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Dr Ajay Bhushan Pandey, IAS
The Revenue Secretary
Dept of Revenue, Ministry of Finance
North Block, New Delhi

May 28, 2019

SUBJECT: Request to Exempt GST or Levy GST at 5% on The Services of Business Correspondents (BCs) in Urban Areas in Order to Accelerate Promoting Financial Inclusion and Digital Payments-regarding

Dear Shri Pandey,

Business Correspondents (BC) act as customer service points in urban and rural areas in order to take the banking to doorsteps as envisaged by RBI. BC model under the supervision of RBI is instrumental in enhancing financial inclusion, financial literacy and digital payment in the country. BCs provide assisted digital financial services to 46 crore+ migrants from rural to urban centres. BC services are important because of the following reasons:

1. BCs have rendered financial remittances worth Rs 26,687crs in urban areas and Rs 6,541crs in rural areas in India during FY 2018-19 (till September)
2. 34cr new bank accounts were opened by Banks taking help of and are serviced by the BC model of RBI.
3. The BCs (and CSP) form an important role in the economy by directly providing services as well as indirectly contributing to the coffers of the government by bringing informal economy to formal main line banking.
4. The BC sector has created over 7.86 lakh jobs through individual BCs (CSPs) and there is potential to further employ over 20 lakh youth in the immediate term. The BCs work for nearly 15 hours a day and earn around Rs 10,000 to 15,000 in a month.

We are enclosing a white paper on the BC model of RBI for your reference.

BC services in rural areas are already exempt from GST/Service Tax [Notification No.12/2017-Central Tax (Rate) Serial No 39, Heading 9971] and subsequent amendments, envisages NIL tax rate for customers having "accounts in its rural area branch" or "PMJDY accounts". However, there is a need to extend the current exemption on BC services to urban areas because of the following reasons

1. 46crs of urban poor are under-banked or sometimes no access to banking. Financial inclusion in urban areas has been very difficult to reach to the last person due to fear of losing a day's wage and not being digital savvy to use ATMs which needs to be reduced to increase the economic growth.

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2. The density of bank ATMs in India per 1 lakh population is 22 as against 164 in Russia and 14.7 commercial bank branches as against 29.2, we need to proactively serve the under banked.
3. The growth of financial services by BCs in urban areas has been slow to adapt by the poor and under-banked because of high GST/Service Tax of 18% on the services provided.
4. By decreasing GST from 18% to 5%, the expected GST loss to govt is 30cr and 40crs if GST is fully exempted. But such small loss to govt will give rich dividends in terms of financial inclusion and economic growth in the long run and informal transfer routes can be completely wiped out.
5. There exists an operational bottleneck on current exemption on BC services in rural areas as it is difficult to segregate or identify rural and urban branch accounts of customers and BSBID account from PMJDY account.
6. Waiving GST for Financial Inclusion services (as per RBI list) would help the mass lower strata of the country as well. Since all the good work has been in implementation for a long time and the industry has been bearing the burden with patience, it is requested that these positive enablers may kindly be implemented with a retrospective effect.

We would like to thank GST Council for decreasing the compliance burden on the millions of agent BCs by charging GST under reverse charge. We request your support in order to promote financial payment services to achieve financial inclusion by taking banking to the doorsteps of poor people across urban and rural India.

We remain,
Yours sincerely,

Dr Anand Shrivastav
Chairman

CC:
The Joint Secretary, TRU-II
Dept of Revenue, Ministry of Finance
North Block, New Delhi

Enclosure: as stated above