How Comprehensive is Financial Inclusion in India ?

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ABSTRACT

A massive and ambitious Financial Inclusion Project had been launched by Honorable Prime Minister of India under Prime Minister Jan Dhan Yojna (PMJDY) with a target of bringing 75 million unbanked households to the formal financial system within a targeted short period of five months. The underlying idea was that each household of the country should have minimum one bank account. The project got required attention and over 125 million accounts were opened during the thyroid envisaged. There are very few parallel to such initiative in any part of the world and early indications are that the project would be a success story – not only for the size *(opening of 125 million bank accounts in five months)* but also for the comprehensiveness of the Project.

Keywords *: Financial Inclusion, Aadhaar Card, PMJDY, Business Correspondents, eKYC*

INTRODUCTION

During the last few years, "Financial Inclusion" has become the major economic Policy Agenda not only in India but world over. For India, this has become the most critical Agenda for the new Government under the Project nomenclature of Pradhan Mantri Jan Dhan Yojana (PMJDY). For the public sector banks, this is the key deliverable for the current year. The points below bring clarity on the urgency and comprehensiveness of this Financial Inclusion programme in India. The Write-up also describes why there is a good chance of success of the current initiative and as to how the National Payments Corporation of India (NPCI) - the Central payments utility in the country is playing a key role.

WHAT IS COMPREHENSIVE FINANCIAL INCLUSION?

In simple words, "Financial Inclusion" refers to ensuring access to formal financial services like a bank account and instruments of deposits, withdrawal and remittance. The word "Comprehensive" has been added to "Financial Inclusion" in India to signify that only opening of bank accounts would not be adequate to meet the development agenda. Along with account opening, deposits, withdrawal and remittance, access to credit, insurance and investment should also be available. Till the PMJDY was launched in India, the focus was only on opening of bank accounts. Because of this limited scope, more than 50% of the accounts were in dormant condition for years. The PMJDY has redefined the scope and dimension of Financial Inclusion substantially different from the past.

Thus, the redefined scope of "Financial Inclusion" is as under :

(a) **Opening bank account *(in a simplified manner)***

(b) **Savings facilities *(without stipulation of minimum balance)***

(c) **Access to various forms of Payment services *(including payment cards and mobile banking)***

(d) **Direct Benefit Transfer and other govt. Disbursement to be credited to the accounts of beneficiaries than intermediaries**

(e) **Provision of Overdraft or loan facility from the bank**

(f) **Access to other financial services like Insurance.**

(g) **Access to financial services viz., banking, insurance, loans etc. in the vicinity of the needy by promoting agent based upon (Business Correspondent) assisted model.**

(h) **Promote environment of less cash transaction environment with a view to bring financial discipline**

URGENCY OF FINANCIAL INCLUSION IN INDIA

While inaugurating the PMJDY on 28th August 2014, the Prime Minister of India highlighted the fact that even after 68 years of independence, the country has not been able to bring 68 percent of households under the banking system. 75 million households (60 million in rural areas and 15 million in urban areas) out of a total of 247 million households[1] in the country did not have access to formal financial services. This is despite the fact that the country has the world's largest network of Post Offices (156,000) and network of 125,000 bank branches and equally large number of Cooperative Credit Societies. For raising the income level of the general populace, it is necessary that every adult person with productive energy has access to finance. It is difficult to imagine any productive activity to be taken up by a person without access to finance. The socio-economic situation is such that a disease, death or marriage in a family pushes a household in the low income group to money lenders at exorbitant rate of interest and it takes almost a life time to repay the loan. Affordable alternative of taking loans from the banking system is either non-existent in close proximity or inaccessible due to challenges in meeting the 'Know Your Customer' (KYC) norms to open a bank account. The Prime Minister described this situation as "financial untouchability" and argued for a national consensus. He described this situation as a form of "financial untouchability" and perpetuation of the observation of the Royal Commission on Agriculture (1919) that Indian farmer is 'born in debt, lives in debt and dies in debt.'

