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From Financial Literacy to Financial Inclusion

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LMA-AWOKE INDIA CONVENTION JOURNAL 2018

From Financial Literacy to Financial Inclusion

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EDITORIAL

Financial Literacy is the first step towards achieving Financial Inclusion and it is an important prerequisite for promoting financial inclusion. Financial Inclusion however comes with potential dangers. Experiences in the microfinance have shown that poor people take loans that they have no capacity to service. Farmers have also taken loans that they have not been able to repay driving many to suicide. Unless financial literacy goes hand in hand with financial inclusion, poor can be put to trouble instead of gaining from financial inclusion. The need for financial literacy is even greater considering the low levels of literacy in large section of the population which still remains out of the formal financial system especially in the rural areas.

India has one of the highest savings rate in the world but remains among the poorest countries of the world. This is because the individual savings are not appropriately invested. The common man needs to become a wise investor and should be protected from wrong doings of unscrupulous lenders and chit funds. India needs to convert from a country of savers into a country of investors. Unfortunately, the fact of the matter is that it is not just illiterates but even graduates and post graduates in India are not really financially literate. Financial literacy, by effectively converting savings into investments, can therefore become not only a means for financial inclusion of underprivileged but a potent driver of investment and economic growth of the country.

As per census of 2001, only 35.5% households were availing banking services. This rose to 58.7% in 2011, largely on account of increase in banking services in rural areas. RBI took several policy initiatives to promote financial inclusion and removed all regulatory bottlenecks, But the real thrust came when Prime Minister's Jan DhanYojana (PMJDY) was launched in August 2014 with personal backing of Prime Minister Modi. PMJDY, recognized by Guinness Book of World Records, led to the opening of 260 million accounts in just over two years. A survey conducted in mid-2015 indicated that adult bank account ownership increased to 63 %. According to PMJDY, in 19 of 28 states all households have a bank account and in the remaining nine states over 99 percent of households have a bank account. Another study revealed that in August 2015 the deposits in these accounts totaled $7.74 billion which received a massive push due to demonetization in November 2016 when deposits surged to $11 billion though the sources of these deposits are unclear.

Union Finance Minister has recently stated that 32.54 crore accounts have been opened since inception of PMJDY, which, would now be an open-ended scheme. According to him, the PMJDY accounts, 83% of which are Aadhaar-seeded, collectively have deposits of about Rs 81,200 crore now. Several measures to reinforce financial inclusion like doubling overdraft limit to Rs 10,000 and allowing holders of such no-frills accounts to withdraw as much as Rs 2,000 without any conditions have also been announced. Free accident insurance cover on RuPay card for new Jan Dhan accounts has been doubled to Rs 2 lakh.

Realizing the glaring gap in financial inclusion value chain, Reserve Bank is now rightly focusing on Financial Literacy and has set up, in collaboration with banks, Centres for Financial Literacy in 80 blocks in nine states to begin with. These measures auger well for improving financial literacy in rural areas

Non-profits can play a significant role in developing change agents like Anganwari teachers, self-help groups, and farmers club etc. to improve financial literacy. It is in this context that Lucknow Management Association and AWOKE India Foundation have been conducting training programmes in Financial Literacy in rural areas apprising rural folks about various opportunities Government sponsored schemes provide for their financial benefits. Government of India through its various agencies like RBI, SEBI, NABARD, State Bank of India etc. have been trying to give financial literacy and financial education to its citizens in the last few years. There has been plethora of talks in this direction. But are we really walking the talk? LMA –AWOKE India Convention on the theme *Financial Literacy to Financial Inclusion* will discuss the gaps in implementation of various policies and suggest measures for closing these gaps through multi-dimensional interventions.

This Journal contains selected published material related to the theme in form of research papers, articles and reports which have been reproduced here with permission of the concerned author/ publisher. The objective is to create awareness about the theme among the participants of the Convention and take forward financial literacy as a means to achieve financial inclusion for larger benefit of the society and economic growth of the country.

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A.K. MATHUR
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& Editor

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FINANCIAL LITERACY AND FINANCIAL INCLUSIONIN INDIA (JANUARY-2018)

SUNIL B. KAPADIA AND VENU MADHAV*

ABSTRACT

Across the universe financial literacy has grabbed the attention of academicians, researchers, policy makers and investors in general. Although access to financial services, product usefulness, consumer protection, principle of equity, role of government body and its regulators would vary from one country to other owing to awareness, education level, maturity of financial markets, economic fundamentals, so on and so forth.

A few studies have found that India is one of the countries who is having highest saving rate. Majority of Indians are investing their savings in low yielding instruments. People are investing in traditional instruments. They are not taking advantage of modern instruments which provides high returns. The main reason behind is lack of awareness about financial products.

Achieving universal financial inclusion is, indeed, a global objective and has multiple dimensions. What is important is that we need to learn from each other and implement what is suitable in each constituency so as to have desirable level of financial education that also takes care of consumer protection at various levels across nations.

Keywords: Financial literacy, education, inclusion.

1. INTRODUCTION

Financial literacy is associated with the consumer who has a responsibility to inform himself of the products he purchases and to understand the contracts he signs. It incorporates knowledge, skills and attitudes. Financial education is a key tool to reach this multidimensional goal. Financial capability, on the other hand, is about the context; it engages the financial services sector in its responsibility to offer the right products to its various target markets.

Access to finance is not the same as use of financial services. Access refers to the availability of a supply of reasonable quality financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and non- pecuniary costs. Use refers to the actual consumption of financial services. The difference between access and use can be analysed in a standard demand– supply framework. Access refers to supply, whereas use is the intersection of the supply and demand schedules.

After 2008 global financial crisis there is a growing concern and voices are being raised now for protecting investors from poor financial decision making especially in consumer financial markets.

This essentially leads to another question whether do we have reliable data? Is there any analytical framework which will help enhance the ability to fully gauge the extent of exclusion and the ground-level impact of various initiatives and development that takes place?

The Dodd-Frank Act, 2010 for Consumer Protection Financial Bureau (CFPB) of US states that -the Comptroller must study -effective methods, tools, and strategies intended to educate and empower consumers about personal financial

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management‖and make recommendations for the ‑development of programs that effectively improve financial education outcomes.‖

Governments of developed economies, in G20 Summit agreements, have recognized financial inclusion and consumer protection as integral to achieving financial stability and integrity. Financial access has been highlighted as a ‗key accelerator' to meet the Millennium Development Goals. Key to attaining this laudable goal is financial education (World Savings Bank Institute, 2010).

2. LITERATURE REVIEW

The origins of the current approach to financial inclusion can be traced to the United Nations initiatives, which broadly described the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance and other banking/payment services to all ‗bankable' households and enterprises at a reasonable cost.

Financial inclusion (or, alternatively, financial exclusion) has been defined in the literature in the context of a larger issue of social inclusion (or exclusion) in a society. One of the early attempts by Leyshon and Thrift (1995) defined financial exclusion as referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system.

Who Is Financially Excluded?

- The groups most likely to experience some form of financial exclusion are The long-term unemployed.
- Old age pensioners, particularly those aged over 70.
- Those excluded from earning through sickness or disability. Female single parents.

Examples of the financial exclusion of individuals and households would include several conditions, extending from access to specific facilities and resources to much wider capabilities:

- Lack of access to a bank or building society account.
- Lack of access to necessary financial services and credit, such as
- appropriate lending facilities or mortgages.
- Lack of savings or protection against risk, such as insurance and pensions.
- Limited access to services which could improve an individual's financial situation, such as advice or education.
- Absence of the ‗skills or circumstances' required to ‗making an economic contribution to the community'.

A few literature reviews has shown that financial exclusion is an expanding area of commentary, research, and policy discussion. Much is known already, if not always precisely about this problem: its scale, who suffers from it and why, and the success or otherwise of various attempts to deal with it.

Although financial literacy as a construct is a fairly recent development, financial education as an antidote to poor financial decision making is not.

‑Financial literacy as a construct was first championed by the Jumpstart Coalition for Personal Financial Literacy in its inaugural 1997 study Jumpstart Survey of Financial Literacy among High School Students. In this study, Jumpstart defined ‑financial literacy as ‑the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security.

A few studies have shown that Americans have inadequate knowledge of personal finances (EBRI, 1995: KPMG, 1995; PSRA, 1996/1997; Oppenheimer Funds/Girls Inc., 1997; Vanguard Group/Money Magazine, 1997). They fail to make correct decisions because they have not received a sound personal finance

Education (HSR, 1993; Hira, 1993; O'Neill, 1993)

According to Sinclair (2001), financial exclusion means the inability to access necessary financial services in an appropriate form. Financial inclusion covers various services such as savings, credit, insurance, payments and remittance facilities, etc. by the formal financial system to those who tend to be excluded.

The Government of India's Committee on Financial Inclusion in India begins its report by defining financial inclusion as *the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker* *sections and low income groups at an affordable cost* (Rangarajan Committee 2008).

One of the approaches to consumer protection in UK financial Services which used the literature on Behavioural economics and Psychology as the basis for a critique shows that, contrary to the belief, in neo-classical economics, that people make rational choices, individuals in fact do not always make rational choices. Approximately one in four adults in Britain does not have a private or occupational pension. This is most common for lower income groups, women and minority ethnic group employees.

The use of heuristics results in cognitive weaknesses in individuals -decision- making, leading them to make inferior decisions with regard to their welfare. This suggests that interventionist approaches to consumer protection are preferable to non-interventionist ones, because they take into account the fact that individuals decisions are not always rational or in their best interests.

In one of reviews the literature describing the value added from professional advice. The potential welfare gain from increased reliance on expert financial advice is significant, and there is some evidence that financial advisers help households make better financial decisions. However, the results are generally mixed and the outcome is often worse when there are conflicts of interest resulting from adviser compensation incentives.

In the absence of sound and consistent regulation of financial advisers, households may be harmed by the use of an advisor who is able to use shrouded product pricing and an informational advantage to extract wealth from the client. A lack of educational standards, reliable quality certifications, and consistent regulation to reduce conflicts of interest all prevent the financial advice profession from achieving the quality of similar advice professions.

The famous economist Irving Fisher (who conceptualised ‗*Fisher Equation*') once observed - One of my chief objects has been to help make economics into a genuine science through careful and sound analysis, usually carried out with the help of mathematical methods and statistical verification.

