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A Study on Financial Inclusion in India

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ABSTRACT

India's problem of financial exclusion stands as a major barrier between us and development. It's been a major agenda of the government since the 2000's. Post 2014, the period has been far more successful for implementing and yielding results for financial inclusion than the earlier period. The Pradhan Mantri Jan Dhan Yojana is a major game changer, whose results were further consolidated by the integration of other programs such as the PMJJBY and PMSBY, and majority the relief by ease of formalities. There still exist gaps where the results could further shine.

Keywords: Financial Inclusion, Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Jeevan Jyoti Yojana (PMJJY), Pradhan Mantri Suraksha Bima Yojana (PMSBY).

INTRODUCTION:

Financial inclusion or inclusive growth refers to the policies, programs and services designed and offered by the government to its citizens or sections of society that are away or have no accessibility/reach to essential financial services or products at affordable costs such as savings, deposit, insurance, investment and loans for the development of all/inclusive growth of the nation. A restrictive definition of financial exclusion puts the emphasis on specific services and their absence, which are sometimes described as essential: "services that do not have an impact on the household's budget, but (they) represent at the same time essential elements for the individual's life: subsistence, security and participation to the economic and social life" (Anderloni and Carluccio 2007)
Financial Exclusion has many causes like (i)lack of financial education/literacy (ii) lack of accessibility to banks and their services (iii) geographical causes (iv) cost and complexities of services (v) cultural and religious beliefs and practices. These causes, attribute to India's problem of Financial exclusion to a great extent as well. In a country like India, till a few years ago, a bank account was a source of pride. In a way, while such a mind-set did help make it easier to convince people to open bank accounts, it also reflected poorly on our ability to provide easy access to banking to the vast majority of our population. Clearly, the first step towards achieving financial inclusion had to begin with providing a bank account to a majority of our population.(Rashesh Shah, 2018)

LITERATURE REVIEW:

In order to clearly understand the gravity of the topic of this research paper, an extensive review of various reports, white papers, dissertations and academic journals were reviewed. The following review is result of systematic search of relevant literature from multiple authentic sources including World Bank and RBI reports and several other related published articles, books and journals.

Financial Inclusion is the inability of formal financial institutions, they must stop perceiving it as a capital cost or a Corporate Social Responsibility/charitable activity, rather look at it as a long term investment. (Ananth, S, And T Sabri Öncü, 2013). It is important to note the roles that financial institutions and policies have played and can further improve in order to attain the dream of financial inclusion in India. (Aurelie Larquemin, 2015). Hence, institutional framework plays an integral role in achieving financial inclusiveness.

There is a striking difference between Social Banking and Financial inclusion,which points toward the causes that led to the failure of the Social banking system and subsequent emergence of financial inclusion policies. In efforts to increase the degree of financial inclusion in the system, formal institutions are grappling in unpreparedness and must take more concerted action. (Rajalaxmi Kamath, 2007).

Unique models of banking are followed under the Islam religion and these normal/traditional banking system have kept the dreams of complete financial inclusion out of reach as it is against the Islamic principle. (Samad, 2014)

A direct correlation can be established between non-availability of banking services to lower rate of financial inclusion in rural areas where farmers facing hurdles in receiving credit facilities is one of the biggest factor for their exclusiveness from the financial system. To increase financial inclusiveness, ease of availability of financial services is needed through development of banking sector in rural areas, alongside their awareness and education among the rural population. (S. Mahendra Dev, 2006)

Financial inclusion plays an integral role in developing a strong financial structure which facilitates growth of an economy. "There is a positive correlation between economic growth and various dimensions of financial inclusion, specifically banking penetration, availability of banking services and usage of banking services in terms of deposits" (Dipasha Sharma, 2016)

Financial inclusion is the new model of economic growth, which plays a major role in eradicating poverty, achieving inclusive growth and sustainable development for the country. (Patnaik, Satpathy and Supakar, 2015)

To solve problem of financial exclusion, different approaches were considered, C. Rangarajan' report aims at it from making changes in the current system while on the other hand the Raghuram Rajan aims at it by creating new products or approaches in the banking system. (Dasgupta, Rajaram, 2009)

PMJDY has proven to be a major catalyst in achieving the goal of inclusive growth for India. (Rediff Business, March 11, 2019) This inference can be come up to by evaluating the achievement of various welfare schemes by Modi Government to enchance the pace of financial inclusion in India. The data and figures point towards the roaring success of PMJDY (Pradhan Mantri Jan Dhan Yojana) with significant increase in number of bank accounts and substantial decline in zero-balance accounts and inactive accounts.

