



India's recent success with financial inclusion

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Abstract

The operational definition of financial inclusion, based on the access to financial products or services, highlights the role of financial institutions or service providers in enabling adequate and easy access of financial services to all, especially excluded groups and communities. This paper explained financial inclusion services like RTGs, cheque truncation system, Immediate payment service, Unified payment interface, credit cards, ATMs, PoS, Debit cards, m-Wallet, Mobile banking. It reflects that usage of digital financial services and the progress of financial inclusion through business correspondents etc.

Keywords: business correspondents, digital services, financial inclusion, mobile banking, smart cards

Introduction

The rural financial market during the period immediately after independence was dominated by various non-institutional financial actors such as moneylenders, traders, input suppliers, rich farmers, etc. Considerable social as well as public policy pressure has improved the penetration of institutional finance among farmers subsequently. Measures such as the nationalization of banks, establishment of Regional Rural Bank (RRBs), expansion of branch networks, priority sector lending norms, Lead Bank Area Scheme, etc. expanded institutional disbursal to nearly two-thirds of affordable credit to cultivators by 1991.

The share of institutional credit to cultivator households, however, slipped in the next two decades. The results of the All-India Debt and Investment Surveys (AIDIS) of 1991^[1], 2002, and 2012 indicate that the share of institutional credit has declined from 66 per cent in 1991 to 61 per cent in 2002, and further to 59 per cent in 2012. The decline was primarily due to the fall in the share of commercial banks and RRBs, from 35 per cent in 1991 to 28 per cent in 2012, and that of cooperative societies/banks from 30 per cent in 2002 to 25 per cent in 2012.

Notes: Institutional sources include government, cooperative societies/banks, commercial banks (including RRBs), insurance, provident fund, financial companies, Self-Help Groups (SHGs), SHG-Non-Banking Financial Companies (NBFC) etc. Non-institutional sources include landlords, agricultural moneylenders, professional moneylenders, traders/input suppliers, relatives, friends, etc. On the other hand, the share of non-institutional sources in total credit to cultivator households increased from 34 per cent in 1991 to 39 per cent in 2002, and further to 41 per cent in 2012. The increasing share of non-institutional agencies in the total outstanding agricultural credit indicates that though India embarked on the path of economic and financial liberalisation, the concerns of inclusive finance were perhaps not being adequately addressed by the institutional sources of credit. The increase in the combined share of agricultural and professional moneylenders (from 18 per cent in 1991 to 31 per cent in 2012), outperforming commercial banks as a source for rural credit, is a worrisome phenomenon. To reverse this trend, one of the most comprehensive interventions for financial inclusion was undertaken when the PMJDY was launched in 2014.

Table 1: Share of Institutional and Non-Institutional Credit to Cultivator Households in Rural India (%)

Sources of Credit	1981	1991	2002	2012
Institutional sources of which	64	66	61	59
Cooperative Societies/Banks	30	24	30	25
Commercial Banks, including RRBs	29	35	26	28
Others	05	07	05	06
Non-institutional sources of which	36	34	39	41
Agricultural moneylenders	08	07	10	05
Professional moneylenders	08	11	17	26
Relatives and friends	08	05	06	08
Others	12	11	06	02
Total (institutional + non-institutional)	100	100	100	100

Source: AIDIS, NSSO (various rounds)

Pradhan Mantri Jan-Dhan Yojana: An intervention for financial inclusion

The PMJDY, a national mission on financial inclusion in India, launched on 28 August 2014 with the objective of ensuring at least one basic bank account in each family, has become the largest financial-inclusion mission in the world. Apart from providing access to basic no-frills bank accounts, the mission offers access to other financial services such as overdraft facilities, insurance, etc. As on 27 March 2019, about 35.27 crore accounts have been opened, out of which 59 per cent belong to rural/semi urban areas (Table 2)

Table 2: Progress under Pradhan Mantri Jan-Dhan Yojana (as on 27 March 2019)

Bank Name/Type	Number of beneficiaries at rural/semi-urban centre bank branches (crore)	Number of total Beneficiaries (crore)	Deposits in accounts (in Rs crore)	Number of RuPay debit cards issued to beneficiaries (crore)
Public sector banks	15.24	28.13	76,947.08	22.97
Regional rural banks	5.03	5.99	16,590.74	3.86
Private sector banks	0.63	1.15	25,69.52	1.08
Grand total	20.90	35.27	96,107.35	27.91

Source: www.pmjdy.gov.in (accessed on 11 April 2019)

Direct Benefit Transfer

Direct Benefit Transfer (DBT) is another national mission towards financial inclusion. The DBT has ensured that all government transfers including subsidies, pensions, scholarships, insurance, etc. are made directly to the bank account of the beneficiary concerned. Starting with the transfer of 28 schemes in 2013-14, by the end of March 2019, the transfer of benefits of 369 government schemes was brought under DBT, and covered almost half of the Indian population. Initiatives such as Pratyaksh Hanstantrit Labh (PAHAL, the DBT scheme for cooking gas subsidy) and wages under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), facilitated the financial inclusion of the poorest among the poor.