3. OBJECTIVES

- To study initiative taken by various financial institutions to improve financial literacy and credit counseling in India
- To promote and facilitate collaborative research and exchange of resources for expanding capabilities of various stakeholders for greater financial inclusion
- To enable create a platform thus providing an opportunity for educators, researchers and practitioners to share best practices and make linkages between theory and practice in the area of financial literacy and financial education

4. METHODOLOGY

This study is descriptive in nature and is based on several empirical studies done on secondary data and sourced from the publications of various government and private organizations viz. from authentic sources – websites of RBI, Finance Ministry, MOSPI-CSO, SEBI, NISM, NSE, NSDL, CRISIL,

Govt. publications, Research Publications of individual and institutional, Foreign Regulatory Acts of various other countries, etc.

5. DISCUSSION AND ANALYSIS

In answering the following questions, it is useful to place financial literacy within the context of standard models of consumer financial decision making and market competition.

- What level of financial literacy is necessary or desirable?
- And should certain financial transactions be predicated on demonstrating an adequate level of financial literacy, much like taking a driver's education course or passing a driver's education test is a prerequisite for getting a driver's license. If so, for what types of financial decisions would such a licensing approach make most sense?
- Why are financial literacy and financial education as a tool to increase financial literacy potentially important?

Another set of issues surrounds how individuals acquire financial literacy and the mechanisms that link financial literacy to financial outcomes.

- How important are skills like numeracy or general cognitive ability in determining financial literacy, and can those skills be taught?
- To the extent that financial literacy is acquired through experience, how do we limit the potential harm that consumers suffer in the process of learning by doing?
- Is financial education a substitute or a complement for personal experience?

Furthermore there are open questions relate to measurement.

- How do we best measure financial literacy?
- Which measurement approaches work best at predicting financial outcomes?
- And what are the trade-offs implicit in using different measures of financial literacy (e.g., how does the marginal cost compare to the marginal benefit of having a more effective measure?).

To estimate and guess financial literacy level in India, a survey in Ahmedabad- Gujarat by authors Shawn, Thomas and Bilal (2009) revealed that

- Events outside their control (little control);
- Good things tend to happen to other people, not to me or my family; and I have hard time saving money, even though I know I want to save money.
- The average value of fatalism is 53%.

A lack of financial literacy is problematic if it renders individuals unable to optimize their own welfare, especially when the stakes are high, or to exert the type of competitive pressure necessary for market efficiency. This has obvious consequences for individual and social welfare. It also makes the standard models used to capture consumer behaviour and shape economic policy less useful for these particular tasks.

Let us understand about the set of fundamental issues relate to capabilities.

- What are the basic financial competencies that individuals need?
- What financial decisions should we expect individuals to successfully make independently, and what decisions are best relegated to an expert?

To draw an analogy, we don't expect individuals to be experts in all domains of life—that is the essence of comparative advantage.

For building financial capability the combination of knowledge, skills and attitudes with the opportunities to apply them requires input from multiple sources including those that educate the consumer and those that sells the products. As a result, the responsibility for wise decisions regarding financial strategies and tools does not lie solely with the individual client.

We would argue that building financial capabilities is two directional: while consumers have a responsibility to inform themselves about the products they are ‗purchasing', financial service providers have a responsibility to understand their market, and respond with a range of appropriate and affordable services, including savings and credit accounts, payment services, insurance products and the ability to send and receive remittance payments cheaply.

In short, the financial institution needs to meet the customer where they are, not solely on the institution's terms. They need to apply principles of transparency in a way that facilitates clients' decision-making, and verify assumptions about what clients understand and don't understand about their products. While spread of financial inclusion is recognized through formal financial institutions such as banks, credit unions, post offices or microfinance institutions, the approach of keeping some/ all of these entities as a part of the core or as support players, varies from country to country. Besides, it is important to note that the defining principles of financial inclusion, coverage, role and responsibilities of institutions and measurement/monitoring requirements have been evolving over the years. Any effort to measure the various dimensions of financial inclusion is not possible without explaining the context and framework. The basic framework for measurement of financial inclusion should cover some important dimensions.

- First, financial inclusion, financial literacy and consumer protection are the three major planks of financial stability. While financial inclusion acts from the supply side, providing the financial market/services that people demand, financial literacy stimulates the demand side, making people aware of what they can demand.

The demand side issues in financial inclusion include knowledge of financial products and services, credit absorption capacity, etc. These issues are faced by both developing and developed countries.

- The supply side issues cover financial markets, network of banks and other financial institutions, appropriate design of products and services, etc. These issues are mostly faced by the developing countries. A framework for financial inclusion needs to take into account various aspects such as the demand and supply side issues; assessment of enabling environment; issues in penetration, barriers to financial inclusion, etc.

- That use of financial services/products is not universal may and would reflect lack of demand rather than lack of access: many households and firms may not use financial services, despite having access to some financial services. But with use so low in many countries, the question naturally arises whether this is because the supply of financial services is limited?

- And if supply is limited, is it because financial service providers consider some households and firms as less attractive customers and are therefore unwilling to extend financial services? Or is it because there are barriers to supply? If there are barriers, the policy question is whether these can be removed without creating other economic costs or risks. If the lack of supply is due to some market failure, does there still remain a need for government intervention?

- Second, availability of appropriate financial products, including at the very least, savings products, emergency credit, payment products and entrepreneurial credit are important aspects of financial inclusion environment. Further, regarding ease of access, the various dimensions are timely access, distance, pricing and terms & conditions. In addition to this, the fairness & appropriateness of products is also an important dimension in the context of financial education of customers and for consumer protection.

- Third, the monitoring framework should cover transaction level, customer level and products and services level monitoring, at the micro level. In addition, monitoring at the macro level is also an important dimension for assessment of the outcome of policy, viability of delivery models, etc. This calls for impact analysis and penetration studies.

- In her discussion paper, 2010 author Mandira Sarma considered three basic dimensions of an inclusive financial system:

- **Banking penetration** (BP): The assigned index number is weight: 1 (basis number of bank accounts as a proportion of the total adult population), since data on number of _banked' people is not readily available;

- **Availability of banking services** (BS): In the present index, the author has used data on the number of bank branches and the number of ATMs per 100,000 populations to measure the availability dimension. Two separate indexes are calculated for bank branches and ATMs. Then, a weighted average of these two indexes, using 2/3rd weight for bank branch index and 1/3rd weight for ATM index is considered as the index for the availability dimension. The index number assigned is 0.5; and

- **Usage of Banking system** (BS): In incorporating the usage dimension in her index, author considered two basic services of the banking system– credit and deposit. Accordingly, the volume of credit and deposit as proportion of the country's GDP has been used to measure this dimension. The index number assigned is 0.5

In her study, author has proposed an Index of Financial Inclusion (IFI) – a multidimensional measure similar to the well-known development indexes such as HDI, HPI, GDI and GEM. The IFI can be used to compare the extent of financial inclusion across different economies and to monitor the progress of the economies with respect to financial inclusion over time. For example, subject to availability of data, it can be used to measure financial inclusion at different time points and at different levels of economic aggregation (village, province, state, nation and so on).

Economic Legislation

For proper economic growth, it is essential to have reasonably sound rules and regulations in the form of economic legislation. This calls for review to ensure *continuing relevance* of such legislation periodically. The emergence of appropriate structure to provide *freedom to savers* and users of funds thus ensuring banks operate in a competitive environment. Following are a few important needs of consumers to be taken care of in an investment:

- Saver Interest Protection
- Create Mechanism to provide timely Liquidity
- Create Environment for facilitating Direct Investor/Borrower interaction Freedom to save so as to align with Risk-Return
- Provide Regulation and Supervision to ensure strict compliance

State of the Financial Markets in India

The financial sector in India currently comprises financial institutions, financial markets and financial instruments.

- While the money, Government securities and foreign exchange markets are regulated by the Reserve Bank of India (RBI);
- the capital market, commodity market and derivatives market falls under the purview of Securities and Exchange Board of India (SEBI);
- the debt market is jointly monitored and supervised by both RBI and SEBI;
- the insurance market is regulated by the Insurance Regulatory and Development Authority (IRDA) and the pension market is regulated by Pension Fund Regulatory and Development Authority (PFRDA).

Post-Independence several measures have been taken by RBI over the years and by SEBI, IRDA and PFRDA (from 1992 and onward) for promotingand developing these markets.

Reforms in Capital Market of India

The major reforms undertaken in capital market of India include establishment of SEBI. The SEBI was set up with the fundamental objective: "to protect the interest of investors in securities market and for matters connected therewith or incidental thereto." Following are few important functions of SEBI:

- To regulate the business of the stock market and other securities market. To promote and regulate the self-regulatory organizations.
- To promote awareness among investors and training of intermediaries about safety of market.
- Establishment of Creditors Rating Agencies: Three creditors rating agencies viz. CRISIL (1988), ICRA (1991), and CARE were set up in order to assess the financial health of different financial institutions and agencies related to the stock market activities. It is a guide for the investors also in evaluating the risk of their investments.

Investors Protection

Under the purview of the SEBI the Central Government of India has set up the Investors Education and Protection Fund (IEPF) in 2001. It works in educating and guiding investors. It tries to protect the interest of the small investors from frauds and malpractices in the capital market.

Research in Indian Securities Market

In order to deepen the understanding and knowledge about capital and financial markets, and to assist in policy-making, SEBI has been promoting high quality research in capital market. In collaboration with NCAER, SEBI brought out a‗*Survey of Indian Investors*', which estimates investor population in India and their investment preferences. SEBI has also tied up with reputed national and international academic and research institutions for conducting research studies/ projects on various issues related to the growth and participation of capital market.

In pursuance of the announcement made by then Finance Minister in his Budget Speech in February 2005, SEBI has established the **National Institute of Securities Markets** (NISM) in Mumbai to promote securities market education and research. Towards accomplishing the desire of Government of India and vision of SEBI, NISM has established six distinct schools to cater the educational needs of various constituencies, such as investor, issuers, intermediaries, regulatory staff, policy makers, and academia and future professionals of securities markets. Thesix Schools of Excellence i.e.

- School for Certification of Intermediaries (SCI), School for Corporate Governance (SCG),
- School for Investor Education and Financial Literacy (SIEFL), School for Regulatory Studies and Supervision (SRSS), School for Securities Education (SSE),

School for Securities Information and Research (SSIR).

The National Strategy of Financial Education is being nurtured at NISM through the ‗National Centre for Financial Education (NCFE).The National Centre for Financial Education (NCFE), comprising representatives from all financial sector regulators i.e. Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), Pension Fund Regulatory and Development Authority (PFRDA) and National Institute of Securities Markets (NISM). NCFE has been set up to implement National Strategy for Financial Education (NSFE), under the guidance of a Technical Group on Financial Inclusion and Financial Literacy of the Financial Stability and Development Council (FSDC), which would cater to all sections of the population in the country.