Financial inclusion enables the alternative techniques to promote the banking habits and acts as enabler in reducing the poverty & 'financial untouchability'. The launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) has become the National Mission for Financial Inclusion based on "Sab ka sath sab ka vikas" which has its own benefits & negative implications. (Divyesh Kumar & Dr. H R Venkatesha, 2014)

(Financial Express, July 10, 2019) PMJDY has become the biggest financial inclusion drive in India by benefitting millions. As per the latest finance ministry data, deposits in over 36 crore bank accounts under this scheme crossed the Rs.1 lakh crore mark.

Moving ahead from "Jan Dhan to Jan Suraksha" the Indian government addressed the status of financial inclusion in India through insurance & pension schemes (PMJDY, PMJJBY, PMSBY, PMFBY & APY) towards creating a universal social security system especially for the weaker sections of society. The effectiveness of these schemes towards goal of financial inclusion is crucial to eradicate poverty and financial untouchability. (Miryala Shekar and Sabada Veeramani, 2017)

A deep insight and analysis into the working of PMJSBY (Pradhan Mantri Suraksha Bima Yojana) elucidates its feasibility in Indian scenario but its limited amount of coverage, existing competition and lack of investor's interest act as barriers in the success road of the scheme. (Rajesh K. Yadav and Sarvesh Mohania, 2016)

To mitigate financial exclusion in this country, both the governments (UPA & NDA) have followed their own approaches, which can be compared precisely to determine their success. Iniatives by RBI before PMJDY, like No-frills accounts, relaxation of KYC norms, etc have considerably increased financial inclusiveness and introduction of PMJDY scheme has strengthened to resolve issues like poverty and promote economic growth by bringing low-income groups within the perimeter of formal banking sector. (Harpreet Kaur and Kawal Nain Singh, 2016)

(Ramesh Iyer, 2019) says "Financial inclusion matters to the economic prosperity of the nation." Defining the key elements of financial inclusion: financial literacy, financial firm's market knowledge and partnership between government and financial services providers which are needed to build a superstructure of economic prosperity. However, concerns exists with the short term solution of Loan Waivers for the economy in the long run. (World Economic Forum)

RESEARCH OBJECTIVE:

The main objective of the research study is to point out at the differences between the two periods and their approach to financial inclusion and inclusive growth. The research also aims to understand and locate the main gaps the government faces and what it could do to achieve its aim of maximising financial inclusion in India.
In the following paper, we try to analyse the efforts, programmes, policies and outcomes of the 2005-2014 period to that of the post 2014 period on inclusive growth/financial inclusion. Post 2014 financial Inclusion in India has sky-rocketed. Given the huge parity in results, we try to analyse, what has been the difference in the two governments' approach to this issue.

STATEMENT OF PROBLEM:

The Financial Inclusion policies under the period (2014-2019) have been far more successful than that under the (2005-2013) period in India. However, the policies as under the current period can be improvised to achieve far more effective results.

