"Financial Inclusion "The Factual Story"

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ABSTRACT:

Financial inclusion has become a buzzword for government's intent on tackling poverty and inequality among the citizens. India's Prime Minister Mr. Almost half of all adults in the world are 'unbanked', most of them living in South Asia, Africa and the Middle East.

India is an emerging economy. Its CAGR growth rates anticipated a 7.2 %, which is the best growth rate planned by any in the entire world at present in 2016-17. Even China has started slowing down in terms of annual growth rate. Social Judgment is essential while a country is planning to grow towards its development goal. The last person standing in the order of prosperity in a country has to reap and obtain the fruits of economic development, this is financial inclusiveness and this will improve the social contentment. So the development planning in ' NITI Aayog' are expected to frame a development path in which financial inclusion is important as it will reduce income disparity in our demography.

Key Words: Financial Inclusion, Jan Dhan Yojana, Social Judgment, NITI Ayog

Introduction:

One of the biggest economic stories of our time is the reduction of poverty around the globe. Many low-income and emerging economies are catching up with richer nations in terms of per capita income. Extreme poverty, measured as life on less than US$2.50 per day, has been halved. And for the first time in recorded history, there are now more people in the middle class than in poverty. Mexico epitomizes these achievements—with extreme poverty falling by 60 percent and the middle class doubling in size over the past ten years.

Yet, despite this progress, poverty is still high. The Latin America region remains by many measures the most unequal in the world.

There is also large income inequality on a global scale. Worldwide, inequality of individual wealth is extreme. A research paper published by Oxfam in January 2015, shows that the richest 1 percent have seen their share of global wealth increase from 44 percent in 2009 to 48 percent in 2014, and at this rate, it will be more than 50 percent in 2016. The 80 richest people on the planet have the same wealth as the poorest 3.5 billion people, the report says. Inequality is not just a moral issue—it is a macroeconomic issue. Research shows that countries with higher inequality tend to have lower and less durable growth. Inequality chokes the prospects for individuals to realize their full potential and contribute to society.

For the poor, access to basic financial services such as payments, savings and insurance holds out the potential to generate huge benefits. With improved financial access, families can smooth out consumption and increase investment, including in education and health. They can also insure against unfavorable events. For firms, especially small and new ones, access to finance can encourage investment in new and more productive technologies. It can also help them expand—hire more people and even mature to a larger scale.

There is also a widespread recognition that financial exclusion forms part of a much wider social exclusion, faced by some groups who lack access to quality essential services such as jobs, housing, education or health care.

According to N. C. Saxena, member of the National Advisory Council, widening income disparity can be accounted for by India's badly shaped agricultural and rural safety nets. "Unfortunately, agriculture is in a state of collapse. Per capita food production is going down. Rural infrastructure such as power, road transport facilities are in a poor state," he said. "All the safety net programmer are not working at all, with rural job scheme and public distribution system performing far below their potential. This has added to the suffering of rural India while market forces are acting in favour of urban India, which is why it is progressing at a faster rate. The Impact of this is that growing income inequality in India has negatively impacted poor citizens' access to education and healthcare. People working in unorganized sectors are the worst sufferers of economic inequality. They are characterized by low wages; long working hours; lack of basic services such as first aid, drinking water and sanitation.

The various steps taken by the Indian government to reduce economic inequality include[1]:

[1] Income inequality in India lowest among emerging nations: OECD

- Jan Dhan Yojana : A financial inclusion scheme aimed at bringing banking services to the poor.
- Labour Reforms: States such as Rajasthan and Maharashtra have attempted to reduce number of rules and regulations for hiring of labour.
- Progressive taxation : India has a progressive taxation system, in which the rich are taxed more than the poor

The 'unbanked' and widening access: International experience

Research shows a number of countries have made great strides in financial inclusion in the last decade, leading the way for others. Bangladesh, Vietnam and Russia have made much progress in expanding access to ATMs and bank branches. Indonesia and Malaysia are making headway with newer innovations in financial inclusion, such as electronic banking.

Economies in East Asia tend to do better than those in Africa, but there are pockets of strength even in less inclusive countries, such as Kenya and Saudi Arabia.