The objective of NCFE is to undertake massive Financial Education campaign to help people manage money more effectively to achieve financial wellbeing by accessing appropriate financial products and services through regulated entities with fair and transparent machinery for consumer protection and grievance redressal. This will help in achieving their Vision i.e. a financially aware/ informed and empowered all her citizens, i.e. one of the purposes.

Research evolves on a continuous basis either to create some new products, new features, add-on benefits, combination of asset-class, or to cater to ever changing needs/requirements of an investor.

hidambaram, then union finance minister, indicated in the Budget that ‑out of the total number of cultivated households only 27 per cent receive credit from formal sources and 22 per cent from informal sources. According to 59th round of survey of NSSO (report no. 498) India has nearly 150 million rural households out of which around 90 million are farmer households. At the all India level around 49 per cent of farmer households were indebted.

In India 'financial *exclusion'* is being identified as *chief barrier* for unleashing fortune at the bottom of pyramid. Financial exclusion is a confluence of multiple barriers:

- lack of access,
- lack of physical and social infrastructure, lack of understanding and knowledge, lack of technology;
- lack of support,
- lack of confidence, among others.

Overcoming these barriers is, in a nutshell, the challenge of financial inclusion.

Index of Financial Inclusion

Degree of Financial Exclusion	**Status**
High (0.5 < IFI 1)	Kerala, Maharashtra, Karnataka
Medium (0.3 IFI < 0.5)	Tamil Nadu, Punjab, Andhra Pradesh, Sikkim, Himachal Pradesh, Haryana
Low (0 IFI < 0.3)	West Bengal, Uttar Pradesh, Gujarat, Tripura, Bihar, Assam, Nagaland, Manipur, Mizoram, Madhya Pradesh, Arunachal Pradesh, Odisha, Rajasthan

Source: Chattopadhyay (2011)

The study, a foot print enterprise survey in 2013 found a large extent of informality among survey respondents.

- 90 per cent of the respondents never filed income taxes, 67 per cent had maintained no book of accounts and 65 per cent had no enterprises registration of any form. (**Source:** Jana Foundation, 2013)

Not surprisingly, a majority of respondents accessed informal sources of finance for their credit needs. Over the previous two years the average credit requirement for micro enterprises in sample was estimated to be Rs. 439,911. With the estimated number of urban microenterprises to be 420813 this would translate into an aggregate demand for credit of Rs. 189 billion. Since banks alone would not be able to meet this demand, other regulated local players like

MFIs need to be facilitated to contribute to the process of financial inclusion of urban micro and tiny enterprises.

Financial literacy an inclusion survey conducted by National Centre for Financial Education (NCFE), a part of NISM, under overall guidance of Financial Stability and Development Council (FSDC), in Financial Year 2013- 14 observed and found:

- Sample size: 75000
- No. of States and Union Territories: 35 Rural (52%); Urban (48%)

- Male (56%); Female (44%) OECD/INFE Methodology Used:

i. Financial Attitude: 67%

ii. Financial Behaviour: 57%

iii. Financial Knowledge: 39%

iv. Financial Literacy Score: 20%

Some important features of the strategic initiatives for spreading financial inclusion in India included

- A roadmap forroviding banking services covering villages in a structured way. In the first phase villages with population above 2000 was targeted. The focus has now shifted to villages with population less than 2000.
- Introduction of New Products – Making available a minimum of four banking products through the ICT based BC model.
- One of the strategies has been to create an ecosystem comprising of a combination of branches and ICT based BC outlets for evolving an effective financial inclusion delivery model.
- In order to further facilitate financial inclusion, interoperability was permitted at the retail outlets or sub-agents of BCs (*i.e.* at the point of customer interface), subject to certain conditions, provided the technology available with the bank.

Financial Inclusion Plan Achievements So Far

Snapshots of the progress in certain key parameters in the period (March 2010 – June 2012) are given below:

- Banking connectivity to more than 1,88,028 villages up to June 2012 from 67,694 villages in March 2010.
- All unbanked villages with population of more than 2000 persons, numbering around 74,000 are now connected with banks.
- Number of BCs increased to 120,098 from 34,532.
- More than 70 million basic banking accounts have been opened to take the total number of such accounts to 147 million.
- About 36 million people/families have been credit-linked.

Major Barriers to Financial Inclusion Identified As

Demand Side Barriers are

- Low literacy levels, lack of awareness and/or knowledge/understanding of financial products;
- Irregular income; frequent micro-transactions;
- Lack of trust in formal banking institutions; cultural obstacles (e.g., gender and cultural values).

Supply Side Barriers are

- Outreach (low density areas and low income populations are not attractive for the provision of financial services and are not financially sustainable under traditional banking business models);
- Regulation (frameworks are not always adapted to local contexts);
- Business models (mostly with high fixed costs); Service Providers
- (limited number and types of financial service providers);
- Services (non-adapted products and services for low income populations and the informal economy);
- Age Factor (Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers. There are hardly any policies or schemes for the younger lot or the old people who have retired, as the banks do not see any business from them);
- Bank charges (In most of the countries, transaction is free as long as the account has sufficient funds to cover the cost of transactions made. However, there are a range of other charges that have a disproportionate effect on people with low income).

Opportunities for Expanding Financial Inclusion among the Unbaked

Globally, 38 per cent of adults remain unbanked. India is home to 21 per cent of the world's unbanked adults and about two-thirds of South Asia's. Yet among the survey respondents who do not have an account, only 4 per cent said that the only reason for not having one is that they do not need one. The Global Findex data point to several promising opportunities for expanding account ownership among the unbanked. (**Source:** The World Bank Policy Research Working Paper No.7255 – 2014).

The reasons reported by people themselves for not owning an account already suggest ways in which policy makers might be able to remove barriers. By providing a regulatory framework conducive to expanding account ownership through such actions as licensing bank agents, introducing tiered documentation requirements, requiring banks to offer basic or low-fee accounts, and allowing the evolution of new technologies such as mobile money—governments can both help lower the cost of financial services and help reduce the distance to financial institutions by making it cost-effective for them to locate outlets in more remote areas. The challenge in each case is to design appropriate financial products that meet the needs of the unbanked and make using an account at least as easy, convenient, and affordable as the alternatives.

- One promising opportunity to expand financial inclusion among the unbanked is to digitize payments by moving cash payments into accounts.

- Digitizing wages and government transfers is an obvious way of rapidly expanding financial inclusion because the decision of a single actor—such as the government or a large private sector employer can affect many recipients.

- Payments for the sale of agricultural products offer another opportunity for increasing account ownership among the unbanked. Just as the wages and government transfers, digitizing agricultural payments could therefore contribute to rapid expansion in account ownership.

- Channelling domestic remittances through accounts. In developing economies 14 per cent of unbanked adults—270 million of those without an account send or receive domestic remittances only in cash. In Sub-Saharan Africa 22 per cent of unbanked adults—almost 80 million—do so. These figures suggest an enormous opportunity for designing appropriate, affordable, and convenient financial products to enable unbanked adults to send or receive remittances through an account.

- Shifting semiformal savings into accounts across the developing world, only about 4 per cent of adults—160 million people—are unbanked but save by using a savings club or a person outside the family. Shifting their savings from savings clubs into accounts could increase account penetration in the region from 34 per cent to up to 47 per cent and add up to 70 million adults to the ranks of those with an account.

- Paying utility bills and school fees through accounts. In developing economies more than 1.3 billion adults who have an account nevertheless use cash to pay their utility bills or school fees. Some 56 per cent of account holders—1.3 billion adults—make utility payments in cash, and 24 per cent—more than 500 million adults—pay school fees in cash. And 22 per cent of adults with an account pay both utility bills and school fees in cash. Shifting these payments to accounts represents an enormous opportunity for increasing the use of accounts and for enhancing the efficiency of payments.

Conclusion

Two decades ago, ‗financial inclusion' would likely have referred to an institutional issue such as portfolio growth, mirroring a common question - How many clients do you have? Today the term is more centered on clients, encompassing both access (the institutional responsibility) and use -clients' ability to choose and use the services available to them.

It implies financial capability. Financial education is essential to both of these overlapping concepts.

Yet, two decades ago, few in the developing world had ever heard of financial education. Today, it is coming to your TV; your bank will send text messages reminding you to save; local newspapers run weekly financial advice columns; governments are mandating that financial institutions publish transparent product prices. The return of the consumer that these developments indicate is welcome.

A more definite interpretation of the factors affecting access will have to await better data on access and use at both the micro and the macro level. This will require actions by national and international agencies to develop more comparable data on use and access barriers. Data on use will have to come from different sources:

- Providers of financial services (directly and from national statistics); Users of financial services (from surveys); and Experts (to identify constraints).

However, there exist challenges in terms of further growth of various markets with greater depth and width to reach across all segments of investors/ participants with broad spectrum of choices. Below mentioned are few areas that need development:

- Spreading of awareness, literacy and education about financial markets, different assets and products so as to empower common man/ investor to participate in the market with required knowledge, thus gain ultimately.
- Administrative reforms to help facilitate entry into market for on- boarding of first time investor with standard KYC norms in a transparent, user-friendly environment.
- The need for a well-developed bond market with a sizeable corporate debt segment which will offer an alternative to banks for raising capital by corporates, leading to an improvement in efficiency of capital market.
    - Engaging with different stakeholders of society through various platforms which will include:
- Collaboration with educational institutions of all kinds to carry out further research and development for enhancing market role with greater participation of stakeholders;
- Organising research conferences and conducting seminars thereby inviting more & more new participants fostering deliberation and feedback for overall improvement;
- Organisation of award ceremony for sharing of best practices.

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FINANCIAL INCLUSION, FINANCIAL LITERACY & ROLE OF TECHNOLOGY

RAJAT GANDHI*

Ever since India's independence in 1947 the biggest priority for the nation has been its economic growth, education for all and financial inclusion for the vast population of the country. While India has made some noteworthy progress in the past six decades and more, but on the aspect of financial inclusion, progress has not been satisfactory.

Along with the regulation of the banking sector in the country, the Reserve Bank of India (RBI) has been also spearheading the movement for financial inclusion. Accordingly the RBI "describes financial inclusion as the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional player.

In a country where the vast majority of the population is still very poor, financial inclusion is of great significance to them. For the poor, access to finance and ensuring the optimum utilization of the resources they possess is a major challenge. Economic and societal uncertainties mean volatility in their income can have an adverse reaction on the financial stability. This exposes the poor to the dodgy moneylenders, which is turn can lead to debilitating debt trap.

Banks, both private and public, were supposed to play a pivotal role in financial inclusion, but beyond a point the impact has been minimal. In a speech last year the RBI, Deputy Governor, S S Mundra says, "according to census 2011, out of 24.67 crore households in the country, only about 14.48 crore or 58.70 % households had access to banking services. Further, of the 16.78 crore rural households, only about 9.14 crore or 54.46 % households were availing of banking services."

