FINANCIAL INCLUSION IN RISING INDIA

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ABSTRACT

The Indian government has chosen a unique route—beyond mandates, policies, and PSU banks—for bringing about financial inclusion. Through enabling frameworks such as Pradhan Mantri Jan-Dhan Yojana, RuPay card, and Direct Benefit Transfer scheme, it is ensuring that its financial inclusion drive benefits all strata of the society. The main objective of all these programmes is not only to achieve sustainable growth but also inclusive one. “Financial Inclusion” is the way the Governments strive to take the common man along by bringing them into the formal channel of economy thereby ensuring that even the person standing in the last is not left out from the benefits of the economic growth and is added in the mainstream economy thereby encouraging the poor person to save, safely invest in various financial products and to borrow from the formal channel when (s) he need to borrow. This paper is an attempt to discuss the Digital Road to Financial Inclusion. It covers the concept of financial inclusion, steps taken by the present government of India for financial inclusion and issues and challenges of Financial Inclusion.

Keywords: Financial Inclusion, JAM, PMJDY, RuPay Card, Direct Benefit Transfer Scheme

INTRODUCTION

Financial inclusion is a national priority for the Indian government as it is an enabler for inclusive growth—its main objective is to bring the bottom of the pyramid of the financial landscape under the ambit of formal banking. And efforts to include the financially excluded segments of society have been a continuous process. The concept of financial inclusion was first mooted by Reserve Bank of India in 2005 and branchless banking through banking agents referred to as Bank Mitr (business correspondents) was started in 2006. In the year 2011, the Government of India launched a campaign that provided banking facilities to about 74,000 villages, with a population of more than 2,000 (as per the 2001 Census). Now, under the leadership of Prime Minister Mr. Narendra Modi, the Government of India has made a number of diligent moves especially in the last six months to realize the objective of financial inclusion. A comprehensive plan to keep alive bank accounts and use them as an instrument of economic activity that improves livelihoods was drawn up. And in order to provide the much-needed thrust, a flagship programme—Pradhan Mantri Jan-Dhan Yojana (PMJDY)—was announced by the Prime Minister during his Independence Day address on 15 August, 2014. This PMJDY programme encompasses an integrated approach to bringing about comprehensive financial inclusion of all households in the country. It envisages universal access to banking facilities with at least one basic bank account for every household, financial literacy, and access to credit, insurance and pension facilities. These measures will help the unbanked poor become part of the formal financial system and take them out of the clutches of usurious moneylenders. Also, the beneficiaries would get RuPay debit cards with an in-built accident insurance cover of Rs1 lakh. PMJDY also envisages channeling all government benefits (from the Centre, states, and local bodies) to the accounts of beneficiaries, and pushing the government’s Direct Benefits Transfer (DBT) scheme.
OBJECTIVE

1. To discuss about the Digital technology in Financial Inclusion.
2. To highlight the measures taken by Present Government for promoting financial inclusion.
3. To explain about the Issues and Challenges of Financial Inclusion

RESEARCH METHODOLOGY

The present study is descriptive in nature. The study relies exclusively on secondary data. The data used for the study has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, Report on trend and progress of banking in India and from various reputed journals.

TECHNOLOGY

India has realised the potential of mobile as well as digital technology to be game changers vis-à-vis the financial inclusion drive. A number of schemes aim to cash in on the proliferation of mobile technology, especially to include rural customers in the organised financial system. And the Digital India initiative is all set to boost infrastructure, technology accessibility, and last-mile connectivity. These would not only improve cash flow to boost the economy, but also help the government facilitate rural development through various services such as gas subsidies. At present, banks have branches in 0.46 lakh out of the 5.92 lakh villages in the country. In order to include the remaining areas in the banking system, a composite approach has been proposed through branch as well as branchless banking. The strategy for branchless banking is to have online fixed points—Bank Mitr—which act as representatives of banks to provide basic banking services. Mobile banking facility with USSD based technology is also proposed to be provided to accountholders with low-end mobile phones. Mobile wallets would also be effectively utilised to widen the reach. The financial inclusion drive faces a few challenges—large numbers and low volumes, translating into unaffordable costs. The only way to bring down cost and to improve reach is to effectively leverage technology through products such as e-KYC, IMPS (Interbank Mobile Payment System), AEPS (Aadhar enabled Payment System), and mobile banking.