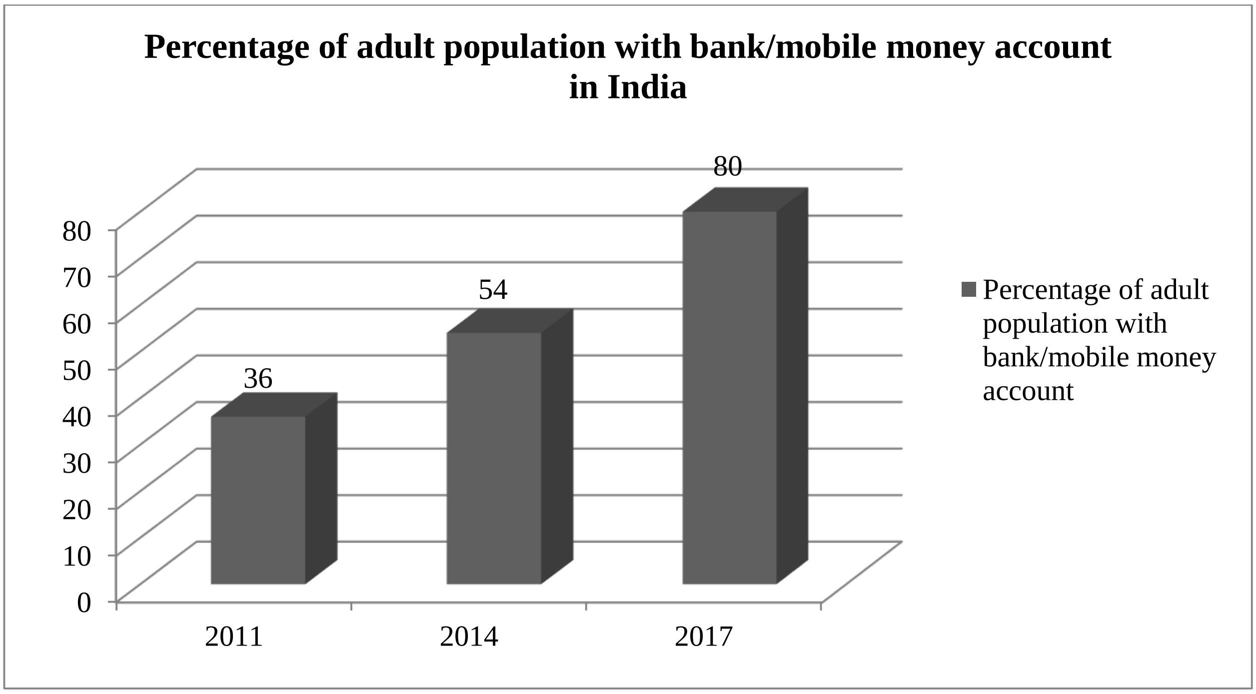
RESEARCH METHODOLOGY:

The following paper uses a quantitative analysis approach.
Quantitative analysis: to compare the impact/ results of the policies and programmes.The study involves a strict analysis of quantitative secondary data to establish relations and prove the study's validity and reliability. The data used is secondary data collected from reliable sources like World Bank, Government of India, International Monetary Fund etc. The collected data on yearly basis (majority) was compared on the time scale to prove the objective of the study.

ANALYSIS AND FINDINGS:

According to the Global Findex Survey released by the World Bank in April 2018, India's adult population with a bank account has more than doubled to 80% since 2011. In this, the striking factor to be noticed is the growth of the banked population under the current period (post 2014) in comparison with period prior to 2014. While there has been only 18% growth from 2011-2014, this growth gained pace during after 2014 era, after launch of the Indian Governments flagship scheme- Pradhan Mantri Jan Dhan Yojana (PMJDY) with 26% growth in banked population.

Chart: 1



Source: Global Findex Survey by World Bank

Despite the tremendous growth of people with bank accounts, a very alarming observation is that the the Global Findex Database (World Bank, April 2018) reported that almost half the new bank accounts were inactive in the last 12 months. Globally, about 20% of account owners report an inactive account (without a single deposit or withdrawal in the past 12 months). And India had the highest rate of inactive accounts in the world at 48%

FINANCIAL LITERACY IN INDIA:

Financial literacy and financial inclusion are two sides of the same coin. Literacy will accelerate the pace of Financial inclusion. According to a pan-India Financial Literacy and inclusion survey conducted in 29 states and 5 union territories, financial literacy was measured across 3 aspects, that is: financial knowledge, attitude and behaviour. India's average score in this survey was 11.9 out of total score of 21.

Table 1: Financial Literacy Survey in India (Source: Ministry of Finance)

Zone	Overall Financial Literacy Score	Urban	Rural
North	11.5	11 .5	11.5
East	12.1	12.1	12.1
Central	12.4	12.5	12.1
West	12.6	12.6	12.5
South	11.0	11.2	10.3

The financial inclusion journey in India traces back to 2005 when RBI introduced Basic Savings "no frills" account (subsequently named Basic Savings Bank Deposit Account - BSBDA) with no minimum balance and fewer paperwork requirements and a business correspondent (BC) framework. But this is was not the ultimate road to financial inclusion.

