by implementing technology at the grassroots levels and devising a clear corporate strategy. In addition, internal policy changes could introduce greater flexibility and encourage innovative thinking. Other improvements suggested include developing a new look for post offices, introducing customized services to increase viability, and implementing pilot projects at the state level and replicating successful ones in other areas.
OPPORTUNITIES FOR INDIA POST IN PROVIDING E-GOVERNMENT SERVICES TO RURAL POPULATIONS

Prof. Subhash Bhatnagar, Professor, Indian Institute of Management, Ahmedabad; Head of Centre for E-Governance at Ahmedabad; and E-Government Adviser, World Bank

Prof. Bhatnagar emphasized the importance of e-government services, particularly for rural India.

Post offices could serve as important contact points between rural customers and the government in India. Of the 600,000 villages in the country, only 10,000 have access to some kind of computer facilities and only 5,000 are connected to the Internet. But with basic phone and state trunk dialing facilities, villages can be easily connected to various networks. Many countries, including India, have experimented successfully with telecenter projects. In rural India initiatives have been delivering a variety of services, including ITC’s e-Choupal project (enabling farmers to obtain information through Internet kiosks) and the e-Seva project (providing kiosks in Andhra Pradesh that enable customers to pay utility bills, obtain passports, and the like). Fruitful partnerships in rural areas for India Post could include linking with Bhoomi centers (computerized kiosks providing land titles), e-Seva centers, and agencies providing railway reservations or property registration. Such services are revenue generators in rural India because the people are willing to pay for them.

Key attributes of the rural operating model could include 24/7 facilities, convenient access points, online delivery of services, and self-use by villagers assisted by trained and trusted staff. The staff would need to be well trained in key information technology skills and customer-oriented service. Organizations such as Bhoomi and intermediary companies such as Drishti, which partner with rural entrepreneurs in setting up kiosks, provide training and management advice that could be helpful to India Post in building its skill base.

To conclude, India Post should focus on technology, the rural mass market, innovation, and financing in order to improve the quality of service and introduce new lines of service—particularly in rural India, where a large share of the population remains underserved. Better technology skills would help post offices not only improve their connectivity and generate revenue but also fulfill the universal service obligation and deliver development the last mile.

USING THE INDIAN POST OFFICE NETWORK FOR MICROFINANCE SERVICES

Mr. Vijay Mahajan, Managing Director, BASIX

Mr. Mahajan explained the savings pattern in India’s rural economy and discussed the large gap between the demand for and supply of such services as savings, credit, pensions, and insurance.

In rural India people hold savings primarily in the form of assets. For low-income people the main financial services needed include savings, credit, pensions, insurance, and money transfer. Less than a third of the rural population now has access to credit from private banks, and only around 1 percent to microcredit institutions and self-help groups. India Post could help these institutions expand their outreach at lower transaction costs.

The first step in this direction for India Post is to understand the demand from all customers. The second is to initiate strategic partnerships at district and state levels, monitoring their performance so that, if successful, they could be replicated on a large scale. Other opportunities for business development include remittances, debit cards, and the use of public calling offices as “manual ATMs.”

Providing financial services in the Northeast offers another attractive option for India Post. Financial services in the region are very limited as a result of its difficult terrain and small, dispersed population. The region has only 11 regional rural banks, 650 branches, and Rs 15,456 million in savings deposits, the least among all regions. But it has 6,857 post offices, more than 10 times the number of bank branches. In accepting the challenge of providing financial services in the Northeast, the postal network could have a significant development impact.
Breakout Session 1: India Post, Technology and Financial Services

Ms. P. Gopinath, Deputy Director General, Financial Services, Department of Posts, Government of India

This breakout session explored key strengths and enablers of India Post for expanding financial services and came to broad conclusions about ways it could move forward in developing such services.

The core strengths of India Post include its large retail network, its facilities for savings accounts and money remittances, its ability to move letters and documents, and its strong credibility and trust as a government department. The disbursal of post office savings is a well-run facility providing much needed services to the public and contributing to over 40 percent of the Department of Post’s revenues, and the default rate on money remittances and money orders is only 0.01 percent.