The recent demonetization drive—a bold step towards bringing transparency in earnings, spending, and investment patterns whether it be individuals or business owners—has helped in curtailing high-level stock being accumulated with large market buyers (especially moneylenders and business owners) and encouraged online transactions that ensure more transparency. India’s financial inclusion drive is not just a one-time effort to ensure better banking services or wider reach. It is an ongoing exercise that blends the government’s vision with concerted efforts by public and private players and policymakers. Moreover, it is also a strident step towards creating a financially literate population which is equipped with basic skills to make sound financial decisions.

THE DIGITAL ROAD TO FINANCIAL INCLUSION

Universal availability of payments, savings, and credit has far-reaching socio-economic benefits. For example, it reduces vulnerability of the low-income sections from credit shocks, leads to higher capital formation (due to free flow of money into productive uses), and avoids leakages in public subsidies and welfare programmes. Financial inclusion has a significant domino effect on the economy. Inclusive access to financial services must be ‘EAST-bound’—it should be easy, affordable, secure, and timely. The traditional bank branch-led model of financial inclusion in India has had little success in providing last-mile reach under this EAST framework. We are now witnessing an inflection point in the financial inclusion landscape thanks to digital technology. Of late, several disruptive technological innovations that find extremely synergistic applicability with financial services have emerged:

Big data analytics: High processing power, compact storage devices, and new data analysis tools have given rise to big data analytics that can input unstructured data to extract deep insights into customer behaviour, useful to design tailored financial products. Alternative data points that can be analyzed by
harnessing predictive algorithms include social media data, bill payments, receivables, cash flow, customer ratings and reviews, industry trends and demographics.

Application Programming Interfaces (APIs): APIs enable applications to be built on top of pre-existing products, thereby capitalising on the existing customer base. Open APIs allow for various data streams to ‘talk’ to one another, thus holding the potential to create ‘networks of network’ and improving scalability of financial services.

Cloud computing/Software-as-a-service: Data storage, processing capability, and service delivery in the cloud allow for scalability, compatibility, and flexibility. These factors are beneficial in a financial services setting and help connect the front-end and back-end IT systems of financial companies in a unified manner. Cloud infrastructure also brings in cost reduction that is lowering barriers for innovative startups to identify novel digital channels for serving financially excluded people.

STEPS TAKEN BY THE GOVERNMENT OF INDIA

The NDA government led by Prime Minister Shri. Narendra Modi made itself committed, since beginning of its term, to give special emphasis on the financial inclusion of every person of the country. One of the most crucial of the several steps taken by this government is JAM- Jan Dhan, Aadhar & Mobile.

Jan Dhan Yojna: with a view to increase the penetration of banking services and to ensure that all households have at least one bank account, a National Mission on Financial Inclusion named as Pradhan Mantri Jan Dhan Yojna was announced by Prime Minister Sh. Narendra Modi in his independence speech on 15th August, 2014 & the scheme was formally launched on 28th August, 2014. Within a fortnight of its launch, the scheme entered into the Guinness Book of records for opening a record number of bank accounts. Large scale achievement was made by opening 29.48 crores accounts by Mid-August, 2017 out of which 17.61 crores accounts were in rural/semi-urban areas and the rest 11.87 crores in urban areas.

The additional benefits on opening an account under Jan Dhan Scheme is the customer is issued a RuPay Debit Card having inbuilt insurance cover of Rs 1 Lakh. Besides, an overdraft (OD) facility of Rs 5,000/- is granted to the customer for satisfactory operation of account for 6 months. A life cover of Rs 30,000/- has also been granted to customers for opening the accounts up to a certain time period. The scheme has been a great success and the 99.99% households out of the 21.22 crores households surveyed have been covered under this scheme by December, 2016. More than 44 lakh accounts have been sanctioned OD facility of which more than 23 lakh account holders have availed the facility involving an amount around 300 crores.