Digital Financial Services

India is a very country and with the advent of digital technology and its geometric progression, opportunities can be leveraged to accelerate the spread of financial inclusion in rural India. Providing last-mile connectivity can be accelerated if the route of digital technology is combined with the existing infrastructure. The advent of the Jan Dhan, Aadhar Card and Mobile Phones, or the 'JAM' trinity, has aided the doorstep delivery of financial services. Transfer of benefits directly to the beneficiaries' accounts under DBT for various government schemes is one such example.

Evolution of Digital Financial Services

Experience has shown that technological advancement has been a catalyst in reducing cost of gathering information and transaction, thereby facilitating financial inclusion. The operating cost of servicing micro-credit, which comprises salaries to staff, travelling expenses, rent on hired buildings, other overhead costs, etc., is higher than normal (bank) finance (GoI 2007). Experience in India and across the world indicates that appropriate use of Informational and

Communication Technology (ICT) can make financial services viable and accelerate its spread to rural areas.

Keeping pace with global trends, traditional financial services have evolved into Digital Financial Services (DFS) using channels such as the internet, mobile phones, Automated Teller Machines (ATMs), Point of Sale (PoS) terminals, Near-Field Communication (NFC) enabled devices, chips, electronically enabled cards, biometric devices, and other digital systems.

Uberisation of financial services in India was triggered by the JAM trinity, which comprised of (GoI 2016)

1. Jan-Dhan Yojana account linked with zero balance, insurance, and overdraft facilities, which would be the main channel for DBT of government's subsidies
2. Aadhaar database which provides unique biometric identity for instant authentication of identity and online Know Your Customer (KYC)
3. Mobile phones which provide a platform for two-factor authentication for both sides of a transaction: vendor and customer

Immediate Payment Service (IMPS) was started by the National Payments Corporation of India (NPCI) in November 2010. Subsequently, the platform-Unified Payment Interface (UPI) was launched in April 2016, which was built on the IMPS infrastructure. The NPCI rolled out UPI 2.0 in August 2018 with additional banking facilities such as the linking of overdraft accounts to UPI.

With the advent of digital interfaces, the demand for digital services has increased, as compared to traditional methods. The volume of transactions, in terms of IMPS, m-wallet, and mobile banking, has increased by 178 per cent, 135 per cent, and 116 per cent respectively, between 2013-14 to 2017-18 as against cheques (16 per cent), credit cards (30 per cent), and debit cards (16 per cent) during the same period (Table 3).

Table 3: Volume of Payments (in Rs Lakh)

Particulars of financial inclusion service	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR (%)
RTGS-Customer Transactions	764	884	940	1,037	1,207	11.4
Cheque Truncation Sustum (CTS)	5,914	9,649	9,584	11,119	11,381	15.6
Immediate Payment Service (IMPS)	154	784	2,208	5,067	10,098	178.4
Unified Payment Interface (UPI)	-	-	-	179	9,152	-
All types of cards	72,191	84,240	1,00,387	1,20,559	1,33,586	17.2
Credit cards	5,120	6,194	7,917	10,935	14,130	29.7
Usage at ATMs	30	43	60	64	78	26.3
Usage at PoS	5,091	6,151	7,857	10,871	14,130	29.7
Debit Cards	67,071	78,046	92,470	1,09,624	1,19,457	16.1
Usage at ATMs	60,880	69,965	80,734	85,631	86,023	9.3
Usage at Pos	6,191	8,081	11,736	23,993	33,434	56.2
m-Wallet	1,075	2,550	6,040	16,300	30,260	134.7
Mobile Banking	947	1,719	3,895	9,769	18,723	116.1

Source: Handbook of Statistics on Indian Economy 2017-18, RBI

Usage of digital financial services

In developing economies, 44 per cent of adults (70 per cent of account holders) reported using digital payment in 2017, up from 32 per cent in 2014. Further, 19 per cent of adults (30 per cent of account holders) reported making at least one financial transaction in 2017 using a mobile money account, mobile phone, or the internet (World Bank Group 2017). Countries with a high proportion of adults having mobile money accounts, experienced almost universal usage of mobile phones to make transactions through their accounts. In Kenya, 88 per cent of mobile money account holders reported using a mobile phone or the internet to make a transaction through their accounts in 2017. By contrast, in India the share is less than 10%.