The biggest game changer came with the roll out of 'Pradhan Mantri Jan Dhan Yojana (PMJDY)' in August 2014 by Indian Government. What set this scheme apart, was its integrated approach, as PMJDY was designed to ensure universal access to various financial services, an overdraft and RuPay Debit card to all households, financial literacy

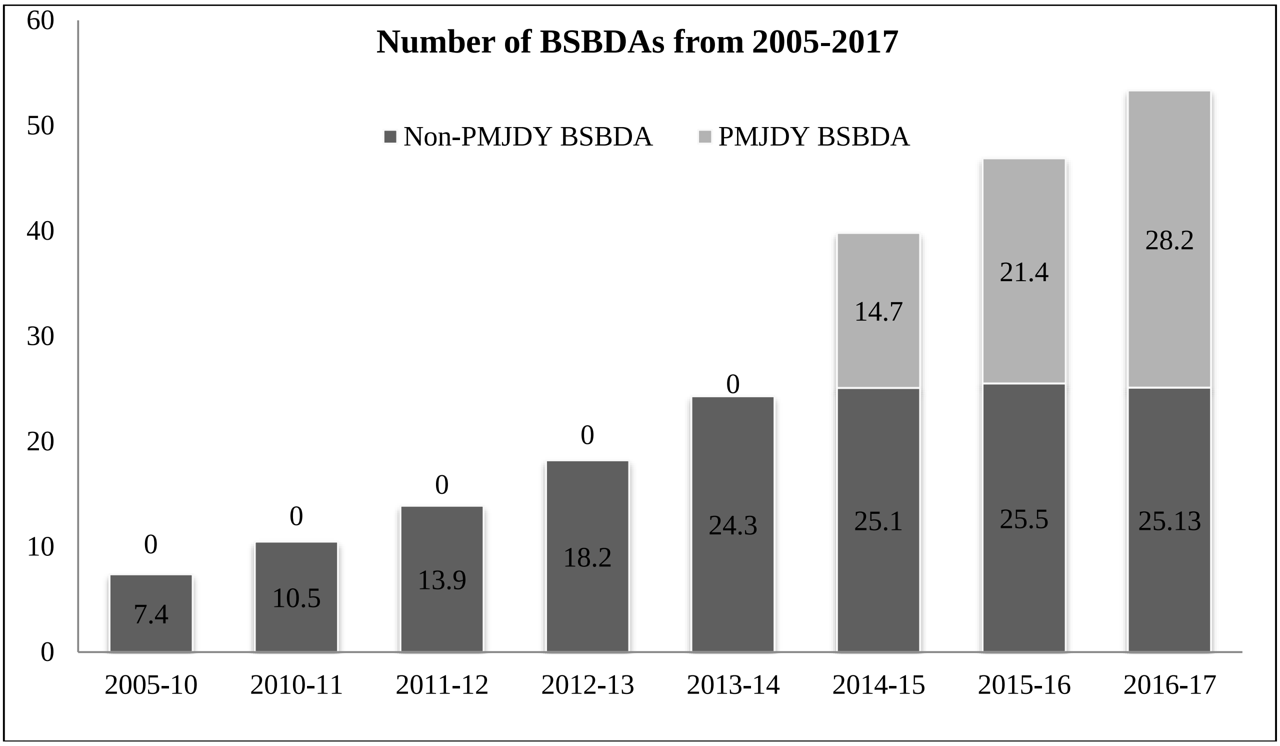
programmes, credit guarantee fund, micro insurance and pension schemes. The PMJDY also envisages channelling all government benefits to the beneficiary accounts and pushing the Direct Benefit Transfer (DBT) scheme of the central government. This was the advantage the current approach had over the earlier ones. As a result, in FY 2013-14, the number of BSBDA holders were 24.3 crore, which jumped to 39.2 crore, mainly due to about 14.7 crore accounts opened under PMJDY