The figure below extracted from the Report of the *Task Force on Aadhaar Enabled Unified Payment Infrastructure: February 2012* indicates that only 41.3% of the population are banked.

Table A : Percentage of banking populace in India vis-à-vis few developing countries[2]

Country	Population (Mn)	% banked
Brazil	193	43
Mexico	109	25
South Africa	50	63
Columbia	46	62
India	**1230**	**41.3**

Source: Report of the Task Force on an Aadhaar Enabled Unified Payment Infrastructure: February 2012

OPENING OF BANK ACCOUNT

For the Financial Inclusion programme to succeed, one of the primary requirements is that the banking system should reach the door step of the targeted households. Even with wide network of bank branches in the country and policy direction from Reserve Bank, since last few years, on minimum 25 percent of incremental bank branches to be in unbanked areas, there is still a large gap in opening of service outlets close to every village. Nearly 550,000 out of 638,000 villages are still more than 5 kilometres away from the nearest service outlet. In some difficult terrains in North East region, the nearest bank branch is as far away as 30 kilometres. Considering that opening of a fixed bank branch at these locations would neither be financially viable nor would be required, a Scheme of branchless banking through Business Correspondents was initiated in the year 2007. After covering 74,000 villages with more than 2,000 inhabitants in 2012, a three year plan was made for covering the rest of the villages. PMJDY launched in August this year does not replace this Scheme but makes the Scheme more comprehensive. The PMJDY expands the scope and accelerates the pace with clear timelines. PMJDY uses the same institutional mechanism of branchless banking through Business Correspondents, but with a direction that banking system must be geared to cover all the 75 million excluded households by January 26, 2015. The initial response to this Project has been very encouraging. On the day of launch of PMJDY (i.e. 28th August 2014), as many as 77,200 camps were organized and 15 Million accounts were opened. In a short period of five months, the number of accounts opened were over 125 million covering almost each household of the country. For accelerated account opening, technology was used extensively and a relaxed [Know Your Customer (KYC)] criteria was applied for opening of accounts. Aadhaar card, if available with the hitherto excluded person was considered adequate for KYC. Verification process was also done simpler by biometric authentication from Unique Identification Authority of India (UIDAI), a Government of India project. It is this procedure of simplified account opening that within a short period of five months, 125 million accounts have been opened.

Aadhaar Card, as referred to above, is the Personal Identification Card issued by the Government of India after verifying the address / residence of the person living in India. It is a form of resident Identity-cum-Social Security card in India. The biometric signature (finger prints and iris) are also captured at the time of residence verification and a unique identity number (12 digit) is allotted. The card issued shows the 12 digit number and other demographic information. Therefore, any walk-in customer can show the Aadhaar Card and get an account opened by using the biometric authentication.

Table B : Progress Report of accounts opened under PMJDY Scheme by Participating Banks[3]

Sr.No.	Week ending	Number of New Accounts opened during the period	Total Number of Accounts opened by Banks under PMJDY
1	Week 1	15,100,000	15,100,000
2	Week 2	15,148,406	30,248,406
3	Week 3	7,365,459	37,613,865
4	Week 4	7,755,799	45,369,664
5	Week 5	6,678,644	52,048,308
6	Week 6	2,668,924	54,717,232
7	Week 7	3,380,584	58,097,816
8	Week 8	4,449,350	62,547,166
9	Week 9	2,984,333	65,531,499
10	Week 10	3,696,914	69,228,413
11	Week 11	2,626,273	71,854,686
12	Week 12	3,311,190	75,165,876
13	Week 13	4,011,404	79,177,280
14	Week 14	4,056,924	83,234,204
15	Week 15	40,56,924	87,009,967
16	Week 16	37,75,763	92,118,161
17	Week 17	51,08,194	97,352,082
18	Week 18	52,33,921	101,739,515
19	Week 19	43,87,433	106,388,008
20	Week 20	46,48,493	110,761,963
21	Week 21	43,73,955	115,039,578
22	Week 22	42,77,615	121,434,381
23	Week 23	63,94,803	125,473,289

Source: Department of Financial Services, Govt. of India, PMJDY Progress report: January 2015