He adds that the statistics on the number of individuals or households that are credit-linked makes for an even more gloomy reading. "The World Bank Findex Survey (2012) points out that only about 35% of Indian adults had access to a formal bank account and a meager 8% borrowed formally in the last 12 months," says Mundra.

The question now is do we can either continue with our traditional ways of ensuring financial inclusion or look at new methods and opportunities that is available to us because of technology? India has made rapid strides in technology and it is important to now look at financial inclusion through the prism of the digital economy.

One of the biggest components of financial inclusion is financial literacy. No matter how many banks you open and how many boots you have on the ground, if a person does not know about the financial options that are open to him, policies, schemes and financial instruments will mean little. It is important for a person to firstly know what to look for and only then think of the benefits that he can obtain from it? The digital economy can be strongly leveraged to spread financial literacy.

Financial inclusion without financial literacy has no meaning as the stakeholders cannot grasp the benefits/ risks associated.

FINANCIAL LITERACY – THE DIGITAL WAY

Financial literacy through the use of technology has to be based on three principles: to effectively use the power of mediums like a computer, mobile and Internet to enable people to have the skills, knowledge or information about financial instruments. Secondly, we must ensure people then have the ability to critically understand the content they have received through digital means and lastly apply it to the best of their knowledge and capacity.

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While it may seem unimaginable to think that the poor would stand to benefit from technology due to their lack of technological skills, nothing can be further from the truth. It has been proven time and again that if it's simple and effective, technology is a big enabler for the poor. Banking correspondent services that are operating across far flung villages in the country has proved that technology can go a long way to bridge the divide.

Why it also helps is that if allows information to be democratized. In the financial world information is often the difference between getting a lemon of a deal or a favorable one. Technology has now enabled information to percolate to even the remotest of villages. It also allows interaction between people and the ability to question the best in the business. By enabling connections, technology has also bridged the geographical difference.

MOBILE COURSE DELIVERY

As a country, India has seen rapid growth in mobile adoption and today more than 70 % of the population holds a mobile phone. Of that, according to Internet and Mobile Association of India (IAMAI) and IMRB International, the mobile Internet penetration in rural India is expected to grow from 45 million in December 2014 to 53 million by June 2015.

Mobile phones are convenient, easy to own and a great way to reach across. With financial inclusion and literacy, reaching across to people has been the number one challenge and a mobile phone takes care of that in the most economical way. With virtually no physical presence banks can now push information and solicit transactions with very little costs. RBI has said compared to branch banking and internet banking, mobile banking could be handier with significantly lower operating costs.

The ubiquitous mobile has now moved ahead. There is phenomenal work being done around mobile technology and Inventure is an example of a startup that is using technology and mobile to enable financial inclusion. The startup uses mobile technology to collect data using mobile tech to tap into more than 10,000 data points per user. Such has been its efficiency that the vast unbanked and those outside the financial framework in Africa, now get credit with relative ease and the startup claims most of its loans reach borrowers in less than an hour.

NEW AGE FINANCIAL TECH COMPANIES

The financial technology companies in the form of peer-to-peer lending sites and crowdfunding sites have taken things a notch higher. These startups represent some of the best amalgamation between cutting edge technologies combined with years of traditional prudent financial wisdom. The by-product is one that is now open to the millions that are outside the purview of the formal banking sector. From customer acquisition, underwriting, recovery and engagement these new age financial tech companies have managed to reach out to the poorest of the poor with financial services. Services that are automated have led to faster execution of activities and minimum level of human involvement or discretion. Going ahead, these companies and their technology would be able to cover a large chunk of the population that still needs access to formal credit and financial products.

MILLENNIAL

India is a young country and its large young population is more groomed to technology like the mobile, computer and the Internet. While it is desirable that everyone is attached to the banking system in some way, even if one member of the household has some level of financial literacy, the prospect of being inclusive rises that much more. Youth also have a large sway in influencing decisions and exposure to mass media and technology has gone a long way in making them informed. By nature, Millennials are much better versed on the benefits and risks associated with a financial product.

Millennials do not believe in the status quo and want to build their own financial capabilities. There are numerous examples that prove technology allows independent learning that is not dependent on someone else for help. This leads to a further sense of competence and greater confidence on ones money management.

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ROLE OF TECHNOLOGY IN FINANCIAL INCLUSION

VIVEK AGARWAL*

Financial inclusion is described as the process of ensuring access to appropriate financial products and services needed by all sections of society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players.

In a country where the vast majority of population is still very poor, financial inclusion is of great significance. For the poor, access to finance and ensuring the optimum utilisation of the resources they possess is a major challenge. Economic and societal uncertainties mean volatility in their income can have an adverse effect on the financial stability.

One of the biggest components of financial inclusion is financial literacy. No matter how many banks you open and how many boots you have on the ground, if a person does not know about the financial options that are open to him, policies/ schemes and financial instruments will mean little. The digital economy can be strongly leveraged to spread financial literacy.

Financial literacy has to be based on three principles:

- Effectively use the power of mediums like a computer, mobile and internet to enable people to have the skills, knowledge or information about financial instruments
- We must ensure people have the ability to critically understand the content they have received through digital means
- They should apply it to the best of their knowledge and capacity

Financial inclusion status is more likely to improve through technological interventions as:

Brick and mortar businesses are proving to be an uneconomical proposition for banks in rural or remote areas

There are distribution challenges due to localised constraints

Conventional banking models are not feasible for low ticket size of transactions, deposits, loans, etc., in such regions

Several accounts are no-frills in nature

Lack of awareness of financial products

High requirement of skilled and trained manpower

Unbanked economies have tapped the potential of digital technology, particularly in the

mobile space, to gauge the impact of technology-driven inclusion. In Kenya, nearly two thirds of all adults are active customers of a mobile phone-based money transfer and payments service, and 50 per cent of mobile phone owners in Tanzania actively use mobile money systems. In comparison, India, with its unbanked population of approximately 47 per cent and 900 million mobile subscriber base, sees few per cent of mobile subscribers using mobile money actively. However, demand side drivers and the emerging digital ecosystem in the country still hold the key to promote financial inclusion, using digital channels.

Role of Technology in Driving Financial Inclusion

The banking sector has made rapid strides largely because of the swift advancement in technology. Automated teller machines, internet and mobile banking, payment wallets, and other advancements have brought in significant improvements in consumer experience and have also helped banks widen their reach.

RBI has been actively involved in harnessing technology for the development of the Indian banking sector over the years. The apex bank took upon the task of promoting computerisation in banking to improve customer services, book keeping and management information system

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(MIS) to enhance productivity. RBI has played a pivotal role in achieving various objectives such as implementation of the electronic payment system such as RTGS (Real Time Gross Settlement), electronic funds transfer (NEFT), mobile banking system etc.

Adoption of the Core Banking Solutions (CBS): CBS is networking of branches, which enables customers to operate their accounts and avail of banking services from any branch of the bank on CBS network, regardless of where the customer maintains his/her account.

Mobile Phone Penetration

Leveraging mobile phone penetration and mobile phone service, providers are introducing innovative methods of bringing the unbanked populations into the formal economy using mobile phones.

India has witnessed rapid growth in mobile adoption and today more than 70 per cent of the population owns a mobile phone.

The extensive reach of mobile phones offers an innovative low-cost channel to expand the reach of banking and payment services especially to the large section of rural mobile subscribers.

It has advantages over traditional banking methods because it breaks down geographical constraints.

Other advantages include immediacy, security and efficiency.

Mobile banking also reduces the cost of financial transactions as it involves little or no infrastructure cost to the bank and no additional investment from the customers.

Government Initiative for Inclusive Growth

Financial inclusion is likely to remain high on the government's agenda over the next decade. Over the last several years, many initiatives have been progressively launched.

Digital India

The Digital India initiative, coupled with a payment infrastructure, is laying the cornerstone for a digital economy, keeping in mind the increasing willingness of people to use the internet and the rising data traffic in the country.

The impact of Digital India by 2019:

An investment of $18.4 billion to provide last mile internet connectivity, better access to government services, and development of IT skills

Provision of Wi-Fi services in cities with a population of more than one million, as well as major tourist centres

Provision of broadband internet access to 250,000 village clusters by 2019 at a cost of about $5.9 billion

Availability of digital lockers to each citizen, allowing them to store all their original identification documents and records

Development of 100 smart cities in India

Focus on moving towards automation in delivery of government services

Achievement of a leadership position in IT towards betterment of health, education and banking services

Widened internet access and an enabled use of shareable private space on a public cloud model in order to empower citizens digitally

Aadhaar Card

The technology-levered Aadhaar programme is likely to be the biggest disruptor in financial inclusion delivery, as innovations leveraging the Aadhaar card are expected to assist in broad-basing the access and acceptance by financially excluded segments.

Direct Benefits Transfer

The scheme was initiated to facilitate disbursements of government entitlements such as those under the social security pension scheme, handicapped old age pension scheme, etc., of any central or state government bodies, using Aadhaar and authentication thereof, as supported by UIDAI.

Retail Banking

The provision of these services is expected to encourage electronic retail payments and facilitate inter-operability across banks in a safe and secured manner.

Payment Banks

Payments banks are a new model of banks conceptualised by the Reserve Bank of India (RBI). The main objective of payments bank is to widen the spread of payment and financial services to small business, low-income households, migrant labour workforce in secured technology-driven environment in remote areas of country.

They can raise deposits of up to Rs 1 lakh, and pay interest on these balances just like a savings bank account does

They can enable transfers and remittances through a mobile phone at low cost

They can offer services such as automatic payments of bills, and purchases in cashless, cheque less transactions through a phone

They can issue debit cards and ATM cards usable on ATM networks of all banks

They cannot lend money and issue credit cards

DIGITISATION TRENDS AND OPPORTUNITIES

Consumer behaviour is changing towards rapid adoption of digitisation

As the market has been exposed to innovative digital-based services that have been disruptive in nature (e-commerce players and e-governance services), it is now betting on changing client preferences to move from pricing (discounts) to convenience and service.

Demographic dividend is likely to create a large digital-savvy customer segment

India's demographic dividend is well suited to switch to digital behaviour, considering that the median age of an Indian is expected to be 29 years by 2020, with 900 million of the population falling in the age group of 15–60 years by 2025.

The banking sector has made rapid strides largely because of the swift advancement in technology...(that) have made significant improvements in consumer experience and have also helped banks widen their reach.

As the market has been exposed to innovative digital-based services that have been disruptive in nature, it is now betting on changing client preferences to move from pricing (discounts)...

