Financial Inclusion and Social Change

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Financial inclusion is expected to make significant changes in the economy, especially the rural economy, which is expected to witness a revolution in availability of financial instruments mainly because of– PMJDY, gold monetization scheme and MUDRA. The DBT which will operate through the banking system will also ensure regularity of flow of liquidity in households and therefore opportunities for investment

The objective of financial inclusion is mainly to provide finance on easy terms to the vulnerable and weaker sections of the society to facilitate investment and economic growth in the country. Financial inclusion (FI) enables improved and better social development, in an equitable manner across the country. It enables empowerment of the under-privileged and poor, including women, with the mission of making them self-sufficient and well informed to take better financial decisions. The objective of financial inclusion is to ensure universal access to a wide range of financial services like savings and payment account, credit insurance and pensions. Further, financial inclusion also aims to provide services for business opportunities, education, savings for retirement and insurance against risks including emergency loans. Thus, the main target of financial inclusion is better standards of living and income for a larger number of residents in the country.

The attempt to expand access to the formal financial sector of which financial inclusion is a part is a continuous process. The Government as well as Reserve Bank of India (RBI) has been undertaking concerted measures to extend financial inclusion since Independence. The earlier measures were not yielding the desired results. However, in recent months, the Government of India reviewed the policy to ensure that financial inclusion, in a limited sense of opening of bank accounts, is successful. The Pradhan Mantri Jan Dhan Yojana (PMJDY) has yielded results and nearly 98 per cent of households in India now have bank accounts. Cumulatively, these programmes are transforming India and altering the socio-economic landscape despite their varied impact.

Historical Evolution of Financial Inclusion

Policy makers have grappled with the issue of reducing the scope of the informal sector since colonial times. Nicholson Report (1895) was one of the first to highlight the need to establish 'Land banks' as an alternative to dominance of moneylenders. Resultantly, the Cooperative Credit Societies Act, 1904 was passed to provide, amongst other things, a legal basis for cooperative credit societies. The concept of expanding financial access gained importance in the years after Independence and immediately after the *All-India Rural Credit Survey*, 1951-54, which pointed out that in 1950-51, commercial banks

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provided only 0.9 per cent of the total credit to farmers, agriculturalist-moneylenders provided 24.9 per cent while professional moneylenders provided 44.8 per cent of the total credit to farmers (RBI 2008, 2011). The early efforts to usher financial inclusion included nationalization of State Bank of India in 1955 followed by nationalization of more banks in 1969 and1980. The establishment of National Bank for Agriculture and Rural Development (NABARD) and the introduction of priority sector lending to increase flow of credit to certain sectors including agriculture are other measures aimed at improving access to formal financial institutions. In 2005, RBI announced a number of measures, including provision of whole gamut of financial services. Initially, banks were advised to open no-frill accounts (since renamed as Basic Saving Bank Deposit account in August 2012 and now Jan Dhan Account).Financial Inclusion received further impetus after the Rangarajan Committee (GOI, 2008) suggested various measures including the need to expand banking to provide a suite of services - related to deposits, credit, micro insurance and remittance for the poor. Consequently, banks were advised to identify at least one district to achieve 100 per cent financial inclusion on a pilot basis. Banks were also advised to - (i) initiate ICT based Business Correspondent model (BC model) to provide low cost banking services at door step in remote villages, (ii) Board approved financial inclusion plan (FIP) for 3 years commencing from 2010, (iii) Roadmap to cover all the villages having population above 2000 by 2012 and all the villages having population between 1000 to 2000 by 2013, (iv) Availability of at least four banking products, and (v) Opening of at least 25 per cent of new branches in unbanked rural areas.

Other important measures include issuing Kisan/General Credit Card. Micro Units Development Refinance Agency (MUDRA) bank, focuses on providing credit to small entrepreneurs whose financing requirements do not exceed Rs.10 lakh. Established with a corpus of Rs.20,000 crore and credit guarantee corpus of Rs.3000 crore, a it will refinance and assist those financial institutions who finance micro enterprises in India. However, despite various attempts, the spread of formal sources of credit especially in rural areas has been slow. The All India Debt and Investment Survey (AIDIS 2013) indicates that the percentage of households indebted to institutional agencies was 17.2 per cent as against 19.0 per cent households to non-institutional agencies. Thus, in rural areas, the expansion of the formal sector and various programmes has not succeeded in supplanting the moneylenders as the dominant source of credit. Ananth and Oncu (2013) have cited various reasons that serve as an obstacle for the expansion of formal banking services among the poor. Singh and Naik (2015) empirically study the demand and supply side constraints of the financial inclusion model by reporting results of a survey undertaken in Gubbi in early 2014.