Still, about 2.5 billion adults around the world remain outside the financial system. Inclusion is particularly low in countries such as Nigeria, Uganda, Pakistan, Ghana and Egypt and only modestly better in some of the larger emerging markets such as China, India and Brazil.

Financial Inclusion
Background

In India, the Banking industry has grown both horizontally and vertically but the branch penetration in rural areas has not kept pace with the rising population and the need for accessible financial services. Even after decades of bank nationalization, whose rationale was to shift the focus from class banking to mass banking, we still find usurious money lenders in rural areas continuing to exploit the poor. After economic reforms of 1991, the country can ill-afford not to include the poor in the growth paradigm. Financial Inclusion of the poor will help in bringing them to the mainstream of growth and would also provide the Financial Institutions an opportunity to be partners in inclusive growth.

The efforts to include the financially excluded segments of the society in India are not new. The concept was first mooted by the Reserve Bank of India in 2005. In the year 2011, the Government of India gave a serious push to the program by undertaking the "Swabhimaan" campaign to cover more than 74,000 villages, with population more than 2,000 (as per 2001 census), with banking facilities. The learning's from the campaign suggest that:

- The campaign focused only on the supply side by providing banking outlets in villages of population greater than 2000 but the entire geography could not be covered.
- The target was for coverage of villages and not of the households
- It also came out that some technology issues hampered further scalability of the campaign.
- The deposit accounts so opened under the campaign had very limited number of, or no transactions
- The task of credit counseling and Financial Literacy did not go hand in hand with the campaign. Consequently the desired benefits were not visible. Learning from the past, the present proposal is, therefore, an integrated approach to bring about comprehensive financial inclusion.

International presence of Financial Inclusion

Comprehensive Financial Inclusion incorporates ensuring access to financial services and timely & adequate credit to the excluded sections i.e. weaker sections & low income groups. It is a known fact that in India, while one segment of the population has access to assortment of banking services encompassing regular banking facilities & portfolio counseling, the other segment of underprivileged and lower income group is totally deprived of even basic financial services. Exclusion of large segments of the society from financial services affects the overall economic growth of a country. It is for this reason that Financial Inclusion is a global concern. In **Sweden and France,** banks are legally bound to open an account for anybody who approaches them. In **Canada,** law requires Banks to provide accounts without minimum balance to all Canadians regardless of employment / credit history. In the **United States,** the Community Reinvestment Act (1977) is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations.

Financial Inclusion: Current Status – India

- Despite various measures for financial inclusion, poverty and exclusion continue to dominate socio economic and political discourse in India even after six decades of post-independence era. Through economy has shown impressive growth during post liberalization era of 1991, impact is yet to be percolated to all sections of the society and therefore, India is still home of 1/3rd of world's poor.

- The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 43962 branches (38.2%) and 23334 ATMs (14.58%) are in rural areas

Financial Inclusion – Summary progress of all Banks including Regional Rural Banks (RRBs)

Particulars	**Year ended March 2010**	**Year ended March 2014**	**Year ended Mar 2015**	**Progress April 2014 - Mar 2015**
1	**2**	**3**	**4**	**5**
Banking Outlets in Villages - Branches	33,378	46,126	49,571	3,445
Banking Outlets in Villages – Branchless mode	34,316	337,678	504,142	166,464
Banking Outlets in Villages -Total	67,694	383,804	553,713	169,909
Urban Locations covered through BCs	447	60,730	96,847	36,117
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	126.0	210.3	84.3
Basic Savings Bank Deposit A/c through branches (Amt. in □ billion)	44.3	273.3	365.0	91.7
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	116.9	187.8	70.9
Basic Savings Bank Deposit A/c through BCs (Amt. in □ billion)	10.7	39.0	74.6	35.6
BSBDAs Total (No. in million)	73.5	243.0	398.1	155.1
BSBDAs Total (Amt. in □ billion)	55	312.3	439.5	127.3
OD facility availed in BSBDAs (No. in million)	0.2	5.9	7.6	1.7
OD facility availed in BSBDAs (Amt. in □ billion)	0.1	16.0	19.9	3.9
KCCs (No. in million)	24.3	39.9	42.5	2.6
KCCs (Amt. in □ billion)	1,240.1	3,684.5	4,382.3	697.8
GCC (No. in million)	1.4	7.4	9.2	1.8
GCC (Amt. in □ billion)	35.1	1,096.9	1,301.6	204.7
ICT A/Cs BC Transaction (No. in million)*	26.5	328.6	477.0	477.0
ICT A/Cs BC Transactions (Amt. in □ billion)*	6.9	524.4	859.8	859.8
*: During the financial year.				