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FINANCIAL INCLUSION IN INDIA: PROGRESS AND PROSPECTS

K. SRINIVASA RAO*

While inclusive banking began, in spirit, with the nationalisation of banks in 1969 and 1980 in India, the real thrust on financial inclusion (FI) came in 2005 when the Reserve Bank of India (RBI) highlighted its significance in its annual policy statement of 2005-06. It urged banks to work towards reaching out to the masses, offering banking services down to the hinterland. The worrying fact was the mass exclusion of people from the formal banking system that hindered economic growth at the bottom of the pyramid. Then onwards RBI began to persuade banks to include FI as a business objective.

Globally, FI is considered as a critical indicator of development and well-being of a society. As a result of renewed thrust on FI, an inclusive financial system is widely recognised in policy circles as a proactive measure and has become a basic priority in many countries – including India. FI is considered as an effective means to sustainable economic growth, and is intended to ensure that each citizen of the country is able to use their earnings as a national financial resource for redeployment in productive sectors of the economy. Such pooled financial resources can be channelised to develop enterprises, fueling the nation's progress. This underlying theme has brought FI in the spotlight and it has come to occupy centre-stage in financial intermediation.

The beginning of the financial inclusion journey

FI as a policy initiative entered the banking lexicon only after the recommendations of the Rangarajan Committee in 2008. It began to attract the attention of stakeholders when banks realised the significance of connecting with more people for business growth. The span of financial services included provision of basic savings accounts, and access to adequate credit at affordable costs to vulnerable groups such as the excluded sections of the society and low-income households. The experience of microfinance units in India and abroad shows that vulnerable groups who pay usurious interest rates to local moneylenders, can also be worthy borrowers of banks. One of the broader objectives of FI is to pull the poor community out of the net of exploitative moneylenders. But despite such emphasis, the penetration of banking services was initially mostly confined to urban areas and major cities, after which they started spreading to the hinterland. FI thus became an integral part of the business domain of banks, with RBI advising all public and private banks to submit a board-approved, three-year FI plan (FIP) starting from April 2010. These plans broadly included self-set targets in terms of bricks-and-mortar branches in rural areas, clearly indicating coverage of unbanked villages with population above 2,000 and those with population below 2,000; deployment of Business Correspondents[1] (BCs) and use of electronic/kiosk modes for provision of financial services; opening of no-frills accounts; and so on. For the dispensation of credit, Kisan Credit Cards (KCC), General Credit Cards (GCC), and other specific products designed to cater to the financially excluded segments, were introduced. Such accelerated microcredit was part of priority sector lending schemes of banks. Further, banks were advised to integrate FIPs with their business plans and to include the criteria on FI as a parameter in the performance evaluation metrics of their staff.

Among associated developments, RuPay – an Indian domestic debit card – was introduced on 26 March 2012 by the National Payments Corporation of India (NPCI). It has been a game changer in creating better digital infrastructure and enabled faster penetration of debit card culture.

The progress of financial inclusion

Faster implementation of FIPs is seen after 2010-11. Commercial banks opened new rural branches, increased coverage of villages, set up ATMs and digital kiosks, deployed BCs, opened no-frills

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accounts, and provided credit through KCCs and GCCs. The introduction of core banking technology and proliferation of alternate delivery channels aided the process of inclusion on a larger scale. The statistics on key banking network give a sense of the pace of progress of banking outreach as part of FI.

In the last 7-8 years, banks have expanded their presence, and differentiated banks – payments banks and small finance banks – are set to take this further. When banks began pursuing three-year FI policies, innovations in providing better access to appropriate financial products and services came up. There was more focus on making banking accessible to vulnerable groups. Mainstream institutional players integrated fairness and transparency as part of their offerings, with basic products well-understood by the masses. As a result, FI became a critical factor for inclusive growth and development. Banks also realised that it can be an effective means for cross-selling and business growth.

Table 1.

Progress of financial inclusion at a glance

Parameter of financial inclusion	March 2010	March 2016	March 2017
Number of Bank branches in villages	33,378	51,830	50,860
Number of Business Correspondents (BCs)	34,174	531,229	543,472
Number of other forms of banking touch points	142	3,248	3,761
Total number of banking touch points	67,694	586,307	598,093
Number of BSBDA* (in millions)	73	469	533
Deposits in BSBDA (Amount in Rs. billions)	55	636	977

Note: *Basic Savings Bank Deposit Account is a no-frill savings account without the need to maintain minimum balance and where no charges are levied.

Source: Annual Report of RBI, 2016-17.

The tectonic shift in financial inclusion

The biggest change came with the roll out of '*Pradhan Mantri Jan Dhan Yojana*(PMJDY)' in August 2014. PMJDY has been designed to ensure accelerated access to various financial services like basic savings bank accounts, affordable, need-based credit, remittances facilities, and insurance and pension for excluded sections. Such deep penetration at affordable cost can only be possible with effective use of technology. Hence, the banking ecosystem operating on core banking mode, and ability of NPCI to scale-up issue of debit cards has enabled effective implementation of PMJDY. As a result, the number of new savings accounts opened by the banking system has been phenomenal under the scheme. The progress since its inception is interesting to observe.

Added to the ongoing FI schemes, financial literacy and digital literacy campaigns of banks were closely monitored by RBI. FI got renewed thrust with the launch of PMJDY because apex forums of RBI and Ministry of Finance monitored its focus. This has added a new dimension to the progress of FI by opening bank accounts on a large scale on mission mode. The benefit of such mass accretion to the customer base is expected to provide immense benefit to consumers and banks in the coming years.

Table 2.

Progress of PMJDY up to 9 May 2018

Group of banks	Number of new savings bank accounts opened (in millions)	Deposits accumulated (in Rs. millions)	No of debit cards issued (in millions)
Public sector banks	255.3	652182.50	192.00
Regional rural banks	50.7	137170.30	36.80
Private sector banks	09.9	22681.30	08.20
Total	**316.6**	**812035.90**	**238.00**

PMJDY website

Measurement of financial inclusion

The progress of implementation of FI has to be measured to decide on future policy framework. It is believed that when banks embarked on the formal journey of FI, hardly 40% of Indian adults had savings accounts, with only a small fraction receiving credit from the banking system. Though there is lack of concrete data on the achievement levels, informal data suggest that about 62% of adult Indians are now covered.

India's first FI index was launched in 2013 based on four critical dimensions: (i) branch penetration, (ii) deposit penetration, (iii) credit penetration, and (iv) insurance penetration. The last dimension was added for the first time to make the index much more comprehensive. CRISIL Inclusix measures progress on FI down to the level of each of the 666 districts in the country in 2013 (as against 717 now). The index is based on data provided by RBI, the MicroFinance Institutions Network (MFIN), and the Insurance Information Bureau of India.

The index readings for fiscal year (FY) 2015-16 (the latest period for which data are available) show that FI has improved significantly, with the all-India score rising to 58 in FY 2015-16, compared with 50.1 in FY 2012-13. The PMJDY and RBI's steadfast focus on unbanked regions have made a big difference.

As many as 600 million deposit accounts were opened between FY 2012-13 and FY 2015-16, which is twice the number between 2010 and 2013. Nearly a third of this was on account of PMJDY. This gets well reflected in the deposit penetration index of CRISIL Inclusix.

There has also been a sharp incremental rise in number of people availing credit, to 31.7 million. This figure includes loans extended by banks and microfinance institutions together in the two years up to FY 2015-16, which is the highest since FY 2012-13. Notably, microfinance institutions contributed significantly to the financially under-penetrated regions. The Digital India initiative, payment banks, and small finance banks have all helped improve the outreach of formal financial services to economically disadvantaged sections of the populace and geographically remote regions.

Global Findex

Besides domestic measurement of FI, there are global institutions such as World Bank that measure the progress of FI across countries. World Bank started capturing data on FI in 2011, once in three years. The latest edition of the Global Findex (GFX), which came out in 2017, shows that 515 million adults worldwide opened an account at a financial institution or through a mobile money provider between 2014 and 2017. This means that 69% of adults globally now have an account, up from 62% in 2014, and 51% in 2011. In high-income economies, 94% of adults have an account; in developing economies the figure is 63%. There is also wide variation in account ownership across countries.

India's GFX was 35 in 2011, 53 in 2014, and 80 in 2017. This reflects a speedy improvement in FI, suggesting that relevant Indian policies in the last few years have worked well. GFX 2017 stands at 80 for China (79 in 2014), 76 for Russia, 70 for Brazil, 69 for South Africa, 96 for UK, and 93 for US. Given the constraints of poverty, illiteracy, and lack of spread of banking network, the progress under PMJDY is laudable.

Pursuing financial inclusion going forward

FI has been a cherished policy objective pursued with the intent of reaching out to the masses. It is pertinent to draw reference to a profound International Labour Organization (ILO) Declaration of Philadelphia (1944), which states, "Poverty anywhere is a threat to prosperity everywhere." Policymakers in India too had an early realisation that poverty has implications for financial stability, and have endeavoured to ensure that poverty is tackled in all its manifestations and that the benefits of economic growth reach the poor and excluded sections of society by connecting them with mainstream banking. Lack of effective and broad-based financial and digital literacy is inhibiting full-scale implementation of FI. According to Dr. Kanungo, Deputy Governor, RBI, *"This illiteracy transcends across all geographies and regions, not just rural or semi-urban, north or south and is equally true of the staff at the front desks of bank branches. Are we doing enough to educate the public? Should it be the responsibility of the regulator alone? The answer is no. Let us all strive to build consumer awareness consciously and rigorously. An informed customer is a crucial cog in the payment ecosystem"*.

The vision for FI as envisaged by the Committee on Medium-term Path is that over 90% of the hitherto underserved sections of society would become part of formal banking by 2021, and be active stakeholders in economic progress. This is very much possible but it requires concerted efforts by banks and coordinated support of stakeholders. Bank customers should also join the task. There is a strong business case for banks to cater to the underserved sections of the society, given the vast developments in digital technology. In order to sustain the momentum of achieving the FI objectives by setting FIP targets for banks, the third phase of FIPs for the next three years, that is, 2016-19, is in place. Under the third phase, the focus is on more granular monitoring of the progress made by banks under FIPs at the district level.

Moreover, the Financial Inclusion Advisory Committee (FIAC) set up in 2012 has been reconstituted in June 2015 to review FI policies on an ongoing basis and to provide expert advice to accelerate FI. FIAC is mandated to formulate National Strategy for Financial Inclusion (NSFI). Given the recent thrust on digital FI, and in line with international best practices, NSFI also seeks to draw upon the G-20 High-Level Principles for Digital Financial Inclusion, adapted to meet India-specific requirements.

