FINANCIAL INCLUSION FOR INCLUSIVE GROWTH

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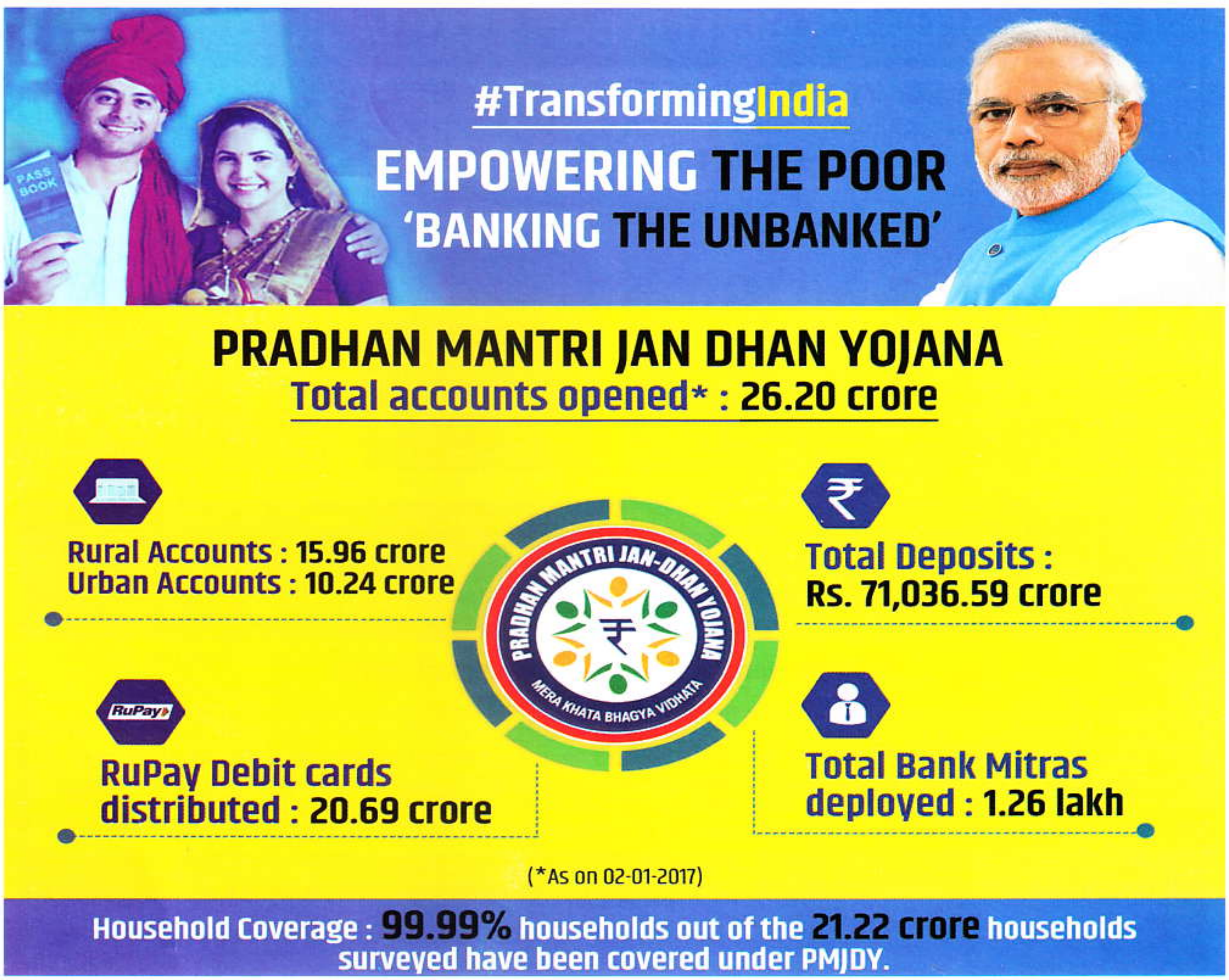
Besides the flagship programme 'Pradhan Mantri Jan-Dhan Yojana, it is for the first time, three Social Security Schemes, viz., Pradhan Mantri Jeewan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY) were brought in to serve the goal of financial inclusion by increasing the penetration of insurance amongst the poorer / weaker sections of the society thereby ensuring their family's financial security.