Source: Table IV.6, RBI Annual Report, 2014 -Version dated 27/08/2015

- The statistics show that there is substantial progress towards opening of Bank accounts of people from excluded segment, providing basic banking services during the recent years as indicated above. However, it is essential that all sections to be financially included in order to have financial stability and sustainability of the economic and social order.

Pradhan Mantri Jan Dhan Yojana

It is a scheme for comprehensive financial inclusion launched by the Prime Minister of India, Mr. Narendra Modi on 28 August 2014. He had announced this scheme on his first Independence Day speech on 15 August 2014. Run by Department of Financial Services, Ministry of Finance, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme. By 28 January 2015, 12.58 crore accounts were opened, with around ₹ 10590 crore (US$1.7 billion) were deposited

The mission mode objective of the PMJDY consists of 6 pillars proposed to be achieved in Two Phases:

1. Universal access to banking facilities
2. Financial Literacy Program
3. Providing Basic Banking Accounts with overdraft facility and RuPay Debit card
4. Creation of Credit Guarantee
5. Micro Insurance
6. Unorganized sector Pension schemes like Swavlamban

Objective:

"Pradhan Mantri Jan-Dhan Yojana (PMJDY)" is ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology.

PMJDY is 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 envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of ₹ 1 lakh. The plan also envisages 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. The technological issues like poor connectivity, on-line transactions will be addressed. Mobile transactions through telecom operators and their established centres as Cash Out Points are also planned to be used for Financial Inclusion under the Scheme. Also an effort is being made to reach out to the youth of this country to participate in this Mission Mode Program.

JDY-problems and flaws in its implementation.

Prime Minister Mr. Narendra Modi has started ambitious Jan Dhan Yojana to bring crores of poor in financial mainstream. Although the goal is praiseworthy, but there are realistic problems in the way.

- It is still doubtful if PMJDY these will actually increase income of poor. Further farmers are committing suicide because moneylenders give loan to them at very high interest rates, but taking loans from banks also does not change their condition much. Getting loan from local bank is much more troublesome.
- The main aim is to eradicate financial untouchability by opening bank accounts for poor. Right now, 42 per cent of the population of the country is out of banking system. This is a huge task and many bankers feel that it can drain huge resources of already strained industry. According to estimates, banks would have to spend around Rs. 18,000-20,000 crore on Jan Dhan Yojana. It could be an investment for long term benefits. India spends Rs. 3-4 lakh crore per year on all subsidies combined. If in the end, even if 10 per cent money could be saved then it will cover entire cost of the operation. As communicated by the government, each account will have Rs. 5,000 overdraft facility, therefore total exposure would be Rs. 37,500 crore. Assuming 25 per cent risk, there would be about Rs. 7,000 crore potential loss for the banking industry.
- Some of the finer points of the scheme does not look that good. The insurance cover is linked to the transaction history of the accountholder. RBI promoted National Payments Corporation of India (NPCI) will bear the insurance cost, not the government, from the income generated from the transactions on the RuPay platform. For every ATM transaction, the bank will pay NPCI 40 paise. For every sales transaction, NPCI will get 60 paise. Most probably, although the volume of accounts will increase for banks, but not same can be said about number of transactions.
- Last mile connectivity is still a big question mark. According to the plan, this will be taken care by banking correspondents. These agents will go to each and every village, thus banks will not have to open branches in remote areas. But they are paid as per the commission on the transactions. So until and unless government plans to include fertilizer, food and kerosene subsidy in it, generating enough commission would be tough task.
- Right now, there are two lakh agents working with different banks, but to roll out the entire plan as envisaged would require another five lakh agents to be recruited. The concept of agents has not worked as efficiently as planned. Therefore recruiting more agents raises questions. However, if new accounts have to remain active not dormant, then only solution is to increase number of banking correspondents.