Policy reforms for robust financial inclusion

Having developed a strong FI infrastructure and PMJDY accelerating the progress, the next milestone should be to bring about a mindset and cultural shift among newly connected beneficiaries to derive benefits from the formal financial system by borrowing from banks and repaying loans in time. This can boost micro and small enterprises, and hence alleviate poverty and raise the standard of living of the community at the grass-roots level. The next phase of FI is therefore less to do with policy and more to do with educating people, disseminate financial and digital awareness in the society, and making FI beneficiaries aware about the scope of expanding rural enterprises using their rights to borrow and duty to repay bank loans.

This campaign of literacy will need a multipronged, bottoms-up approach. RBI and banks should coordinate with institutions such as State Education Boards (SEBs), Central Board of Secondary Education (CBSE), University Grants Commission (UGC), and All India Council for Technical Education (AICTE), to include FI as a mandatory subject at different educational levels right from school to higher levels of education, so that the next generation of students become aware of the significance of nurturing good loan repayment culture and the society becomes digitally savvy. The project works of FI should earn better ranking to accelerate the spread of financial and digital literacy.

NGOs, corporate sector, banks, NBFCs (Non-Banking Financial Companies), and government departments currently engaged in FI should be persuaded to increase thrust. Unless using FI infrastructure becomes a mass agenda, the real benefit cannot accrue to the society. Needless to emphasise, global research has already linked poverty alleviation to FI brought about through financial awareness (see, for example, Chibba 2009). Having invested huge sums of money in building FI infrastructure, the next wave of inclusion should be to prompt beneficiaries to use their access to financial services for improving their economic and social well-being.

Notes:

Business Correspondents (BCs) are retail agents engaged by banks for providing banking services at locations other than a bank branch or ATM. BCs enable a bank to provide a limited range of banking services at low cost and are hence, instrumental in promoting FI.

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INDIA IS DOING WELL ON FINANCIAL INCLUSION

PAWAN AGRAWAL*

Poverty, said Nobel laureate Amartya Sen, is not merely lowness of income, but deprivation of basic capabilities.This is a fair point. An inclusive financial ecosystem is quintessential to the social contract. It surmounts both physical and, more importantly, psychological barriers, and helps achieve sustainable economic growth. But it doesn't need a Nobel laureate to underline the ramifications of excluding large swathes from the development process.It is gratifying that our policymakers are seized of this imperative and have been working along multiple avenues to address this. Appropriate frameworks have been, and are being, designed. And, complementing the focused efforts of the government, the Reserve Bank of India (RBI) is propagating financial literacy, which lends sustainability to the inclusion process.

However, putting in those hard yards must be complemented by a dependable yardstick to quantify progress on financial inclusion. This is necessary so that the course corrections needed could be designed and implemented, too. That's where CRISIL Inclusix comes in.India's first financial inclusion index was launched in 2013 with the objective of becoming that crucial gauge and policy input. It is based on four dimensions—branch penetration, deposit penetration, credit penetration and insurance penetration. The last dimension was added for the first time this year as data became available.

CRISIL Inclusix measures progress on financial inclusion down to the level of each of the 666 districts in the country, and is based on data provided by the RBI, the Micro Finance Institution Network, and the Insurance Information Bureau of India. The index's readings for fiscal 2016 (the latest period for which data is available) show financial inclusion has improved significantly in India, with the all-India score rising to 58.0 in fiscal 2016, compared with 50.1 in fiscal 2013.

The score would have been even higher at 62.2 had we excluded the effect of rebasing of the index and inclusion of insurance data. The Pradhan Mantri Jan Dhan Yojana, and the RBI's steadfast focus on unbanked regions, have really made a difference.

As many as 600 million deposit accounts were opened between fiscals 2013 and 2016, or twice the number between 2010 and 2013. Nearly a third of this was on account of Jan Dhan. This gets well reflected in the deposit penetration index of CRISIL Inclusix, which surged over 16 points.On the credit side, there was a sharp 31.7 million increase in new credit or loan (banks and microfinance) accounts in the two years up to fiscal 2016, which is the most since fiscal 2013. Notably, microfinance institutions contributed significantly to the financially under-penetrated regions.

The Digital India initiative, payments banks and small finance banks have all helped improve the reach of formal financial services to economically disadvantaged sections of the populace //and geographically remote regions. Underserved pockets, particularly in the North-East and the east, have logged a sharp rise in credit penetration. The credit penetration index of these two regions is up an average 9 points compared with 6 points at the all-India level.

But despite the strong growth, only 200 million borrowers have had access to credit from formal channels. This is the reason why the credit penetration index of CRISIL Inclusix remained low at 56.0 compared with 78.3 for deposit penetration.

The upshot is clear: concerted efforts are needed to deepen access to formal credit.

In terms of branch penetration, the number of new branches opened by lenders has declined because they are betting more on the digital channels (mobile phones/internet).

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https://www.livemint.com/Opinion/EYDsPA60qlvujdln9SJcdN/India-is-doing-well-on-financial-inclusion. (1 March 2018)

Among regions, the south remains ahead by a wide margin, but other regions are catching up thanks to the spread of microfinance, particularly in the east.

However, the inclusion of insurance data moderated the overall Inclusix scores for most regions, except the west and the east, which have maintained their performance.

Among states, Kerala was well ahead with a CRISIL Inclusix score of 90.9, while Rajasthan moved up from "below average" to "above average" and Haryana from "above average" to "high".

The upshot from the scores is that financial inclusion can spread faster if there is sharper focus on enhancing branch and credit penetration beyond south India. Policy makers need to continue incentivizing branch and credit penetration in districts with low CRISIL Inclusix scores. Coverage through protection-linked insurance and pension schemes also needs to be ratcheted up significantly.

There is still a long way to go before India reaches acceptable levels of financial inclusion, but there's little to complain about the policy approach today. More of a good thing would serve very well here.

Given CRISIL Inclusix's modular construction, we look forward to more data—both consistent and comprehensive—on other financial services and providers, too, to make the index even more rounded. To build on Amartya Sen's point, inclusive growth also would mean going beyond simple access to formal finance. It's great to see that concerted efforts are being made in aid of this.

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DESPITE INCREASED AVERAGE INCOME, FARMERS' DEBT REMAINS AN ISSUE

SIRAJ HUSSAIN*

This is part one of a two-part series that critically analyses NABARD's financial inclusion survey.

On August 16, the vice-chairman of Niti Aayog released NABARD's All India Rural Financial Inclusion Survey, appropriately named 'NAFIS', which in Urdu means decent. NABARD management has truly acted 'NAFIS' by commissioning this detailed survey and then publishing its finding rather quickly. The survey was conducted between January 2017 and June 2017, covering 40,327 households in 245 districts spread across 29 states. The reference period for agriculture related data was from July 1, 2015 to June 30, 2016 (agriculture year, AY, 2015-16).

In its survey, NAFIS includes semi-urban places having a population of up to 50,000. At an all India level, NAFIS sample of households includes 84% rural and 16% urban households. But in several states, semi-urban households had a higher ratio (Kerala 57% and Tamil Nadu 40%). NAFIS defines an agricultural household as one that received value of produce exceeding Rs 5,000 during FY 2016 from agricultural activities. Other households were classified as non-agri households.

The National Sample Survey Office (NSSO), Ministry of Statistics and Programme Implementation, conducted a Situation Assessment Survey of Agricultural Households (SAS) in its 70th round (January – December, 2013). Data was collected from 4,529 villages in 35,200 households and it was published in December 2014 as 'Key Indicators of Situation of Agricultural Households in India'. Semi urban areas were not included in this survey and an agricultural household was defined as one that had received Rs 3,000 as value of annual agricultural produce.

It is clear that the two surveys are not entirely similar and as compared to SAS, NAFIS may have overstated the income of households because its level of threshold income to be categorised as an agricultural household is 67% higher than under the NSSO survey.

Any sample survey, however, has several limitations as the sample may not correctly reflect the reality of rural population in a complex scenario under which there are wide inter-state and intra-state variations of climate, cropping pattern, farm size, irrigation coverage, literacy, penetration of banks, procurement policies and population density. Thus, out of 97,825 villages in UP, NAFIS has collected data from only 192 villages. We do not know if all the agro-climatic regions in the states were covered. Despite its limitations, the country now has access to an independent source of data not only on farmers income, which is flavour of the season, due to the government's promise to double farmers' income by FY 2023, but also on consumption, household savings, investments, indebtedness, micro-finance and even financial knowledge of households. NABARD deserves compliments for this meticulous work

NAFIS finds that the monthly income of agricultural households in AY 2016 was Rs 8,931. As per SAS, average monthly income of an agricultural household in January-December 2013 was Rs 6,426. Based on this data, a government committee on doubling of farm income (Dalwai Committee) calculated that an average agri-household earned Rs 8,059 in 2015-16.

Even though SAS and NAFIS data are not comparable, there is an impressive increase of 39% in nominal income of agri-households between 2012-13 and 2015-16. This is even before the government's implementation of new schemes of crop insurance (Pradhan Mantri Fasal Bima Yojana), e-NAM, soil health cards, Pradhan Mantri

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Krishi Sinchai Yojana and announcement of substantial hike in MSPs (in Kharif 2018).

Income data presents a positive outlook

The data of income for states presents an even more positive outlook. In the three-year period, nominal monthly income of agri-households in Bihar increased from Rs 3,558 to Rs 7,175 (an increase of 101.6%) and in West Bengal from Rs 3,980 to Rs 7,756 in WB (increase of 94.9%). However, the income in J&K decreased from Rs 12,683 to Rs 9,355 per month, perhaps due to floods in September-October 2014. It is possible that agri-households in WB, a top performing state under MNREGS, may have earned relatively higher income from wages under the scheme. But Bihar continues to perform poorly under MNREGS and agri-households may have found employment in other states, which may have contributed to such a high increase in three years. In any case, wages under MNREGS in Bihar and WB in 2018-19 are Rs 168 and Rs 191 respectively, while the minimum wage fixed by these states are Rs 237 and Rs 234 respectively.

NAFIS has not provided segregated data of source of income of households for each state. Therefore, the real drivers of high growth in income of farmers in Bihar and WB remain unexplored. To get a fair sense of what is driving the income of agri-households in various states, we may have to wait for the next SAS and NAFIS, which will capture the data for AY 2018-19. One hopes that both the organisations will not change the methodology for collection of data so that actual progress in agriculture and in rural economy can be analysed.

