

Financial inclusion a show-stopper for NDA

In the past three years, the Jan Dhan Yojana has been the most successful of the govt's financial inclusion initiatives

ISHAN BAKSHI
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Steps leading to financial inclusion have been a cornerstone of the Narendra Modi government. In the past three years, there have been many products and services to highlight inclusion, but the hero of the piece has been Jan Dhan.

In fact, it all began with the launch of the ambitious Pradhan Mantri Jan Dhan Yojana (PMJDY), which aimed to bring everyone into the fold of formal financial system. Alongside, several insurance and pension products were rolled out to deepen the engagement with the formal economy. Subsequently, the government launched Mudra (Micro Units Development and Refinance Agency Bank) aiming to increase the access of the poor to formal credit.

Not that the concept of financial inclusion is new or that the National Democratic Alliance (NDA) government introduced it in India. Various governments have, over the years, launched schemes to accelerate the pace of inclusion, but data suggest that few have achieved the kind of success that NDA's initiatives have.

The numbers tell a story

In a span of less than three years, a staggering 283 million bank accounts have been opened under the PMJDY. Around 220 million RuPay debit cards have been issued, while roughly two-thirds of these accounts have been seeded with Aadhaar. Engagement levels also seem to have risen with the percentage of zero-balance accounts falling from 76 per cent in September 2014 to 24 per cent by December 2016.

"PMJDY has been a phenomenal success. A recent survey has shown that virtually all households now have a bank account," says Santosh Mehrotra, professor at Jawaharlal Nehru University. "While there was some scepticism over the numbers initially, that has dissipated," he adds.

The last-mile hurdle

But some experts draw a distinction between enrolment and the problem of last-mile connectivity that plagues the banking system.

"I am not sure that the Jan Dhan accounts *per se* solve last-mile connectivity. They have certainly succeeded in bringing customers to the bank and enrolling them. But enrolment is different from connectivity. I am not sure we have completely solved the problem of connectivity and it is an ongoing work," says Professor M S Sriram, with the Centre for Public Policy, Indian Institute of Management, Bangalore.

Some experts have argued that part of the

PRADHAN MANTRI JAN DHAN YOJANA

Accounts opened as on April 12, 2017

All figures in ₹ crore

BANK				NO. OF RUPAY	AADHAAR	BALANCE IN
	RURAL	URBAN	TOTAL	CARDS	SEEDED	ACCOUNTS
Public sector bank	12.39	10.33	22.73	17.62	15.36	49,602.86
Regional rural bank	3.96	0.69	4.65	3.53	2.87	11,836.28
Private banks	0.54	0.38	0.92	0.85	0.45	2,108.48
Total	16.89	11.4	28.3	22.01	18.68	63,547.62

*data as on May 12, 2017

Source: Pradhan Mantri Jan Dhan Yojana website

LOANS EXTENDED UNDER MUDRA



*data as on May 12, 2017

Source: Micro Units Development & Refinance Agency website

scheme's success can be traced to various other products such as an overdraft facility, accidental insurance through the RuPay debit card, and access to pension and insurance policies that were offered alongside.

Bundling helps

"Bundling the Jan Suraksha Scheme has played a critical role in the success of the PMJDY. In our surveys, we have found that 21 per cent of the respondents opened a bank account to avail of the insurance benefits," says Manoj K Sharma, director MicroSave Asia. MicroSave is an international financial inclusion consulting firm that has carried out a series of surveys to judge the efficacy of various financial inclusion schemes launched by the government.

One such scheme is the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY). Data as of April 2017 show that 31 million individuals had enrolled under the scheme. And of the 63,342 claims received, 59,870 or 94.5 per cent claims have been disbursed. Similarly, 100 million individuals have enrolled under the Pradhan Mantri Suraksha Bima Yojana under which of the 12,830 claims received, 9,673, or 75.3 per cent, have been disbursed. "Normally, renewal rates for such products that are pushed through the system are low. But our research shows that roughly 80 per cent of people have renewed their insurance policies," adds Sharma. But others dis-

agree on the causes of success.

Of promise & coercion

"I don't think insurance has a big role in opening the accounts. I guess the mission mode of how it was rolled out, the promises made of direct benefit transfers and a little bit of coercion that if one does not have an account, then they may not get future benefits worked for the scheme. Insurance was bundled on RuPay cards, it was pre-existing and there was nothing new in that," says Sriram.

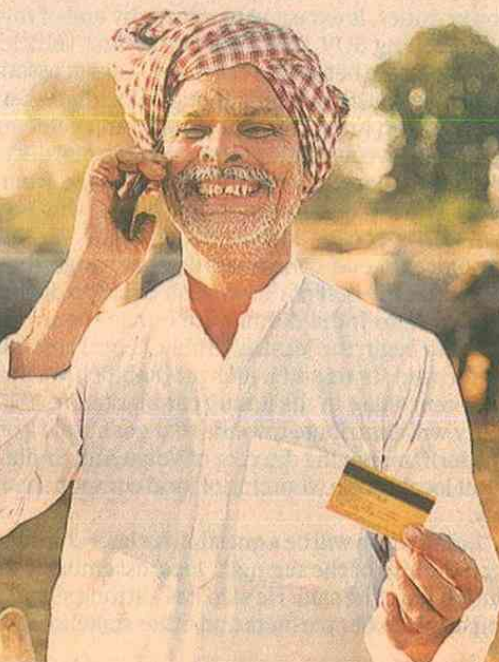
One particular component of PMJDY though has seen limited traction. Of the 283 million accounts opened under Jan Dhan, the overdraft facility has been offered only in 8.3 million accounts, or three per cent. And while it has been sanctioned in 4.46 million accounts (1.6 per cent), it has been availed in only 2.42 million accounts (0.9 per cent). The average amount availed per account is only ₹1,320 as opposed to the ₹5,000 facility.

Social security

Even so, many experts view Jan Dhan as a critical step for transitioning to new social security architecture — cash transfers.

"There are three prerequisites for shifting to cash transfers. One, a bank account; two, biometric authentication via Aadhaar; and three, correct identification of poor," says Mehrotra.

While progress on the first two has been widely documented, what is less known is the use of the socio-economic caste census (SECC) to weed out those undeserving of government subsidies



from the system. Mehrotra offers an example. "In my recent travels to Chhattisgarh, I came across this village which had 200 below-poverty-line card holders. That number has been brought down to 50 by using the SECC data," he says.

With these building blocks now in place, a shift to cash transfers seems the next logical step. Sharma concurs. "The infrastructure now exists. You have bank accounts, the Aadhaar platform as well as Unified Payments Interface (UPI)," he says.

But various issues need to be ironed out in order to ensure smooth functioning. For one the issue of profitability of the agent (banking correspondent) needs to be addressed. "The challenge is to improve agent profitability. It is to ensure they get a higher remuneration from banks especially in the initial period until the volume of transactions increases," says Sharma.

Similarly, on access to credit, the numbers are staggering.

Loan power

Credit extended under Mudra has risen to as much as ₹1.8 lakh crore in 2016-17, up from ₹1.37 lakh crore in 2015-16. Though this is only 73 per cent of the FY17 target, it's grown at a robust 31 per cent. And while a study by MicroSave suggests that paucity of data makes it difficult to know the exact number of unfunded who have now been funded, it does point out that loans extended under the scheme have made a positive impact on bottom lines of micro, small and medium enterprises.