In this context, PMJDY differs from the previous approach not merely because it seeks to implement inclusion through a Mission-mode approach, but also offers a RuPAY Debit card, micro insurance and emphasis on banking coverage of households rather than coverage of villages. At the time of launch, PMJDY targeted the opening of 7.5 crore bank accounts by January 26, 2015 but achieved record-breaking success (Table 1).[1]

Socio-economic Impact of Financial Inclusion

The push for inclusion has implications beyond simply banking. Over the past two decades, it has become clear that economic growth requires the creation and expansion of a robust banking sector. Historically, economic changes invariably lead to social changes. The push to expand inclusion has triggered major economic and social changes. Rural India is witnessing profound changes which include rapid mechanisation of agriculture, improvement in transport, communication and other technological changes. The socio-economic changes are reflected in a sharp spurt in banking transactions (Table 2).

Jan Dhan's potential social impact is its ability to create a comprehensive social security net along with the three affordable social security schemes: Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyothi Bima Yojana and Atal Pension Yojana. Nearly 10.4 crore people are covered under these three schemes (GoI,

Table 1: Pradhan Mantri Jan Dhan Yojana

(Figures in crore)

S. No		No of Accounts Opened			No of Rupay Debit Cards	Balance in Accounts	per cent of Zero Balance Accounts
		Rural	Urban	Total			
1	Public Sector Banks	6.9	5.8	12.7	11.9	14357.5	52.3
2	Private Banks	2.5	0.4	2.9	2.1	3258.5	52.1
3	Regional Rural Banks	0.4	0.3	0.7	0.6	1068.6	49.3
	Total	**9.79**	**6.5**	**16.3**	**14.5**	**18684.6**	**52.2**

Source: GoI (2015a)

Table 2: Financial Inclusion Progress: Banks and RRBS

Particulars	Year Ended 2010	Year Ended 2011	Year Ended 2012	Year Ended 2013	Year Ended 2015
Banking Outlets in Villages					
a) Branches	33,378	34,811	37,471	40,837	46, 126
b) Branchless Mode	34,316	81,397	144282	2,27,617	3,37,678
c) Total	**67,694**	**1,16,208**	**1,81,753**	**2, 68. 454**	**3, 83, 804**
Urban Locations through BCs	447	3,771	5,891	27,143	60,730
Basic Saving Bank Deposit A/c- branches					
a) No. in million	60.19	73.13	81.20	100.80	126.00
b) Amt. in Rs. billion	44.33	57.89	109.87	164.69	273.30
Basic Saving Bank Deposit A/c- BCs					
a) No. in million	13.27	31.63	57.30	81.27	116.90
b) Amt. in Rs. billion	10.69	18.23	10.54	18.22	39.00
Overdraft facility availed in BSBDA's account					
a) No. in million	0.18	0.61	2.71	3.92	5.90
b) Amt. in Rs. billion	0.10	0.26	1.08	1.55	16.00
KCC					
a) No. in million	24.31	27.11	30.24	33.79	39.90
b) Amt. in Rs. billion	1240.10	1600.05	2068.39	2623.00	3684.50
GCC					
a) No. in million	1.40	1.70	2.11	3.60	7.40
b) Amt. in Rs. billion	35.10	35.07	41.84	76.30	1096.90

Source: GOI (2014c), RBI (2013, 2014, 2015).

2015b). Using the PMJDY account as the pivot, these schemes can alter the manner in which benefits are delivered to citizens while concurrently creating a social security net for the poor and those working in the unorganised sector.

Technology has been at the forefront of financial inclusion, especially after 2010. Technological advances and constantly lowering of technology investments/solutions offers much hope for PMJDY. Jan Dhan, Aadhaar and Mobile (JAM) combined with the proposed concessions for the use of credit and debit cards offer a unique opportunity that can facilitate a paradigm shift in our economy and society. The expansion of the banking sector along with investments by various State governments in information and telecommunication technologies to improve delivery of government services concurrent to the roll out of Aadhaar offers a unique, hitherto unknown opportunity to create a framework on which a digital ecosystem can be built. Anecdotal evidence from our field studies indicates that this may not be difficult considering the spread of Jan Dhan and the fact that most rural households spend their money within a radius of 25 square kilometres. The economic-geography of India is that an overwhelming number of villages are within a radius of 5-25 kilometres from a town.

The reach of Jan Dhan accounts offers an opportunity to make these accounts the basis around which a larger network that links users to small businesses – many which already access the formal banking system. Aadhaar enabled micro-ATMs (BC outlets) offer an opportunity to use RuPAY cards validated by biometrics to pay for purchases replacing cash. However, this requires certain pre-conditions to be fulfilled. Importantly, it will require the banks to create a system that will enable transfer of money almost instantaneously – not a problem if each RuPAY Card is provided with an inbuilt Immediate Payment Service (IMPS) registration and Near Field Communications (NFC) tags. Such a digital ecosystem has the ability to facilitate a society where electronic transactions can replace cash. Technological advances and the spread of mobile phones offer grounds for optimism for a country like India with its large population of illiterate citizens. One such technological advancement is the recent grant of a Patent by US for Samsung that offers contactless fingerprint authentication using a positive match with a valid fingerprint image store in a phone memory.