NAFIS also provides information on distribution of households by monthly income. 50% of all households (in rural and semi-urban areas surveyed) earned less than Rs 5,500 per month in 2015-16. This low level of income confirms the impoverishment of rural areas and the urgency of increasing their income from sources other than cultivation of crops. The survey also shows that smaller the size of landholding in the household, larger is the share of income from livestock rearing. With rising incidents of violence against traders of animals, there is every possibility that future surveys of NSSO and NAFIS may show a decline in income from rearing of animals. It is likely to affect small and marginal farmers and landless households more adversely than other households.

This survey, like SAS earlier, confirms that wage labour provided 34% of income of agri-households. In case of marginal farmers, the share of wage labour was more than 40%. In case of non-agri households, 54% of income came from wage labour. It is clear that generating employment in labour intensive sectors like agro industries, construction and textiles is crucial for increasing the income of rural and semi-urban households. The downturn in construction industry would have hit the income of both agri and non-agri households and is likely to reflect in subsequent surveys.

Savings and indebtedness

The NAFIS data on household savings is not only surprising but also reassuring. About 55% of agri-households informed that they had saved money in the previous year. The north-eastern states showed higher level of savings with more than 90% households confirming that they had saved. Surprisingly only 21% households in Punjab and 23% households in Haryana mentioned any savings. It is surprising that the states having highest income are saving the least. It is however heartening that 94% savings are in institutional agencies. Out of annual income of Rs 1.07 lakh, the agri-households saved Rs 9,657 which is a handsome 9% of annual income. Poor households in rural India are thus setting an example for showing a mirror to much better off urban India!

Another important finding of the survey is high level of indebtedness (defined as presence of any outstanding loan). Similar to level of indebtedness in SAS, about half (52.5%) of agri-households confirmed in NAFIS also that they were indebted. The level of indebtedness rose with the size of landholding in the household. Bihar (48%) and WB (37%) show much lower level of indebtedness than AP (76%) and Telangana (79%). Thus the correlation between indebtedness and suicides is rather clearly established. It is, however, a matter of further research why agri-households in these two states are so highly indebted.

NAFIS has provided new insights into the conditions of households in rural and semi-urban areas which would be useful to policy makers in addressing specific challenges in various states. The data again proves that state specific policies are required to enable agri and non-agri households in rural and semi-urban India earn a decent income.

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DESPITE PENETRATION OF INSTITUTIONAL CREDIT, FARMERS CONTINUE TO RELY ON MONEYLENDERS

SIRAJ HUSSAIN*

This is part two of a two-part series that critically analyses NABARD's financial inclusion survey.

As an institution providing refinance to cooperative and regional rural banks for agricultural credit, NABARD's interest in understanding the extent and width of coverage of farmers for obtaining crop loans is only natural. NABARD therefore devotes several chapters in its All India Rural Financial Inclusion Survey (NAFIS), to financial issues (household savings, investments, indebtedness, insurance and pension, microfinance and financial knowledge) of agricultural and non-agricultural households. Since indebtedness of farmers is considered a major factor leading to farmer suicides, a detailed examination of the survey findings would be in order.

The All India Debt and Investment Survey conducted by NSSO in its 70th round had found that as on June 30, 2012, 35% of cultivator households were indebted. NAFIS finds that in AY 2015-16, 47% of agri-households were in debt. Though the sample in two surveys is different we get a sense of increasing penetration of credit to farmers.

Launched by the A.B. Vajpayee government in 1998, the kisan credit card (KCC) scheme enables farmers to get credit limit to purchase crop seeds, fertilisers, diesel and other inputs at 4% interest (if loans are repaid in time). The farmer can draw money to the extent of limit sanctioned, as per requirement and as many times as she wants. For every crop cycle, the farmer does not have to go to a cooperative or bank for sanction of loan. NAFIS found that only 10.5% agricultural households held a valid KCC.

The Situation Assessment Survey of Agricultural Households during the NSSO's 70th round(January – December, 2013) had found that out of 15.6 rural households in the country, nine crore were agricultural households. According to a reply given in Lok Sabha on March 9, 2018, there were 2.77 crore active KCCs as on March 31, 2017. Even though NAFIS left out agricultural households earning less than Rs 5,000 per month from agri and allied operations, the penetration of KCCs at 10.5% appears rather low. In states having poor coverage of KCC, a massive drive of inclusion is required to disseminate benefits of borrowing through KCCs rather than going to money lenders for loans.

The survey however, finds that agri-households which had a KCC, reported that against an average borrowing limit of Rs 1.39 lakh, amount drawn was Rs 91,000. It shows that the scheme has largely facilitated drawing of credit for agricultural operations by reducing procedural hassles of getting loan sanctioned for each crop cycle. However, lower drawings show that lack of confidence of earning enough profit to be able to repay the loan in time.

Borrowing from non-institutional sources

In a worrying finding from the survey, it is observed that 30.3% of agri-households still borrowed money from non-institutional sources like money lenders, relatives and input suppliers etc. About 9% agri-households borrowed from both institutional and non-institutional sources. In another encouraging sign of reducing dependence on money lenders, the NAFIS survey finds that out of average borrowing of Rs 1.07 lakh in AY 2015-16, agri-households borrowed about Rs 30,000 (28%) from non-institutional sources. Lengthy process for sanction of loans by institutions, demand for collateral security, and short term of (crop) loan were cited as reasons for seeking loans from non-institutional sources. NABARD has its task cut out for increasing the penetration to small and marginal farmers.

*Former Secretary of Agriculture and Farmers' Welfare (GoI) and currently visiting senior fellow at ICRIER.*Reproduced with permission of The Wire

In another worrisome sign of dependence on money lenders, the NAFIS survey finds that out of average borrowing of Rs 1.07 lakh in AY 2015-16, agri-households borrowed about Rs 29,000 from non-institutional sources (27%). Lengthy procedure for sanction of loans by institutions, demand for collateral security and short term of (crop) loan were cited as reasons for seeking loans from non-institutional sources. NABARD has its task cut out for increasing the penetration to small and marginal farmers.

NAFIS also covers the penetration of crop insurance, finding that out of households which had taken any loan for agricultural operations, only 6.9% reported they had any crop insurance. It is thus a myth that banks deduct the insurance premium from all farmers who have taken loan on KCC. Premium is payable only on crops notified by the state government.

It is no surprise that only 1.7% of agri-households owning milch animals reported insurance for their livestock. The plight of uninsured agri-households who lost their animals and other agri-assets in the Kerala floods of August 2018 can only be imagined. In fact, while launching the Pradhan Mantri Fasal Bima Yojana (PMFBY), in April 2016, the government came up with a package insurance scheme under which in addition to crop insurance, the farmers had the option to buy insurance cover for fire, animals, pump set, tractor and personal accident. However insurance companies have not been successful in selling it due to high cost of marketing of diverse risks in a single insurance policy. The government has done well to keep premiums under PMFBY very low. Certain policy reforms in PMFBY and concerted effort by state governments (to conduct crop cutting experiments in a timely transparent manner) and insurance companies (to ensure timely settlement of claims) will surely result in increase in coverage of crop insurance and possibly other insurance products also.

Reach of microfinance institutions

NABARD did well to seek information about reach of microfinance institutions (MFI) in meeting credit needs of households. At the national level, 23% of households had at least one member associated with an MFI, but the data is skewed. The all India average in high only because a few states like AP (61%), Telangana (65%), Odisha (44%) and Karnataka (40%) reported higher reach. UP, Rajasthan, Punjab and Haryana have less than 10% coverage of MFI. Odisha and Jharkhand (27%) have demonstrated that deep engagement with reputed NGOs (like Pradan) can help in increasing the reach of MFIs to even the most backward districts. The survey found that MFIs meet needs for personal loans for which institutional finance is not easily accessible.

Expansion of financial inclusion through Pradhan Mantri Jan Dhan Yojana has been one of the major achievements of Modi governments. About 32.17 crore accounts have been opened as on July 25, 2018. Out of these, 18.97 crore are in rural and semi-urban areas. But, in states like UP, where household earning is as low as Rs 6,668 per month, it is worthwhile to consider how many would deposit their cash income and then withdraw the same.

It is rather heartening that about 73% of survey respondents said they can use an ATM without anyone's help and 52% can use internet banking. If it correctly reflects ground reality, it should be possible to switch to direct benefit of transfer (DBT) of food subsidy in states having high literacy, good road network and deep penetration of banks and telecom infrastructure. Rather than forcing beneficiaries to authenticate their identity through Aadhaar every month in states not having surplus food grains and poor internet infrastructure (like Jharkhand), the government should be switching to DBT in food surplus and developed states like Punjab, Haryana, AP and Karnataka.

A commendable attempt

NAFIS 2016-17 is a commendable attempt to collect and analyse data of rural and semi-urban India. There are several surprises in the survey and a more detailed analysis of data will require state level tables for every chapter covered in the report. In a vast country with acute disparities in literacy, income, availability of ground water, cropping pattern and marketing network, it is only natural that a uniform national strategy for agriculture sector will not work.

In March 2015, the government had set up a task force on agricultural development under Arvind Panagariya, then vice-chairman of Niti Aayog. Based on the work of the task force, a solitary paper titled 'Raising Agricultural Productivity and Making

Farming Remunerative for Farmers' was published by Ramesh Chand in December 2015. The Niti Aayog had also asked states to set up state-level task forces to prepare reports suited to the specific state. Some states did prepare their reports, but the exercise was not pursued and a good opportunity to document the specific action points for each state was lost. This survey itself indicates that there are success stories in several states which need to be replicated in other states.

Like previous NSSO surveys, this meticulous effort will also have a short shelf life. It would therefore be appropriate for NABARD to quickly organise a conclave to reflect on the findings and tweak policies to make farming viable.

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THE JAN-DHAN YOJANA, FOUR YEARS LATER

ROHIT AZAD* AND DIPA SINHA**

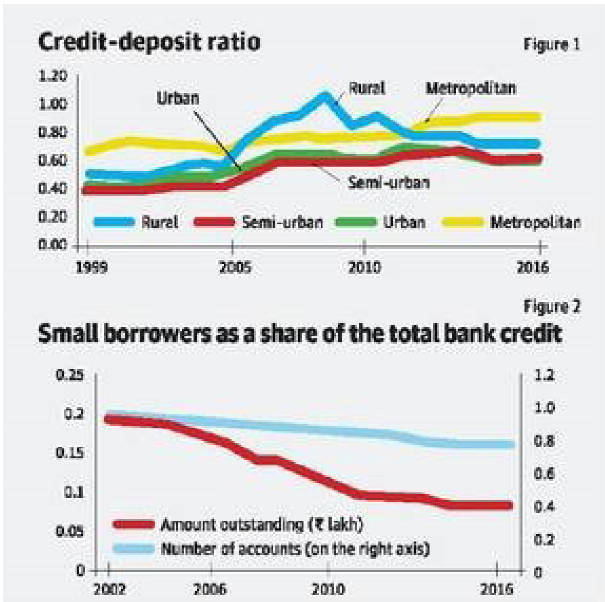
The Pradhan Mantri Jan-Dhan Yojana (PMJDY), one of the flagship schemes of the present government, was launched in August 2014. The 'J' in JDY is the 'J' in 'JAM' (Jan Dhan-Aadhaar-Mobile) through which the Economic Survey of 2015 claimed that "every tear from every eye" could be wiped. As the Narendra Modi government enters its fifth year, a critical evaluation of the scheme is in order, especially since this is one of the schemes through which the government is trying to battle its anti-poor image.