DeMo effect

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<tbody>
<tr>
<td>No. of Jan-Dhan a/cs (in cr)</td>
<td>25.51</td>
<td>27.77</td>
<td>2.26</td>
<td>19.13</td>
<td>21</td>
<td>1.87</td>
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<tr>
<td>Zero-balance (%)</td>
<td>23.27</td>
<td>24.86</td>
<td>1.59</td>
<td>37.16</td>
<td>28.87</td>
<td>-8.29</td>
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<tr>
<td>Deposits (in ₹ cr)</td>
<td>45,637</td>
<td>64,721</td>
<td>19,084</td>
<td>26,355</td>
<td>33,075</td>
<td>6,720</td>
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</table>

Source: PMJDY portal
### Table 1.2: Statistics as on 19th April 2017 (All Figures in Crore)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank Type</th>
<th>No. of Accounts</th>
<th>Number of RuPay Cards</th>
<th>Aadhaar Seeded</th>
<th>Balance in Accounts</th>
<th>% of Zero Balance Accounts</th>
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<tr>
<td></td>
<td></td>
<td>Rural</td>
<td>Urban</td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Public Sector</td>
<td>12.45</td>
<td>10.36</td>
<td>22.80</td>
<td>17.76</td>
<td>₹49,999.02</td>
</tr>
<tr>
<td>2.</td>
<td>Regional Rural</td>
<td>3.97</td>
<td>0.69</td>
<td>4.65</td>
<td>3.53</td>
<td>₹11,853.55</td>
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<tr>
<td>3.</td>
<td>Private</td>
<td>0.56</td>
<td>0.37</td>
<td>0.93</td>
<td>0.86</td>
<td>₹2,107.60</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>16.97</td>
<td>11.41</td>
<td>28.38</td>
<td>22.15</td>
<td>₹63,960.17</td>
</tr>
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### Insurance & Pension schemes:

In order to provide social security system for all citizens and especially to the poor and under-privileged people, the present government launched Pradhan Mantri Suraksha Bima Yojna and Pradhan Mantri Jeevan Jyoti Bima Yojna.

The former scheme i.e., Pradhan Mantri Suraksha Bima Yojna (PMSBY) covers the persons within the age slab of 18 to 70 years and a risk coverage of Rs 2 lakhs is provided at an affordable premium of Rs 12 per annum only. As per the date 12th April, 2017, around 10 crore people were enrolled under Pradhan Mantri Suraksha Bima Yojna (PMSBY). The later scheme, i.e., Pradhan Mantri Jeevan Jyoti Bima Yojna covers the persons within an age slab of 18 to 50 years having a bank account. The life cover of Rs 2 lakhs is provided to the insured payable in case of death of the insured due to any reason. As on 12th April 2017 3.10 cr person were enrolled under PMJJBY.

**Atal Pension Yojna**: A scheme launched in 2015 is open to all bank account holders in the age group of 18 to 40 years and they can choose different contributions based on the pension amount. Under this scheme monthly pension is guaranteed to the subscriber and after him to his spouse and after their death, pension corpus as accumulated till the age of 60 years is returned to the nominee of subscriber. Central Government also contributes 50% of the contribution subject to a maximum of Rs 1000 per annum. As on 31st March 2017 a total of 46.80 lakh subscribers have been enrolled from Atal Pension Yojana with a total pension worth of Rs 17,13,214cr.

**Varishita Pension Bima Yojana**: All those who subscribe to the VPBY from 15th August 2014 to 14th August 2015 will receive an assured guaranteed return of 9% under the Policy.

**Pradhan Mantri Mudra Yojana**: Scheme launched in April, 2015 to provide formal access of financial facilities to Non Corporate Small Business Sector. The basic objective of the scheme is to promote & ensure bank finance to unfunded segment of the Indian economy.

In the Mudra Scheme, till 13th August 2017 total of 8 crore 70 lakh loan where distributed out of which 6 crores 56 lakhs were given to woman. In this scheme 3 lakhs 75 thousand crores were sanctioned (1 lakh 88 crores to woman) and 3 lakhs 63 thousand crores were disbursed (out of which 1 lakh 66 thousand crores were given to woman). The target for 2016-17 was Rs 180,000cr while sanctioned amount is Rs 180528cr which indicate the success of the scheme.