Several other key points emerged in the discussion:

- Money orders could provide an excellent service for doorstep delivery of cash if the upper limit were raised.
- To venture beyond core competencies, India Post will need to provide significant staff training and broaden its skill base.
- The savings bank facilities could be aggressively marketed to tap new customer bases.
- By using state of the art technology infrastructure, the Post Office Savings Bank can provide to the rural populace, a very convenient avenue for savings and money remittances.
- While India Post aims to computerize 26,000 departmental post offices, linking the remaining post offices through a non-wired option or physical mode of transmission to the nearest networked post office could add to the strength of the network.
- The Department of Posts could create a consortium of partners to put into place its computerization, networking, and technology strategies.
- Some post offices could be spun off to a post bank, to gain experience with full banking functions.

Breakout Session 2: Postal Sector Restructuring and New Business Opportunities

Ms. Isabelle Hayne-Segni, Postal Policy Specialist, GICT, World Bank

Ms. Shobha Koshy, Deputy Director General, Corporate Planning, India Post

This breakout session focused on two sets of topics: at the sector level, issues relating to the universal service obligation, sector regulation, and market liberalization; and at the operator level, corporate strategy and institutional reform to provide India Post with greater management flexibility and autonomy to deal with its growing competition. Participants were of the view that restructuring India Post would involve managing change, identifying new business opportunities, and enabling logistics as a key tool.

The universal service obligation and its implications for India Post are of foremost importance. The government and India Post need to define this obligation, developing a clear mandate that would enable the operator to plan its reform. In addition, differentiating universal service from other services would help sort out the financing for operations related to the universal service obligation. Issues that need to be addressed include, for example, the distribution of registered newspapers through the postal service and the use of postcards for commercial purposes. Also needing to be addressed are procedures and budgetary allocations that are often in conflict with business requirements.

Another key step is setting up a regulatory authority and separating the functions of owner, operator, and regulator. The telecommunications sector in India provides an excellent model for this and also shows how both public and private sector operators are thriving in the market. As successful international experiences like those in France and Germany suggest, reform of India Post will happen gradually. Reforms in the postal sector are time consuming and involve careful planning, with analysis of both short- and long-term benefits.

Restructuring India Post would demand a well-thought-out corporate strategy that draws on experiences with postal reform in other countries, public sector restructuring in India, and reforms in similar sectors such as telecommunications. To its advantage, India Post has an extensive network that, used to its full potential, could help meet a range of
objectives. In addition to a corporate strategy, India Post would need to develop dynamic marketing strategies, which it now lacks. These strategies would need to address not only advertising for postal products but also diversification of services through focusing on core competencies and introducing new value added products. Here, the India Post brand would be a key enabler.

**DISCUSSION ON NEW PERSPECTIVES FOR INDIA POST**

*Dr. Ashok Lahiri, Chief Economic Adviser, Ministry of Finance, Government of India*

*Mr. R. Ganesan, Secretary Posts, Department of Posts, Government of India*

*Dr. Nachiket Mor, Executive Director, ICICI Bank*

*Mr. Rajiv Kumar, Chief Economist, Confederation of Indian Industry*

*Mr. Adil S. Zainulbhai, Managing Director-India, McKinsey and Company*

This panel discussion recapitulated earlier deliberations, restating such key messages as the need for India Post to implement pilot projects at state and district levels, cater to rural populations, expand the range and improve the quality of its financial services, develop new value added services for business customers, and effectively integrate information technology into post office operations.

Like postal operators worldwide, India Post faces declining mail volume and postal usage. It is also experiencing growing competition that is eroding volumes and revenues in core products and services. The need to reverse these trends puts growing pressure on the senior management of India Post to become more innovative and customer focused. One emphasis needs to be the commercial market: in the United States, for example, commercial customers generate 85 percent of mail. While that share is not quite as high in India, India Post nevertheless needs to tap that market through better marketing, customized products, and a sharper focus. Improving the efficiency of service delivery and broadening its range of financial and other services would increase revenues and better utilize its resources.

India Post incurs an annual deficit of around Rs 1,400 crore (around US$320 million) that the government is less and less keen to cover. Thus there is an immediate need to define the universal service obligation and to differentiate between the losses due to universal service and those due to other services so that the government can provide an explicit subsidy to meet the cost of the obligation. In addition, setting up an independent regulator is important for resolving tariff issues and dealing with illegal competition. Consideration should also be given to corporatizing India Post, giving it more management autonomy so that it can deal more effectively with increased competition. Corporatization has been successful in many other countries in the region.

Participants reasserted some of the main ideas discussed earlier: the importance of India Post developing new logistics services to meet a growing demand, the critical need to improve pricing policy (based on a better understanding of the costs of universal service and commercial pricing for other services), and the importance of developing strategic partnerships, improving staff motivation, and having quality independently monitored.