Chart 2: Statistics on BSBDAs from the period 2009-2016

Year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
BSBDA-Through branches (No. in lakhs)	602	731.3	812	1008	1260	2103	2380
BSBDA-Through branches(Rs. in Crore)	4430	5789	10987	16470	27330	36500	47400
BSBDA -Through BCs(No. in lakhs)	133	316.3	573	813	1169	1878	2310
BSBDA -Through BCs (Rs. in Crore)	1070	1823	1054	1820	3900	7460	16400
BSBDA-Total (No. in lakhs)	735	1047.6	1385	1821	2430	3981	4690
BSBDA-Total (Rs. In Crore)	5500	7612	12041	18290	31230	43950	63800
OD facility availed in BSBDAs (No. in lakhs)	2	6.1	27.1	40	59	76	90
OD facility availed in BSBDAs (Rs. in Crore)	10	26	108	160	1600	1990	2900

Source: RBI Annual Reports

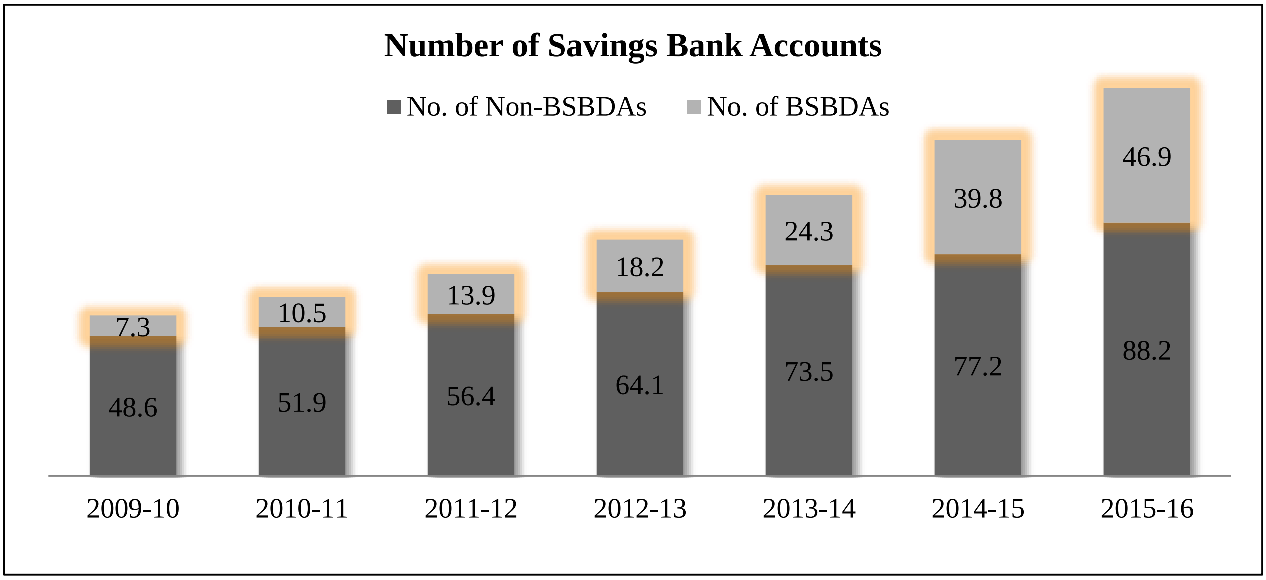
Chart 3: Comparison of growth of PMJDY and Non-PMJDY accounts from 2005-2017



Source: RBI annual report & Department of Financial Services, Govt of India

According to data submitted by the Finance ministry to the Rajya Sabha, as many as 15% of accounts were zero-balance as of January 23, 2019, which had dropped from 25% in 2016 and 75% in 2014, which points towards the overall functionality of this scheme

Chart: 4



The graph above (Chart 5) shows the trend over the years, about the number of savings bank accounts and its bifurcation into BSBDAs and non-BSBDAs. During 2015-16, the number of BSBDAs accounted to almost 35% of the total savings accounts, which roughly means every third savings bank account (active or inactive) is basic savings bank deposit account- BSB