Other Schemes includes Jeevan Suraksha Bandhan Yojana, Sukanya Samriddhi Yojana: Kisan Credit Cards (KCC) and General Credit Cards (GCC), BHIM App.
Liberalized policy towards ATMs and White label ATMs: To expand the network of ATMs, the RBI has allowed non-bank entities to start ATMs (called ‘White Label ATMs’). The RuPay Cards have significantly increased its market share to 38 per cent (250 MN) of the total 645 million debit cards in the country so far. The card has been provided to the account holders of PMJDY (170 million).

Financial Literacy Centers: Financial literacy centers were started by commercial banks at the request of RBI to give awareness and education to the public to access financial products. Here, RBI’s policy is that financial inclusion should go along with financial literacy.

The launch of direct benefit transfers through the support of Aadhaar and Bank Account is one of the biggest developments that activated and retained people in the newly opened account.

Stand up India: launched to extend bank loans between Rs 10 lakhs to Rs 1 crore for Greenfield enterprises set up by the SC, ST & women entrepreneurs and to provide them handholding support. By Mid-August 2017 38,477 people were given loan up to Rs 8,277 crores out of which 31000 were woman and given loan up to Rs 6,895 crores.

To further strengthen financial inclusion in the country, government has advised the Banks to deploy Micro ATMs in rural areas and consequently, 1, 14,518 micro ATMs have been deployed by December, 2016.

Venture capital Scheme: In this scheme SC/ST people were encouraged to be Job Provider instead of Job Seekers. Initially in this Scheme loan were provided from 50 lakh to 15 crores which now is changed from 20 lakh to 15 crores. The government had encouraged SC/ST people to stand on their own. Schemes of 70 venture and Fund of Rs 265 crore were approved, funds to 40 venture were already been distributed. These ventures on the average provide employment to 20-25 people. The rate of interest has been reduced from 10% to 8 %.

ISSUES AND CHALLENGES OF FINANCIAL INCLUSION

In India, where nearly one-fourth of population is illiterate and below the poverty line, ensuring financial inclusion is a challenge. Poverty and illiteracy vary widely between different States in India. Rural poverty is above 30 per cent of population in places such as Assam, Bihar, Madhya Pradesh, Uttar Pradesh, Orissa, Jharkhand, Chhattisgarh, and Manipur. Rural poverty can be attributed to lower farm income, lack of sustainable livelihood, lack of skills, under employment and unemployment. Thus, ensuring deposit operations in these accounts is a challenge.

FRAUD DUE TO ILLITERACY

India has a literacy rate of 73 per cent with some States such as Bihar, Uttar Pradesh, Jharkhand, Madhya Pradesh and Rajasthan where the literacy rate ranges between 62 per cent and 70 per cent. The banks have devised ways to address limitations arising out of illiteracy by ensuring biometric access to bank accounts. However, Aadhaar seeding implies that some numericals have still to be punched in the machine to operate an account. As all the numerals are in English, only the banker or the business correspondent (BC) can punch in the Aadhaar number. Similarly, the messages that are received on mobile phones from banks are also in English and therefore the illiterate person has to seek someone’s assistance to understand and interpret the message.

In each of the above cases, the privacy of an individual’s bank balance is breached. This makes the illiterates, and population confined at home – females and elderly – vulnerable to malpractices. There are also anecdotes that enterprising BCs, to ensure ease of business, give the same Personal Identification Number (PIN) to all the residents in a single village. This can further compromise privacy and cause embarrassment to the authorities when direct benefit transfers through bank accounts are implemented on a larger scale. Therefore, a financial inclusion strategy sensitive to regional, demographic and gender related factors, needs to be carefully crafted.
Further, it needs to be considered that why despite extensive efforts from authorities, the Prime Minister’s Jan Dhan Accounts (PMJDA) have underperformed. This could be, in addition to poverty and illiteracy, due to the type of products being offered to the unbanked population. Illustratively, recurring deposits are products which are more suitable to the salaried income group rather than people in informal sector whose incomes are uncertain, seasonal and unplanned.

MAKING ACCOUNTS OPERATIONAL

In the opening of PMJDA, mainly public sector banks (PSBs) rose to the occasion in ensuring that every unbanked household had a bank account. Now that 25 crore PMJDAs have been opened in the last two years, a feat unparalleled in history of financial inclusion, it needs to be considered whether is it also the responsibility of the PSBs to ensure that these are operational.