ACCESS TO INSTRUMENTS OF SAVINGS

For economic well-being of a family, access to instruments of savings is very important. The necessity arises to meet the needs of the time of unforeseen medical emergencies and crop failure and social pressures for expenditure at the time of marriage or death. These are the main reason for emergency funding requirement in rural India. Though culturally, India was savings driven, this ethos is practically dead with increasing population and fragmentation of land holdings. Absence of banking system has forced the unbanked populace to fall prey to unlicensed financial firms and chit funds where deposit guarantee is not available. The recently unearthed financial scandals reveal that people in rural areas do their savings with weak financial companies (called 'Chit Fund' in India) in the absence of formal banking outlets. Instances of Bonded labour can still be found in some parts of the country primarily because the labourer has no means of savings. Even now in urban areas, the labourers in unorganized construction sector cannot leave the contractor because the money saved with the contractor acts as bondage rather than a freedom. Since alternative modes of savings are not available, many of these irregular practices still continue.

The assumption that access to bank accounts leads to savings is evident from the fact that 125 million + accounts opened under the PMJDY has garnered a deposit of more than Indian Rupees 160 billion. This demonstrates that the poor also has some money to save. This does not rule out the fact that a large section of the population is so poor that unless their income level increases, it would be difficult to expect them to save. Therefore, PMJDY has emphasized on direct cash transfer to bank accounts for various Government schemes. This would not only ensure that benefits reach the right beneficiaries, but also would help the savings habit of the targeted segment. Savings would be automatic unless it is withdrawn for day-to-day use by the beneficiaries. The extent of Government benefit transfer through this mechanism is as high as Indian Rupees 3218 billion as may be seen from the table below :

Table C : Major Government Schemes[4]

Sr.No.	Name of Scheme	Approximate beneficiaries	No. of Transactions estimated in a year	Average benefit estimated to be disbursed per transaction	Disbursable Amount
		(in Million)	(in Million)	(Indian Rupees)	(Indian Rupees in Million)
1	Civil Service Pensions	15.00	180.00	3000	540,000
2	Food Subsidy	50.00	600.00	1000	600,000
3	Liquefied Petroleum Gas (LPG) Subsidy	130.00	840.00	450	378,000
4	Fertilizer Subsidy	80.00	320.00	2000	640,000

5	Kerosene Subsidy	130.00	1000.00	200	200,000
6	Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)	40.00	400.00	1000	400,000
7	Rural Housing	6.70	6.70	15,000	100,000
8	Social Security Pensions	7.50	90.00	1000	90,000
9	National Rural Health Mission	22.50	260.00	600	130,000
10	Integrated Child Development Scheme	11.00	140.00	500	70,000
11	Social Security Administration	7.70	93.30	750	70,000
		500.40	**3,930.00**		**3,218,000**

Source: Report of the Task Force on Aadhaar Enabled Unified Payment Infrastructure: February 2012

ACCOUNT OPERATION FOR CASH WITHDRAWAL AND REMITTANCE

Willingness to save also comes from the assurance that money saved can be withdrawn easily when needed. Therefore, Financial Inclusion programme necessitates building an infrastructure for easy withdrawal or remittance of money. PMJDY envisages issuance of a RuPay debit card to each and every account holders under the Scheme. The debit card would not only facilitate withdrawal of cash easily from the nearby ATMs, but also facilitate electronic use of money at Point of Sale terminals in due course. This will help rural India to adopt card payment mechanism without going through the traditional evolutionary process of branch banking and cheque clearing. This may also prove to be an effective instrument to bridge the divide between India and "Bharat" (i.e. Rural India). Reserve Bank has already permitted inter-operability of transactions at the point of Business Correspondents. Customer of one bank can avail of the transactional service of the Business Correspondent of another bank. Thus the terminal at the Business Correspondent will act as an assisted ATM. Several steps are being initiated to ensure the RuPay card at the hands of the newly included customers are used effectively for day-to-day transactions like deposits, withdrawal, balance enquiry and remittance. Indian Banks' Association has done considerable amount of work to ensure that the Business Correspondents have the standardized inter-operable devices which would help in carrying out the deposit / withdrawal / remittance transactions at any outlet. The newly announced differentiated licensing regime of Payment Banks will speed up this work.