The BC model has witnessed rapid adoption among the community, especially when it works effectively, indicative of the large unmet demand for formal financial services. The three immediate benefits more clearly discernible in the under-banked areas include convenience, lower transactions costs and improved banking relationship visible in the form of higher loan recovery rates. The net impact of the spread of banking, though largely not quantified, is that it has reduced the cost of various services that were provided in the past by informal service providers. In Mahabubnagar district of Telengana, it has led to the disappearance of informal money transfer agents mainly because of spread of ATMs and BCs. Similarly, cost of remittances has witnessed a sharp decline over the past four years since banks are leveraging their investments in core banking solutions (CBS) to transfer money almost instantaneously. In a number of villages, BCs often help the banks mobilise term deposits – most of which would otherwise have gone into more risky investment, informal investments and pyramid schemes. Greater success on this front will offer, for the first time in India, the opportunity to harness savings through the formal sector, thereby creating a valuable avenue where households can access their savings without the risk of losing them. Socially, this offers the household an opportunity to channelize their savings with the banking system to areas like education, health and housing rather than lose them when invested in shady pyramid schemes and other informal instruments.

Jan Dhan and Beyond

The success of Jan Dhan is not assured. On the contrary, its ultimate success will be indicated only when the formal banking system eliminates private, informal moneylenders. Two major issues that presently constrain the benefits of PMJDY reaching their intended beneficiaries quickly include lack of access points and transaction limits on accounts opened through BCs (Ananth and Oncu 2014, Dadhich 2014). The lack of access points means that effectively half of India's villages lack banking access (Table 2). Removing the transaction limits placed on PMJDY accounts will make it more attractive to use the accounts more frequently. The success of Jan Dhan and more importantly, the growth of the culture of banking are hindered by limited flexibility of the accounts opened and restrictions on the transactions through BC channel. Most of the banks have a daily transaction limit that varies from Rs.1500 to Rs.10,000 per day deposit or withdrawal from an account. The maximum permissible limit for any one transaction is Rs.50,000. Any transaction exceeding this limit requires the BC to visit the branch along with the account holder and attaining approval for this transaction. No transaction above Rs.10,000 per day is allowed. The problems are aggravated because in a number of instances, account holders have given their Jan Dhan account to receive their entitlements that the government transfers to the beneficiary or for some transaction due to Direct Benefits Transfer (DBT) from various government agencies or LIC payments often exceed the daily transaction limits allowed by the banks in an accounts.

Singh (2014) opines that the cause of FI will be helped if post offices were used for expanding banking services. There are nearly 28 crore accounts in post offices with savings account numbering more than 13 crore and recurring deposits of more than 11 crore.[2] Although, various initiatives had been undertaken in order to financially include all sections of society, the success of such measures had remained partial. Similarly, the use of Fair Price Shops that distribute rations can be another useful way to help expand access of PMJDY accounts, which will also concurrently bring about major changes in the socio-economic structure of the village while helping to create a digital ecosystem. An example best illustrates this: AP government has introduced a useful initiative (currently under various stages of implementation) - "Anywhere Rations", which enables a person to draw rations from any shop. A recently concluded successful pilot project allows citizens to draw their rations from any "Fair Price Shop" of the Civil Supplies Department in the city. Since the Civil Supplies Department's database is linked with Aadhaar, the department tracks the movement of rations in real time. All ration shops (27,176) were provided with a point of sale machine that are linked to the 267 Mandal (Tehsil) level stock points that are monitored from a central location. Transforming the ration shops into a multipurpose store that provides various services including financial services can help broaden the reach of the banking sector.

Conclusion

Financial inclusion is expected to make significant changes in the economy, especially the rural economy, which is expected to witness a revolution in availability of financial instruments mainly because of– PMJDY, gold monetization scheme and MUDRA. The DBT which will operate through the banking system will also ensure regularity of flow of liquidity in households and therefore opportunities for investment. The key player in the market would be banks, micro-finance institutions, self-help groups, post offices and MUDRA bank. The banking system which mainly will be the conduit to the flow of resources can be expected to offer more financial instruments to retain and park these funds within the system. Similarly, the post offices, especially with their reach of 1,40,000 branches in rural areas can also be expected to introduce new schemes to tap these resources. The type of instruments that can be anticipated in the market are bank deposits of different varieties, small saving instruments through the post offices, gold bonds and new instruments that would be floated by the above mentioned institutions.

These developments are expected to unleash the creative potential in the economy and provide easy finance to convert ideas into manufactured products for the markets. The objective of "Make in India" is expected to be strengthened by inclusive growth yielding higher employment and output for the economy.

Readings

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Endnotes

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2 Other accounts in post offices include time and fixed deposits. ❑

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