The opening of PMJDA was a mammoth task, as in March 2014 just before PMJDA, total accounts on books of commercial banks were around 1 lakh crore. As can be imagined, given the limited resources in banking sector, opening of such large number of PMJDA within 24 months in far flung areas diverted the attention of bankers from their principal activity of mobilising resources and lending to reliable borrowers.

The next challenge is monitoring existing borrower accounts. Therefore, to ensure that the banking industry is robust and existing banking assets safe, given that heavy lifting has been done by PSBs, should the newly opened PMJDA in rural areas and some in urban too, in a sequentially planned manner be moved to rural and urban cooperatives?

Further, at present, there are a number of regulatory authorities that have a role to play in financial inclusion – Reserve Bank, National Bank for Agriculture and Rural Development (NABARD), Securities and Exchange Board of India, Small Industries and Development Bank of India, and MUDRA bank. There is a need to fix responsibility on a single regulatory authority to ensure that JDAs are operational. In this context, given that NABARD has an extensive presence across the country and was formed for the purpose of development of agriculture and rural areas, it should be made the nodal and accountable agency for financial inclusion. NABARD may not have the existing capacity, as of now, to accept the challenge but can certainly be prepared in a phased manner in next few years. It has been investing in modernising, and infusing technology in cooperative institutions.

MONEYLENDER’S INFLUENCE

There is also need for further research on why the moneylender despite persistent efforts by institutions in formal sector has continued to flourish in the financial market. Money lenders continue to account for nearly 30 per cent of total banking business. This then gives rise to an interesting related question: do interest rates matter? After all, it is a fact that Chanakya’s interest rate structure was risk weighted and banking business flourished even then – traders were generally charged 60 per cent per annum, if goods passed through forest then 120 per cent, and sea-borne cargo at 240 per cent. In modern times, if interest rate matters, why do people prefer to go to moneylenders, despite a network of banks, cooperatives, MFIs and SHGs? Is it simply due to ease of doing business or some other factors? This is one area which requires grass-root level research.

While there has been progress toward financial inclusion, significant challenges remain

1. An estimated 2 billion adults worldwide don’t have a basic account.

2. Globally, 59% of adults without an account cite a lack of enough money as a key reason, which implies that financial services aren’t yet affordable or designed to fit low income users. Other barriers to account-opening include distance from a financial service provider, lack of necessary documentation papers, lack of trust in financial service providers, and religion.

3. More than 200 million formal and informal micro, small and medium-sized enterprises (MSMEs) in emerging economies lack adequate financing to thrive and grow.
4. MSMEs cite a lack of collateral and credit history, and business informality as main reasons for not having an account.

5. Some groups are more financially excluded than others: Women, rural poor, and other remote or hard-to-reach populations, as well as informal micro and small firms are most affected. For example, the gender gap in developing countries is estimated at 9 percentage points: 59% of men reported having an account in 2014, while only 50% of women did.

6. The forcibly displaced populations present one of the most pressing financial inclusion challenges as almost 80% in adults in Fragile and Conflict-Affected States are outside the formal financial system.

CONCLUSION

The government is committed to its target of increasing the inclusion of every household in the financial system so that the masses can get all the legitimate benefits arising out of the growth of the country and in turn, the funds mobilized from the people not earlier in the formal channel could also be brought in the formal channel thereby giving the economy of the country an extra thrust to lead the path of growth.”

Relevant policies with structural reforms can ensure a sustainable financial inclusion. There is a need to put special emphasis on the regions which are financially excluded especially there is need for inclusion drive in north eastern, eastern and central states, also mobile banking can be a better solution in those areas where security is the main concern, but this is the responsibility of the government to ensure mobile connectivity in these areas and also various telecommunication firms can be encouraged to utilize their Corporate Social Responsibility funds for providing connectivity in these areas. Still there is a significant number of women exclusion, so banks need to make special efforts for opening bank accounts for females. “A low cost solution based on mobile technology can be a good option for improving financial inclusion; there is a need for better utilization of the mobile banking facility and the maximum possible G2P payments, which would necessitate greater engagement by the government in the financial inclusion drive” (Report of the Committee on Medium term Path on Financial Inclusion, RBI)

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