**APPLYING LESSONS FROM INTERNATIONAL AND DOMESTIC EXPERIENCES**

*Dr. U. Srinivasa Raghavan, Member Operations, Department of Posts, Government of India*

*Mr. Simon Bell, Sector Manager, South Asia Finance and Private Sector, World Bank*

Dr. Raghavan and Mr. Bell summarized the messages from the presentations and discussions in the previous sessions.

India Post faces the same challenges as other postal operators throughout the world: liberalization, globalization, digitization, and rising customer expectations. These challenges have led to postal reforms in one country after another. Some countries have moved toward privatizing their postal operator (Deutsche Post, for example). Others have chosen to maintain their postal operator as a state-owned enterprise and undertake reforms that are less drastic though still focused on improving quality, customer offerings, and viability (such as with La Poste). If Deutsche Post is at one end of the reform spectrum, India Post is at the other—and the view of all participants was that this
needed to change if India Post is to thrive. Mr. Bell suggested that India Post needed to move away from its status as a government department, but did not advocate privatization as a solution. It was felt that an initial corporatization of India Post would be better suited to the political environment in which it operates.

The session identified the following as key actions:

- As an urgent need, define the extent and the funding of the universal service obligation.
- Drawing on international best practice, chart out a strategic vision and clear corporate strategy.
- Plan for the separation of the functions of owner, operator, and regulator.
- Market savings bank accounts in rural areas to entice those not yet using financial services into the banking world.
- Improve the quality of service and introduce performance targets and independent performance measurement.
- Introduce technology to facilitate growth.
- Partner with suitable organizations to build economies of scope.
- Introduce new services, including logistics services.
- Build human resource capacity.
- Create customer databases to help develop the postal sector.

CLOSING ADDRESSES

Mr. Adarsh Kishore, Secretary Expenditure, Ministry of Finance, Government of India

Mr. Kishore gave closing remarks.

India Post has existed for 150 years and for over a century now has operated under the same law, which could be viewed as either a burden or a source of pride. The law allows unauthorized operators to flourish without regulation, however, and needs rewriting. While India Post should gear itself up for the challenge of growing competition, the time is right for an impartial and knowledgeable regulator to referee the sector. But caution is advisable in the approach to liberalization of the sector, an issue that would be of concern to the regulator.

The government is contradictory in demanding that India Post deliver universal service yet reducing the subsidy that effectively funds it. Any rewriting of the postal act should therefore include a clear understanding of the universal service obligation and how it should be funded, whether from the government or from the sector itself. Non-universal services and products must be viable and provided on a commercial basis.

In any transformation of India Post, employees will be critical to success. Its postmen have good interpersonal skills, and they have helped make India Post the trusted brand that it is. This trust in India Post’s employees should be used to its full advantage. Among the senior management there is a need to become more dynamic and to adopt a more commercially oriented attitude. While corporatization is not necessarily the answer, some of the tenets of the corporate world do need to be introduced into India Post.

Mr. B.K. Chaturvedi, Cabinet Secretary, Government of India

Mr. Chaturvedi delivered a formal closing address.

With a network of postmen connecting all 600,000 of India’s villages, the Department of Posts is a symbol of government authority. Neither the Police Department nor the Department of Health has the reach of the postal network. And the real advantage of the postal network is that the postman and postmaster stay in the village and are very much part of the community. With one billion people, India has changing and growing needs, and India Post must adapt to those changing needs or lose market share to the competition.

India Post is at a crossroads, confronting a need to modernize, to reduce costs, and to develop innovative solutions. Maintaining its reach is expensive, and the government must consider how much it is willing to pay for the continued presence of postmen and post offices. India Post should consider alternative methods of providing services, such as using mobile post offices or placing post offices in schools or other facilities in rural areas.

While India Post has an obligation to serve the rural poor, it should not forget the growing middle class,
which, with its greater savings capacity, will provide substantially more revenues. India Post should develop products to meet the needs of both these important segments of society—perhaps considering one from a social perspective, the other from a commercial perspective.

India has much to learn about postal reform from other countries, but it needs to keep in mind the particular problems it confronts. The solution is to take the good things that other countries have done and adapt them to its own needs. For India Post it is important to cut costs and then invest the savings in ways that help it better compete. An important caveat, however: no government can accept a Department of Posts that is profitable but serves only a select client base.
Transformation of India Post for Vision 2020

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