It has been recognized world over that economic growth cannot be sustainable unless all sections of society, more so the deprived sections, are included as part of the growth process. The inclusive growth approach focus on productive employment as a means of increasing the incomes of poor and excluded groups and raising their standards of living. Inclusive growth helps in sustainable development of rural areas as it creates employment opportunities and helps in reducing poverty.

Government of India (GOI) has recognized that Financial Inclusion (FI) is the important part of inclusive growth with focus on delivering financial services at affordable costs to the under-privileged sections of the society. Rangarajan Committee on Financial Inclusion (2008) had defined FI as the process of ensuring timely access to financial



services and adequate credit to vulnerable groups such as the weaker sections and low income groups at an affordable cost. The process of financial inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system, with other social benefits like insurance, remittances etc. Access to financial services promotes social inclusion, and builds self-confidence and empowerment.

Initiatives & their Impact:

Considering the fact that a large section of population exists on the margins of India's Financial Systems and the need to bank all the people, GoI, since independence had initiated various measures to improve the reach of financial systems to the common people. Some of the major steps taken by the Government include nationalization of Banks during 1969 & 1980, wherein 20 private controlled banks were nationalized in two phases so as to include the poor and marginalized sections among their reach and have an effective credit control.

The nationalization of banks was coupled with introduction of priority sector (PS) norms, where in Commercial banks were advised to lend a certain percentage *(40% now)* of their lendable resources to 'identified' sectors, which included agriculture, micro and small industry and various other sectors requiring priority in credit assistance. The PS targets provided an opportunity to the poor and the underprivileged section of our society to access credit from the formal systems for improving their standard of living by venturing into productive vocations.

The next important step was the introduction of area approach, through Lead Bank scheme in 1969, for development of an adequate banking and credit structure in rural areas. Credit planning process was strengthened through bottoms up approach and monitoring of credit targets was made effective through various state, district and block level forums. Further, Regional Rural Banks were established during 1976, with the objective of reaching the 'target' groups and this led to professional approach in extending credit to rural areas. Service Area Approach (SAA) was introduced in 1989 for planned and orderly development of rural and semi urban areas through allotment of identified villages (15-25) to a branch for taking care of financial needs of the population in these villages. The SAA has since been rationalized for coverage of government sponsored schemes only, giving the people a large choice of banks to approach to meet their financial needs.

The important FI initiative was mainstreaming of Self Help Groups (SHG) through an effective bank linkage program (SHG-BLP). Started in 1992, the program provided credit without collaterals to poor and brought in over 10 million poor women into banking fold and were able to access over Rs. 60,000 crores of micro credit loans per annum and save over Rs. 40,000 crore per annum. This program has been recognized as the largest micro finance program in the world.

What did the above initiatives do? The reach of the formal financial system improved in the rural areas and the access to credit for the disadvantaged sections increased. However, the All India Debt and Investment Survey (AIDIS), 2003 presented a fairly poor picture of reach of institutional credit in rural areas. While the reach of institutional credit increased from 29% in 1971 to 57% in 2003, the formal financial institutions in rural areas have not displaced informal sources of credit, altogether. The survey revealed that

43 per cent of rural households continue to rely on informal finance, which includes professional moneylenders, agricultural moneylenders, traders, relatives and friends, and others. The Task Force on 'Credit Related Issues of Farmers', 2008, observed that "*...there is an increase in the share of moneylenders in the total debt of cultivators. Moreover, a considerable proportion of the debt from informal sources was incurred at a fairly high rate of interest. About 36 per cent of the debt of farmers from informal sources had interest ranging from 20 to 25 per cent. Another 38 per cent of loans had been borrowed at an even higher rate of 30 per cent and above, indicating the excessive interest burden of such debt on small and marginal farmers...*". The continued dependence of small and marginal farmers on informal sources of credit such as private moneylenders was attributed to constraint in the rural banking network and services arising out of financial sector reforms.

To improve the reach, Government of India launched a phase-wise road map for opening of banking outlets in unbanked villages – with population above 2000 (phase I – 2009) and less than 2000 population (Phase II – 2012). The focus through this approach shifted from opening of branches to providing doorstep banking services through business correspondents. Consequently, a National Rural Financial Plan was designed with a target of providing access to comprehensive financial services to at least 50% of the excluded rural households by 2012 and the remaining by 2015. Despite these efforts, the AIDIS, 2013 showed that the reach of institutional credit in rural areas has been at around 63.56% only.

