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Dr Madnesh Kumar Mishra, IRS  
Joint Secretary  
Department of Financial Services  
Ministry of Finance, Government of India  
Room No – 3, 3<sup>rd</sup> Floor, Jeevan Deep Building  
Sansad Marg  
New Delhi, 110001

September 26, 2018

**SUBJECT: Request for Abolition of GST on Financial Inclusion/PMJDY Services Provided by BCs Regardless of Location in Urban or Rural**

Dear Dr Mishra,

**BCs AND PMJDY/FINANCIAL INCLUSION**

As you are aware Business Correspondents (BCs) have been enthusiastically implementing, promoting and providing Financial Inclusion in general and PMJDY in particular thus serving the unbanked. The Financial Inclusion (FI) services are provided by Corporate Business Correspondents (CBCs) through their Agent Business Correspondents (ABCs). Thus, the unbanked Indians avail banking and other financial services through ABCs near them.

**EMPLOYMENT CREATION THROUGH DELIVERY OF FINANCIAL SERVICES**

It is well known, BCs play a crucial role in delivering various FI schemes viz. PMJDY, PMJJY, PMSBY, Overdraft, and APY etc. to the unbanked near them. Thus, the BC sector has created over 6.4 lakh jobs for the unemployed working as ABCs. And there is potential to further employ over 10 lakh youth in the immediate term.

**BOTH URBAN AND RURAL AREAS REQUIRE FINANCIAL INCLUSION SERVICES**

A large migrant population (from rural areas) works in urban areas and take help of ABCs near them to avail various FI services viz. remit money home etc. Similarly, persons in rural areas (viz. family of the aforementioned urban migrants) take assistance of ABCs near them to avail various FI services viz. access to DBT entitlements from Government schemes, encash the money remitted by migrants living in urban areas. **Not only this, persons in rural areas also take the services of the ABCs near them to viz. remit money to their children studying in urban areas.** The example of remittance is to demonstrate that the use case of FI is not area specific. Hence, the location of ABCs (urban or rural) should not be the determining factor for Financial Inclusion and taxation, rather, the delivery of FI services indeed is.

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**HOW THE GST SYSTEM IS ADVERSELY IMPACTING THE POOR**

- The present GST structure imposes a cumulative tax burden of about 27% GST on a migrant on the money sent by her to her dependants in a remote village. And vice versa. The other financial inclusion services are also being taxed similarly.
- Government had waived Service Tax (ST) on FI services but only for rural areas. However, as stated above, FI is a need both in urban and rural areas.

As is evident from above, there are significant challenges and confusion not only in imposition and collection of GST on FI services, the paradox of location, as also the onerous requirement for CBCs to register in all states! All these have resulted in making the delivery of Financial Inclusion/PMJDY services unviable for the BCs on one hand, and, also resulting in taxing the poor unbanked Indian on the other!

**LIKELY RESULT OF PRESENT GST SYSTEM ON FINANCIAL INCLUSION**

While Government is encouraging adoption of digital financial services by giving cash back and discounts availed by the savvy populace. Rather than give similar incentives, imposing ~27% GST on the poor citizens is surely contrary to the Government policy. Suffices to say that if the GST on FI services (regardless of location) and the requirement for CBCs to register in all states are not removed, all the benefits generated by PMJDY/FI face immense danger of being nullified. It may not only spawn unscrupulous informal channels but may also give rise to a huge discontent in 33 crore Indians due to deficient/denial of financial services and render over 6.4 lakh youth presently working as ABCs - unemployed, and thus hamper GDP growth too.

**REQUESTS**

In the national interest the following must be done soonest:

1. Levying GST @ NIL rate for all FI services (including remittance, credit facilitation, deposits, withdrawal, insurance, investment etc.) at urban and rural locations;
2. Clarify the meaning of Financial Services by Business Correspondent (BCs) to include banking, insurance, small value mutual fund/investments, pension etc., and
3. Abolish the onerous requirement of CBCs to register in all the states.

We most humbly request the Government to accede to the above expeditiously.

Yours sincerely,

Dr Anand Shrivastav  
Chairman