The Business Correspondents of banks facilitate remittance of money either by taking deposits of cash or by debiting the accounts of the remitting customers instantly. Considering that a large migrant population is there in major cities, remittance home through the urban Business Correspondent is picking up fast. State Bank of India, Union Bank of India, ICICI Bank and Yes Bank are major players in effecting remittance through their Business Correspondents. Since the Business Correspondents assist the customers in accessing their account, the customers can easily make a request to debit their accounts and effect money transfer to intended beneficiaries.

After successful implementation in Kenya, Tanzania, Pakistan and Bangladesh, India has also embarked on the use of mobile based financial services to promote Financial Inclusion. A major initiative has been taken by NPCI to popularize USSD (Unstructured Supplementary Service Data) based mobile service that does not require a smart phone. All the GSM telephone operators have reserved a common service code (***99#**) for financial services. The service request leads to a standardized menu containing seven services – (**1**) Balance Enquiry (**2**) Mini Statement (**3**) Funds Transfer- mobile number (**4**) Funds Transfer - A/c Number (**5**) Know MMID (Mobile Money Identifier) (**6**) Change MPIN and (**7**) Generate OTP (One Time Password). The USSD service has been designed assuming that the target customers do not have GPRS enabled smart phones and their requirements are basic financial services.

There are 32 major banks in the country who are members of this service and bulk of the transactions are for balance enquiry and funds transfer. In India, all the ATMs and PoS terminals in the country are inter-operable. Customer of one bank can make use of the terminal of any other bank. This is proposed to be taken forward to the new kinds of devices to be used in rural areas. The USSD service uses Immediate Payments System (IMPS) at the backend to support 24x7 real time money transfer to the beneficiary account. The beneficiary can go to the nearest branch, ATM or the Business Correspondent outlet for cash -out.

ACCESS TO CREDIT

Comprehensive Financial Inclusion also includes access to credit facility. The challenge in this regard is credit rating of the newly opened account holders. Therefore, it has been decided to bring the newly opened account holders under credit framework, after watching the transaction pattern for some time. Since all the social benefit transfers will be made through the bank account, the utilization pattern can be easily observed over a period of time. All the banks in the country have already agreed to provide clean overdraft to the extent of Indian Rupees 5000/- after six months of operation of the account. The facility would be primarily to meet the emergency needs. There is apprehension in some quarters that all the overdraft loans may be perceived as "grants" and may not be paid back.

Therefore, vigorous financial literacy drive is being undertaken to ensure that the overdraft facility is not misused and would be provided only to those who would demonstrate transaction handling capability. To prevent misuse of the system by a customer opening multiple accounts with multiple banks, it has been decided by the Government of India to do de-duplication by linking Aadhaar Number to the Overdraft account. To protect the banks against likely slippage in credit quality, a Credit Guarantee mechanism has also been placed. De-duplication of overdraft will be carried out at NPCI level.

INSURANCE

Access to basic forms of insurance in the initial period of livelihood improvement is also a part of Financial Inclusion. Fortunately, the innovative idea of RuPay card Scheme of NPCI came handy for the Government. As the newly included customers were supplied with a RuPay Debit card, they were also automatically covered under the basic insurance of Indian Rupees One Lakh against accidental death or permanent disability. The Government is planning to cover life insurance of Indian Rupees 30,000/- as well to the lead member of every household who open bank account for the first time between August 15, 2014 and January 26, 2015, is aged between 18-60 years and meet the other eligibility criteria prescribed under the Scheme.