The NABARD Rural Financial Inclusion Survey (NAFIS) 2016-17 captured some of the aspects on usage of DFS by agricultural and non-agricultural households in India. At the national level, 24 per cent of households belonging to rural and semi-urban areas reported to have used ATM services (NABARD 2017) [3]. The share for mobile banking services and internet banking services were 1.6 per cent and 0.8 per cent, respectively. NAFIS 2016-17 revealed the state level patterns for using DFS by agricultural households. At an all-India level, 21.8 per cent of respondents from agricultural households were reported to have used ATM services.

Mobile and internet banking services were reported to be used by 1.7 per cent and 0.7 per cent of respondents respectively, from agricultural households. Out of those who used ATMs, 23 per cent reported to have used ATM facilities at least once in the last three months and 16 per cent reported to have used seven or more times during the same period.

Push towards digital financial services

Government of India has been taking various initiatives for shifting the orientation of financial inclusion towards DFS. The JAM trinity has been one of the most critical of these initiatives. The Aadhaar- seeded and mobile-linked Jan Dhan accounts have helped in seamless transfer of government benefits directly to the beneficiaries. Digital delivery of financial services in rural areas requires last-mile internet connectivity. Hence, the government is setting up the National Optical Fibre Network (NOFN) through the Bharat Net Project, which will provide a minimum of 100 mbps broadband connectivity to all 2.50 lakh Gram Panchayats in the country.

Expansion of financial access in rural India

In 2015, the RBI issued licenses to 10 Small Finance Banks and 11 Payment Banks to leverage digital platforms for basic banking services such as payments, deposits, etc. In addition, voluntary agencies, non-governmental organizations (NGOs) and trust are playing an effective role in social mobilization and financial literacy, thus providing qualitative inputs to financial inclusion from the demand side.

BC/BF Model: Facilitating banks’ outreach

Leveraging digital technology such as mobile phones and micro ATMs, Business Correspondents (BC) are able to help reach banking services to remote unbanked areas where brick and mortar structures of formal banking system are not feasible or profitable (Table 4)

Table 4: Progress of financial inclusion through business correspondents (as on 31 March of indicated year)

	2010	2017	2018
Banking outlets through BCs in villages with a population of more than 2,000 persons	8,390	1,05,402	1,00,802
Banking outlets through BCs in villages with a population of less than 2,000 persons	25,784	4,38,070	4,14,515
Total number of banking outlets in villages: BCs	34,174	5,43,472	5,15,317
BSBDA through BCs (no.in lakh)	130	2,800	2,890
BSBDA through BCs (amount in Rs crore)	1100	28,500	39,100
ICT account management through BC: Number of transactions in lakh	270	11,590	14,890
ICT account management through BC: Value of transactions in Rs crore	700	2,65,200	4,29,200

Source: Annual Report 2017-18, Reserve Bank of India, Mumbai

BC = Business Correspondent; BSBDA = Basic Savings Bank Deposit Account; ICT = Information and Communication Technology

As per guidelines issued by the RBI in 2006, BCs are allowed to carry out transactions on behalf of the banks as agents, whereas Business Facilitator (BF) can only facilitate banking services. Subsequently in 2010, the RBI allowed banks to engage for-profit companies as BCs, and in 2014 non-deposit-taking NBFCs (NBFCs-ND) were allowed to be engaged as the BCs. Banks have engaged NGOs and MFIs as BCs. BCs deploy agents or customer service providers as interface. In some cases, even individuals such as village grocers, dealers in agricultural inputs, and retired bank officials, have been engaged by the banks as BCs.

The BC model has immense potential for reaching the unbanked in terms of client outreach and the financial literacy of customers. However, there are some challenges being faced by BCs and bank branches that need to be addressed by banks:

1. One of the critical challenges faced by BCs is financial viability. The revenue generated by BCs in terms of commission reportedly appears to be inadequate to meet the operational expenses.
2. Capacity building for adoption of new technologies, new products and systems remains a big challenge.
3. Handling cash involves high risk, particularly where the base branch is far away from the BC service area.
4. Overdraft facility allowed to a BC agent may not be sufficient for daily requirement of the customers.
5. Studies showed that majority of the no-frills accounts opened by BCs remained inactive, making operations by BC financially unviable.

As a policy measure, a banking transaction point is envisaged within 5 km distance. Due to the above constraints some of the Sub – service Areas (SSAs) are vacant and without a BC. To fill these gaps and improve viability, SHG members are encouraged to act as BCs and

ensure uninterrupted provision of services.

Conclusion

Creating financial awareness for a population to transition from poverty, informed and responsible financial behavior is an important prerequisite. Awareness about financial products and services was disseminated using various media through needs-based, targeted Financial Literacy Programmes (FLPs). So far, around 2.5 lakh such programmes have been conducted through banks, Financial Literacy Centres (FLCs), Centres for Financial Literacy (CFLs) and NGOs with assistance from the Financial Inclusion Fund.

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