

BUSINESS  
CORRESPONDENT  
FEDERATION OF INDIA

HEAD OFFICE  
Enterprise  
D-128/129, Okhla Industrial  
Area, Phase 1, New Delhi-110020

T: +91-11-40517000  
E: contact@bcfi.org.in

CIN  
U74999DL2014NPL270298

REGISTERED OFFICE  
547, Mandaakini Enclave,  
Alaknanda, New Delhi-110019



Shri S Ganesh Kumar  
Executive Director  
Reserve Bank of India  
Central Office Building  
17th Floor, Shahid Bhagat Singh Road  
Mumbai-400 001

October 24, 2018

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

Dear Shri Kumar,

#### **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 you to recommend to Ministry of Finance, Government of India to accede to the above expeditiously.

Yours sincerely,

Dr Anand Shrivastav  
Chairman