Major Break through....!

While the efforts of GoI till 2014 brought in a semblance of reach of financial services to the poor, the approach was more on the supply side. The need was for a more comprehensive approach towards Financial Inclusion covering opening of bank accounts, access to digital money, availing of micro credit, insurance and pension. The need was not only opening accounts with banks but necessary to keep the accounts alive and lead to some economic activity, thus improving or strengthening the livelihoods of the poor.

In this direction, a flagship program called the 'Pradhan Mantri Jan-Dhan Yojana (PMJDY)' was announced by the Prime Minister in his Independence Day address on 15 August, 2014. This was a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisaged universal access to banking facilities with at least one basic banking account for every household (BSBDA), financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of Rs. 1 lakh. The scheme also offers a life cover of Rs. 30,000 to each of its beneficiary.

The program also envisaged channeling all Government benefits (from Centre / State / Local Body) to the beneficiaries accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. Apart from addressing technological issues like poor connectivity, mobile transactions through telecom operators and their established centers as Cash Out Points were also planned to be used for Financial Inclusion under the program.

For the first time, three Social Security Schemes, viz., Pradhan Mantri Jeewan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY) were brought in to serve the goal of financial inclusion by increasing the penetration of insurance amongst the poorer / weaker sections of the society thereby

Progress under PMJDY and other Social Security Schemes[1]

Accounts Opened so far (No.)*	Balance Amount (Rs.)	No of Bank Mitras	Enrollments (No.)*		
			PMJJBY	PMSBY	APY
32.25 crore	80674.82 Crore	1.26 lakh	5.34 crore	13.51 crore	1.02 crore

Data on PMJDY as on 1/08/2018; PMJJBY & PMSBY as on 24/4/2018; APY as on 2/6/2018

(Source: GoI websites on PMJDY (www.pmjdy.gov.in)& Jansuraksha (www.jansuraksha.gov.in)

ensuring their family's financial security. PMJJBY provided life insurance coverage for death due to any reason to people in the age group of 18 to 50 years (life cover upto age 55) having a savings bank account. Life cover of Rs. 2 lakhs is available at an annual premium of Rs.330 per member.

PMSBY covered accidental death insurance for people in the age group of 18 to 70 years with bank account linked to their Aadhar card at an annual premium of just Rs. 12. While in case of accidental death and full disability the risk coverage is Rs. 2 lakh, for partial disability it is Rs. 1 lakh. The pension scheme (APY) encouraged workers (in the age group of 18-40 years) in unorganized sector to save for their retirement. Based on monthly contribution of a set amount to National Pension System (NPS), which will be debited directly from the account, the subscriber is guaranteed a monthly pension between Rs.1000 and Rs.5000 released to the account, from the age of 60 years.

Beyond the Numbers:

PMJDY was a watershed point in the history of Financial Inclusion initiatives by the Government of India. In the beginning the focus was on opening of accounts by banks, however dormancy in the new PMJDY accounts surfaced. The demonetization helped to overcome the situation. In reality, PMJDY had made a positive impact beyond the opening of accounts and deposits after demonetization. Dubbed as the world's biggest financial inclusion drive, with an entry in the Guinness Book of Records to boast, the PMJDY has for the first time brought over 32.25 crore of people under the ambit of formal banking network. Four years on, the total balance in the above no-frills accounts stands at Rs. 80674.82 crore (1 August 2018). Also, the National Payment Corporation of India (NPCI) has so far issued 24.19 crore RuPay debit cards to the accounts holders. The figures given below speaks for themselves –

The huge success was possible due to various initiatives taken by GOI through Indian Banks Association, State Level Bankers Committee, Lead District Managers (LDMs) and bank branches have helped create awareness about the PMJDY in the districts. Village level camps by banks through their Business Correspondents (BCs) / Financial Literacy Centers have further supplemented these efforts. The financial literacy camps organized for the purpose have created awareness among the masses regarding facility of savings provided by banks to the public at large.