Honorable Finance Minister in his maiden Budget proposals has announced introduction of two insurance schemes I.e. Pradhan Mantri Suraksha Bima Yojna (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojna (PMJJBY). While the first extends Accidental Death Insurance of Rupees Two Lakhs to any account holder on payment of nominal premium of Rupees Twelve per annum, the later scheme is for life insurance of Rupees Two Lakhs on payment of premium of Rupees Three Hundred Thirty per annum *(less than a rupee daily).*

PMSBY & PMJJBY

a) PMSBY is offering a renewable one year accidental death cum disability cover of Rupees Two Lakh (Rupees One Lakh for partial permanent disability) to all savings bank account holders of the country in the age group of 18 to 70 years for a premium of Rupees 12/- per annum per subscriber.

b) The scheme would be offered / administered through Public Sector General Insurance Companies (PSGICs) or other General Insurance companies willing to offer the product on similar terms on the choice of the Bank / Regional Rural Bank / Cooperative Bank concerned.

c) PMJJBY on the other hand, is offering a renewable one year life cover of Rupees Two Lakh to all savings bank account holders in the age group of 18 to 50 years, covering death due to any reason, for a premium of Rupees 330/- per annum per subscriber.

d) The scheme is being offered / administered through Life Insurance Corporation of India or other Life Insurance companies willing to offer the product on similar terms on the choice of the Bank / Regional Rural Bank / Cooperative Bank concerned.

PENSION

Another scheme i.e. **Atal Pension Yojna (APY)** has been announced by Finance Minister under which any account holder can get a pension ranging from Rs 1,000 to Rs 5,000 per month on attaining the age of 60 years on payment of monthly subscription that varies depending upon the age of the applicant.

APY is the third scheme launched, is focusing on the unorganized sector and provide subscribers a fixed minimum pension of Rupees 1000/-, 2000/- , 3000/-, 4000/- or Rs. 5000/- per month starting at the age of 60 years, depending on the contribution option exercised on entering at an age between 18 and 40 years. Thus, the period of contribution by any subscriber under APY would be 20 years or more. The fixed minimum pension would be guaranteed by the Government under the scheme.

All aforesaid three schemes were launched by Honorable Prime Minister of India on May 09, 2015. All three schemes are path-breaking initiative towards providing affordable universal access to essential social security protection in a convenient manner linked to auto-debit facility from the bank account of the subscriber.

NATIONAL PAYMENTS CORPORATION OF INDIA (NPCI)

NPCI is in the news primarily because of its role at every point of the life cycle of a newly included bank customer. At the time of account opening, banks have started using gateway of NPCI for eKYC verification from UIDAI, a Government of India project. UIDAI has the repository of biometric information of about every resident of the country and NPCI acts as a gateway for the banks to connect to UIDAI server to download the details. This reduces the workload on the part of banks in account opening. Once account is opened, the Government carries out the cash transfer of benefits under various schemes using the Aadhaar Payments Bridge (APB) of NPCI. For this purpose, the Aadhaar Number is used as the financial address. NPCI has built an infrastructure called 'National Financial Mapper' that maps every Aadhaar Number to the bank where the customer maintains the account. Thus, using the APB and the Financial Mapper, electronic benefit transfer takes place. NPCI handles about half a million transactions each day. For account operation like cash withdrawal from ATM or PoS, the customer can use the RuPay debit card for which NPCI is the Scheme owner of "RuPay". For balance enquiry and money transfer, the customer can use the USSD system of NPCI. The Financial Mapper has now been upgraded to keep track of grant of overdraft facility as well. Overdraft facility is granted only after checking from NPCI Financial Mapper whether the customer has already received similar facility from some other bank. Thus, services of NPCI is being utilized by the Government of India at every major activity of Financial Inclusion – account opening, credit to account, cash withdrawal, remittance, grant of overdraft and accident insurance. As a result, NPCI has emerged as a key national infrastructure for financial inclusion initiatives in the country.

CONCLUSION

There is no doubt now in the Policy circles that Comprehensive Financial Inclusion is the need of the hour. The new Government in the country has taken up this agenda as a key component of the livelihood improvement programme. In one way, it is also seen as a poverty eradication programme. The chances of success emanate from the fact the project is being driven on a Mission mode and monitored closely by none other than the Prime Minister of the country.

Author's Note

The views expressed are those of the author and do not necessarily reflect the official position of the NPCI

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