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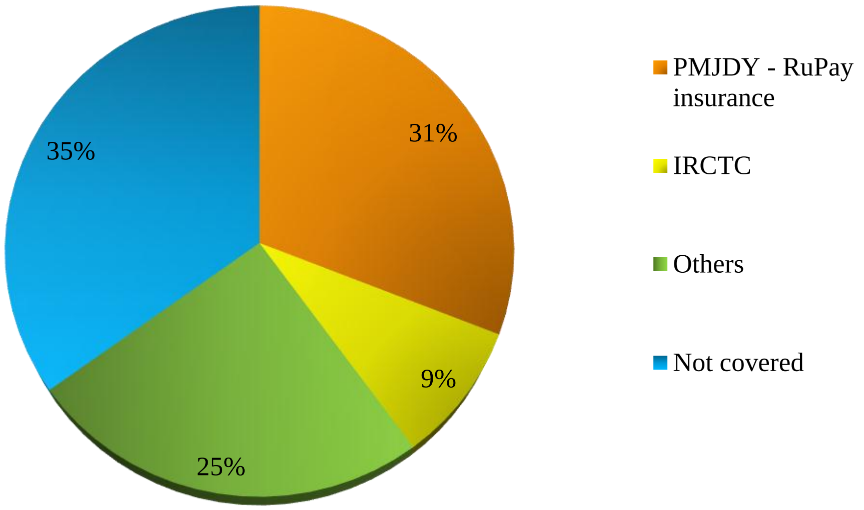
INSURANCE IN INDIA:

Chart: 5

Coverage of Major Personal accident insurance schemes in india



Source: IRDA Annual report 2017-18

Table 2: Insurance Penetration and density in India from 2001-2017

Year	Life		Non-Life		Industry	
	Density (USD)	Percentage	Density (USD)	Percentage	Density (USD)	Percentage
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.1	5.2	0.6	38.4	4.8
2007	40.4	4	6.2	0.6	46.6	4.7
2008	41.2	4	6.2	0.6	47.4	4.6
2009	47.7	4.6	6.7	0.6	54.3	5.2
2010	55.7	4.4	8.7	0.71	64.4	5.1
2011	49	3.4	10	0.7	59	4.1
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41	3.1	11	0.8	52	3.9
2014	44	2.6	11	0.7	55	3.3
2015	43.2	2.72	11.5	0.72	54.7	3.44
2016	46.5	2.72	13.2	0.77	59.7	3.49
2017	55	2.76	18	0.93	73	3.69

According to data given by the Department of financial services, 5.33 crore people have enrolled in PMJJBY which is only 5.05% of the eligible population.

Similarly, PMSBY has seen 13.40 crore enrolments (till March 20, 2018) which is about 13.20 per cent of the total eligible population.

Table 3: Statistics on PMJJBY since its inception

PMJJBY	2015-2016	2016-2017	2017-2018
Gross enrolment (in crore)	2.96	3.12	5.33
Total No. of claims paid	25555	62479	89766
Claim Amount paid (in crore)	511.10	1249.58	1795.32

Table 4: Statistics on PMSBY since its inception

PMSBY	2015-2016	2016-2017	2017-2018
Gross enrolment (in crore)	9.43	10.04	13.48
Total No. of claims paid	3821	10273	16454
Claim Amount paid (in crore)	76.42	205.03	329.08

THE DIGITAL ROAD TO FINANCIAL INCLUSION:

The launch of National Payment Corporation of India (NPCI)'s Unified Payment Interface (UPI) system has been a revolutionary step towards financial inclusion through digitization.

Demonetization has arguably been a major turning point in India's economy, giving rise to new digital era. Post demonetization, India has witnessed a massive jump in UPI-based transactions of 700% from November 2016 to December 2016. In the following year, UPI saw a growth of 753% in value in November 2018 against November 2017.

Large scale adoption of digital payment systems has made access to financial services quicker, hassle free and affordable, leading to increased financial inclusiveness among the people.

Table 5: Data on UPI transactions from August, 2016 to August, 2019.