PM’s Jan Dhan Yojana faces access deficit

For Prime Minister Narendra Modi’s newly launched Jan Dhan Yojana to be successful, India needs to provide over 100 million households access to banks, data show. An even harder step, however, is likely to be access to credit.

As of March 2012, the most recent year for which relevant Reserve Bank of India (RBI) statistics are available, India had over 900 million deposit accounts. Of these, over 770 million were in the names of individuals.

Gender gap

There is also a significant gender gap in banking; by 2012, for every 1,000 deposit accounts opened in the name of men, just 394 were opened in the name of women. Chhattisgarh, West Bengal, Madhya Pradesh, Maharashtra and Gujarat were even worse than the national banking sex ratio, while Delhi and the four southern States were better.

Chart 1: **From whom do Indians borrow money?**

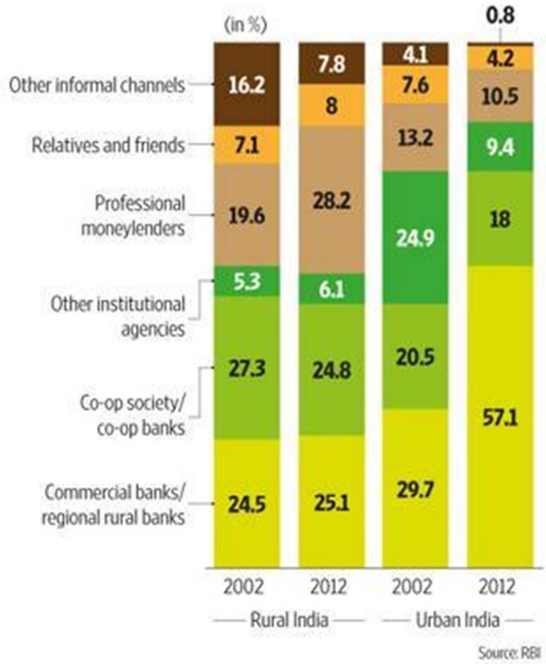
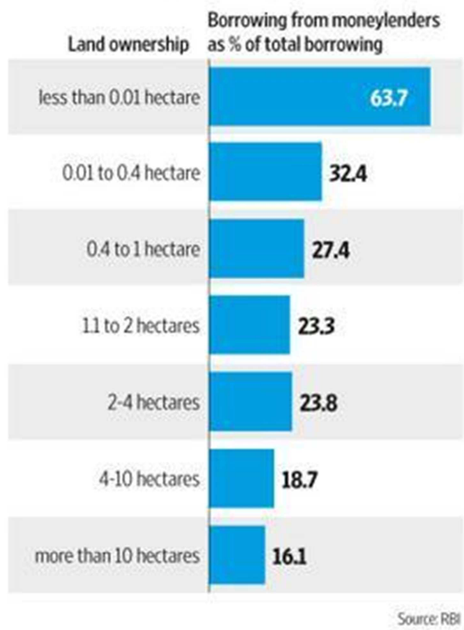


Chart 2: **The poorest are in the clutches of moneylenders**



The two accompanying charts, culled from the Reserve Bank of India's (RBI's) report on financial inclusion, show the true picture of financial inclusion in the country. Chart 1 shows the increasing importance of moneylenders in the rural economy. The data is till 2012 but the report says, "the Committee is of the view that this scenario may not have changed materially in the last couple of years." Chart 2 shows how the poorest borrowers, those with smaller landholdings, have to rely more on moneylenders. Sure, many new bank accounts have been opened, but the report points out that 40% of accounts did not see any deposits or withdrawals in 2014.

Conclusion: In today's increasingly interconnected world, linked by ever growing financial flows, more than a third of the global population is still financially excluded. It is an economic and a moral imperative that we reach them and empower them.

Financial inclusion can help and if supported by robust policies, it can go hand in hand with financial stability. Financial inclusion empowers individuals and families, especially women and the poor, and well-functioning financial systems enrich whole countries.

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