An initiative with Multiple benefits:

Bankers Institute of Rural Development (BIRD) in collaboration with College of Agriculture Banking (CAB) studied the impact of PMJDY in Jharkhand, Uttar Pradesh and Maharashtra (a district each) during the year 2016. The observations of the study were corroborated with some more recent studies done by various other institutions and they do point out to one important thing viz., Universal Coverage. The program has ensured almost 100% coverage of rural households, with small and marginal farmers, women and people with no formal education opening accounts for the first time. BIRD study pointed out that 60-65% of households opened accounts under PMJDY alone and responses in Pune and Chatra districts identified the need for savings as the most important reason for opening of bank account under PMJDY. This was possible due to increased awareness levels among Women about PMJDY, compared to men and SHGs have contributed in a significant way to this high level awareness. All the members of SHGs started having individual accounts under PMJDY.

Apart from opening of accounts, the extent of utilization of BSBDAs for various transactions varied from 55% to 100%, which is a real positive development. Again women utilized the accounts better than their male counterparts. Demonetization increased utilization of various financial services overcoming longstanding demographic and gender barriers. The improved utilization was possible due to integration of Jan Dhan accounts with Aadhar numbers. The distribution of pension, welfare and subsidy related payments through these accounts, as part of direct benefit transfers (DBT), helped in door step delivery of financial services to the rural populations. Further, the issue of Rupay cards*(a domestic debit card with accidental insurance coverage)* to PMJDY account holders, was another feature which helped in better use of the PMJDY accounts. It was a grey area to start with, however, with better use of technology and an active role played by BCs, around 75% of PMJDY accounts have Rupay debit cards now. The utilization of debit cards for cash withdrawal and on-line transactions is on the rise with over 62% people have used it on a regular basis.

The other notable observation is the element of Risk Mitigation through PMJDY accounts, as is linked to three social security schemes. The awareness on insurance as a risk mitigation tool among the rural people improved in the last four years. Among the three social security schemes, PMSBY has picked up due to its low premium and the coverage is around 42% of the PMJDY accounts. PMJJBY is slowly taking off with around 16.6% PMJDY account holders opting for it. The claim ratio is around 0.02% (PMSBY) to 0.19% (PMSBY) of the PMJDY accounts and over the years, there is considerable improvement in the claim settlement process. The pension scheme (APY) could not make much inroads, with only 3.16% of PMJDY account holders opting for it. Proposals to increase the age of entry to APY to around 50 years and the pension payouts per month to Rs. 10,000 may improve the subscriber base.

PMJDB initiative also helped in stabilizing the BC network in villages and providing door step financial services to the rural populations. BCs were the main source of information on the program and played a critical role in motivating people and helping them fill the account opening form. RBI in its report on Trends and Progress in Banking (2016-17) observed that ".....The dominance of BCs in banking services in rural areas can be gauged from the fact that in March 2017, about 91 per cent of the banking outlets in villages were BCs as against 50.5 per cent in March 2010. This underscores the increasing importance of technology in the provision of banking services. Further, given that BCs which provide banking services over a minimum of 4 hours per day and for at least 5 days a week have been recognised as banking outlets, their importance is set to increase further."

The above financial inclusion initiatives were sustainable in the long run and resulted in overall development of large sections of small and marginal farmers, women and others, through increased reach to savings, credit, insurance and pension services.

Way Forward:

Though the process did put pressure on the banking apparatus and also had some disquiet among BCs due to low remuneration, problems of technology & Power etc., overall, it may be said that PMJDY has served the purpose of financial inclusion to a great extent. However, concerted efforts are needed to address the issues relating to Information and Communication Technology (ICT) in banks, BCs and FLCs so that the tempo gained thus far is sustained and the goal of total financial inclusion is reached in near future.

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Inclusion of more crops under Market Intervention Scheme

All the agricultural and horticultural commodities for which Minimum Support Price (MSP) are not fixed and are generally perishable in nature are covered under Market Intervention Scheme (MIS).

In order to give benefits to small and marginal farmers of the country including Jharkhand and Gujarat, the Government has implemented various schemes viz., Soil Health Card (SHC) scheme, Neem Coated Urea (NCU), Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Paramparagat Krishi Vikas Yojana (PKVY), National Agriculture Market scheme (e-NAM), Pradhan Mantri Fasal Bima Yojana (PMFBY), Minimum Support Price (MSP) operation, Mission for integrated Development of Horticulture (MIDH), Sub-Mission on Seed and Planting Material (SMSP), Rashtriya Krishi Vikas Yojana (RKVY) etc. In addition, schemes relating to tree plantation (Har Medh Par Ped), Bee Keeping, Dairy and Fisheries are also being implemented.