Month	No. of Banks live on UPI	Volume (in Mn)	Amount (Rs. in Cr.)
Aug-19	141	918.35	154054.89
Jul-19	143	822.29	146386.64
Jun-19	142	754.54	146566.35
May-19	143	733.54	152449.29
Apr-19	144	781.79	142034.39
Mar-19	142	799.54	133460.72
Feb-19	139	674.19	106737.12
Jan-19	134	672.75	109932.43
Dec-18	129	620.17	102594.82
Nov-18	128	524.94	82,232.21

Month	No. of Banks live on UPI	Volume (in Mn)	Amount (Rs. in Cr.)
Oct-18	128	482.36	74,978.27
Sep-18	122	405.87	59,835.36
Aug-18	114	312.02	54,212.26
Jul-18	114	235.65	45,845.64
Jun-18	110	246.37	40,834.03
May-18	101	189.48	33,288.51
Apr-18	97	190.08	27,021.85
Mar-18	91	178.05	24,172.6
Feb-18	86	171.4	19,126.20
Jan-18	71	151.833	15,571.2
Dec-17	67	145.463	13144.3
Nov1 7	61	104.841	9640.6
Oct-17	60	76.772	7057.8
Sep-17	57	30.778	5293.4
Aug-17	55	16.608	4127.2
Jul-17	53	11.444	3381 .2
Jun-17	52	10.155	3067.1
May1 7	49	9.168	2765.4
Apr-17	48	7.005	2240.8
Mar-17	44	6.161	2391.4
Feb-17	44	4.1 56	1 902.1
Jan-17	36	4.153	1658.8
Dec-16	35	1.967	706.2
Nov-16	30	0.285	100.5
Oct-16	26	0.103	48.6
Sep-16	25	0.085	32.6
Aug-16	21	0.093	3.1

CONCLUSION:

The current period of post 2014 has been successful with financial inclusion policies because of its 'integrated approach' to connect its various policies and programmes and also encourage private banks to take active part in achieving the dream of maximising financial inclusion in India. Unlike previous policies, the current government seeks to expand Financial inclusion not just by bank accounts but also through important mediums and financial instruments like plastic money, insurance, digital money, etc.

The main reason behind the growth can be attributed to the kind of action ability that the government had created in order to promote its own programmes and policies. In India, financial inclusion is a far-fetched dream even now given to the fact that even if the number of bank accounts and population under mainstream finance has increased however a vast majority of it, is still not operational. Some reasons for this are:

1) Financial literacy is growing but not yet at the aimed level
2) General literacy rate has to grow as well for the population to be aware of the benefits of these programmes
3) Cultural factors play a vital role in the financial independence of a population for example, gender-based discrimination should end
4) Religion, beliefs and practices also play a vital role in keeping people away from the mainstream finance for example, the Muslim population or Islamic population believe that owning a fixed amount of interest is against its religion code of conduct thus stopping them from becoming a part of the mainstream finance.
5) A huge population like India, will always face challenges of multiple opinions, different perceptions and others for implementation of any policy and its acceptance by the general public.

RECOMMENDATIONS:

The period post 2014, has achieved far better rate of inclusion than any other era or any other programme had ever. There exists a lot of room for improvement and betterment of results for maximising financial inclusion In India. Some of them are:

1) The government could adopt a triple a model of 3A's: Awareness, Accessibility and Actionability to implement its programmes and policies
2) The government must come up with solutions to deal with the cultural and religious beliefs probably like the recommendations as given by Dr. Raghuram Rajan of creating a non-interest-bearing savings bank account for the Islamic population and bringing them under the main stream finance. (Rajan, 2017)
3) There must be a greater push for people to use their bank accounts in order to create actionability for example, the implementation of social stock exchanges as proposed by the government in its Union Budget of the year 2019-2020 will give a huge push/motivation for the public to use its bank accounts and funds more effectively.
4) The government must capitalise on its already existing growth of policies and introduce or connect the already existing ones with new ones to consolidate and expand the growth already achieved on previous policies and programmes.

FURTHER SCOPE OF STUDIES:

Assessment of financial inclusion policies and their growth has a greater scope in future given the growth rate of financial inclusion in India under the current government. This analysis will be essential to examine the growth and validity of newly introduced programmes in future to see whether the proportionate growth has been sustained or not. India’s current inclusion rate is far lesser than what it dreams. Thus, the next few years, will play a key role in determining whether the current government and its approach will lead to maximising financial inclusion or derail.

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