The recently released World Bank Global Findex data show that 80% of Indian adults now have a bank account, which is being celebrated as the success of the JDY. While the increase in the proportion of adults having bank accounts is indeed impressive (80% in 2017 from 53% in 2014), 48% of those who have an account in a financial institution made no withdrawal or deposit in the past one year.

Financial inclusion is not just about opening bank accounts, but also about using these accounts and providing access to formal credit. In fact, the major limitation of the JDY has been that while it has managed to get many people to open bank accounts, there is no commensurate increase in the use of these accounts, availability of formal credit, or savings in financial institutions, especially among the country's marginalised and poorer sections.

Access to formal credit

One of the ways in which access to credit can be assessed is the credit-deposit ratio, which tells us how much credit can be availed per ₹100 of bank deposits by a particular population group. The Reserve Bank of India (RBI) categorises the population into rural, semi-urban, urban, and metropolitan. We look at the first two regions specifically where one would expect the poorer beneficiaries to be present in larger numbers. Figure 1 shows that the credit-deposit ratio for the rural population increased from 41% in 1999 to 66.9% in 2016. However, much of the rise took place before the JDY was launched, particularly during the tenure of the United Progressive Alliance-1 government, when the credit-deposit ratio increased from 43.6% in 2004 to 57.1% in 2009. Since 2014, it has more or less stagnated in rural areas and has deteriorated slightly from 58.2% in 2014 to 57.7% in 2016 for semi-urban populations. Therefore, there is no sign, at least on this count, of increased access to formal credit that the PMJDY is supposed to have ensured for its beneficiaries.



To get a more accurate picture of access to credit for poorer populations, we look at the data by credit size. The RBI provides figures for credit at a disaggregated level in terms of small versus large borrowers. Small borrowers are defined as

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those with outstanding loans under ₹2 lakh. And the picture here is no better. The share of small borrowers in total credit has also been falling during the Modi government (Figure 2). In fact, it has been falling since 2002. While the decline in the share during the 2004-14 period can be explained by the dramatic rise in corporate credit of large borrowers, there is no reversal in this trend even after the rate of growth of credit fell in general in more recent times as a result of rising non-performing assets and the debt overhang of public sector banks. Even in 2016, the best year under Mr. Modi on this count, it merely matches the lowest rates of growth witnessed during the crisis period of 2009-10. Based on these trends, it can be argued that there seems to be no increase in access to credit for the poor whether as a result of the JDY or otherwise. At best, the status quo has been maintained.

To further probe access to credit for small borrowers, we look at these loans in two categories — agricultural credit and personal loans — which are more likely to be the ones which JDY beneficiaries will be using as against industrial or other loans. The data show that while the share of small agricultural credit has stagnated during this regime, that of the small personal loans, which covers home, vehicle, durable goods and so on, has fallen.

Dealing with money lenders

Poor households in India, in the absence of access to formal credit, have to deal with moneylenders who charge exorbitant rates of interest. This is one of their biggest worries. A recent source that is available in this regard is the Household Survey on India's Citizen Environment and Consumer Economy, 2016, which shows that while for the top 1% of the population, one in six are exposed to informal credit, within the poorest section of the population, the figure is four times as high, with two in three taking credit from informal sources. Access to bank accounts seems to have had little effect on their dependence on private money lenders.

About the issue of money lenders, a study by the RBI in 2017 states: "We document high levels of unsecured debt, and perhaps more importantly, debt taken from non-institutional sources such as moneylenders. Such debt generates high costs for Indian households, and... is likely to lead to households becoming trapped in a long cycle of interest repayments. We note that this phenomenon has been well-documented over the decades, but nevertheless remains stubbornly persistent." Therefore, it is not surprising that the report finds that nearly half of the households that take loans from moneylenders are not able to repay them in time, which is a typical condition for a debt trap.

To conclude, the available evidence presented so far does not suggest that the precarious conditions of indebtedness that poor people of this country find themselves in has seen any signs of abating as a result of the JDY.

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PERCEPTIONS OF BANK ACCOUNT HOLDERS ABOUT PMJDY – A STUDY ON BAIKHORA REGION OF SOUTH TRIPURA

RAJAT DEB* AND PRASANJIT DAS**

ABSTRACT

The study has explored the motivating factors of the respondents of Latuatila village, Baikhora region under Santirbazar sub-division, Tripura South, Tripura, India for opening bank accounts under PMJDY and their preference for nationalized banks. An interview schedule comprising of 37 questions has used to collect data in three stages from a sample size of 125 respondents chosen using different non-probability sampling techniques which subsequently has processed through IBM SPSS-20. A protocol interview with 10 experts followed by a pilot survey with 30 respondents has carried out to check the validity of the questions; reliability and sample adequacy test has also performed. Through Factor analysis, four major factors have extracted. Several statistical tests like Independent Sample t-test, Cross-tabulation, Regression analysis has used to test the hypotheses. The empirical results have indicated the catalysts like demographic characteristics, service quality and scheme benefits. Policy lags and perceptions about private banks have attracted the respondents to nationalized banks. The public sector banks may incorporate the results in their strategic policy formulations to attract the potential customers and may frame course of actions to compete with the tentative private players in PMJDY. The study offers policy relevance, acknowledges few limitations and indicates the future research agenda.

Keywords: PMJDY, Financial inclusion, Independent Sample t-test, Cross-tabulation, Regression analysis

JEL Classification: C83, C88, D14, G21

Paper Classification: Research Paper

INTRODUCTION

The term 'financial inclusion' has been coined differently by different sources. According to Rangarajan Committee Report (2008) and Chakrabarty (2011) as uniform access to different financial services by the underprivileged groups of the society at an affordable cost; equitably as well as transparently (Sarma, 2008; Solo, 2008); a desire to develop alternative, reliable and affordable access to finance (Fuller & Mellor, 2008) and as a tool to alleviate poverty (Alpana, 2007). The Government of India has adopted many measures to include the excluded under the formal banking services, but the target is still far away. Research on financial exclusion has broadly explained 'exclusion' as those hindrances which prevent unbanked people to avail the benefits of the formal financial system (Leyshon & Thrift, 1995; Carbo et al. 2005), roadblocks for poor to access (Conroy, 2005) and lack of access by certain sections of the masses (Mohan, 2006). Further, studies in

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abroad has identified factors responsible for such exclusion is ranging from low-income, ethnic minorities, immigrations (Kempson & Whyley, 1998; Connolly & Hajaj, 2001; Barr, 2004); income inequality (Kempson & Whyley, 1998; Buckland et al., 2005); unenthusiastic attitude by banks (Kumar & Golait, 2009); unemployment (Goodwin et al., 2000); to access, condition, price and self- exclusion (Anderloni & Carluccio, 2005).

Iyer (2015) has reported that, motive for financial inclusion in India is to provide saving, investment and insurance benefits to the poor and the vulnerable mass at an affordable cost. The central bank of India (Reserve Bank of India or RBI) a decade ago has started the initiative for financial inclusion-to cover the banking shadow under the formal banking orchestra, where banks have entrusted the key role. Although efforts like organising awareness programs, employment of business correspondents (BCs) in rural areas, introduction of no-frill accounts, provision for general credit cards with overdraft facilities, introduction of Financial Literacy project, setting up of different funds, bank branches in commercially unviable areas of north eastern regions on cost-sharing basis with the respective state governments, to open Basic Saving Bank Deposit (BSBD) accounts, simplifying Branch Authorization Policy, relaxing KYC norms, compulsory requirement of opening branches in unbanked villages, revising guidelines on Financial Literacy Centres (FLCs), priority sector lending by banks, interest rate subvention for agriculture has been taken by RBI; some pockets are remain excluded like north-eastern region, as only 58.7 percent (Census Report, 2011) population are accessing formal banking services. Researches has validated that the reasons for exclusion in India are many fold e.g., implementation issues (Ramasubbian & Duraiswamy, 2012); inter-state variations (Kuri & Laha, 2011); low-level of education (Devlin, 2009), want of access by certain groups of the society (Mohan, 2006) and skeptical performance of self-help groups (SHGs) in delivering micro credit (Meyer, 2003).

The Pradhan Mantri Jan-Dhan Yojana (hereafter PMJDY) has been launched by the Prime Minister of India on 15th August, 2014, as a step towards the holistic financial inclusion. The name and the logo of PMJDY have chosen through an online competition on the MyGov Platform with the slogan- 'Mera Khata – Bhagya Vidhata' (my account, my fortune). The unique features of the scheme include:

- The account holders will get interest on their outstanding credit balances;
- Account holders will get an accidental insurance coverage of INR. 10 million along with life insurance coverage of INR .03 million;
- No minimum (floor) balance is required and money can easily be transferred across the country;
- direct cash transfer and accessibility of overdraft facility after satisfactory operation of 6 months; and access to pension, insurance products and Rupay Debit Cards.

The relevant literatures have been thoroughly studied, based on which the hypotheses and pertinent items of the schedule area designed. Literature have indicated that studies has attempted globally on multiple dimensions of financial inclusion, e. g. penetration (Bhanot, Bapat, & Bera,2012); importance (Rather & Lone, 2014; Sharma & Kukreja, 2013; Samant, 2010; Ravichandran & Alkhathalan, 2009; Rupambara, 2007; Fuller, et al., 2006); role of banks (Mukherjee, 2012; Rachana, 2011); correlation with consumption smoothing (Taylor, 2012); business models (Raj, 2011); barriers to inclusion (Chann, Moodithaya & Handy, 2012); frameworks for study (Sharma, 2009); role of ICT (Garg & Agarwal, 2014); recent trends (Khuntia, 2014); and strategy formulation (Thaper, 2013). As PMJDY was recently launched and literature suggest that no study so far been attempted in north-east India in general and in Tripura in particular, which has motivated us to take up the present research agenda. The scope of the study is confined to the bank account holders under PMJDY in the Latuatila village, Baikhora region under Santirbazar sub-division, Tripura South, Tripura, India since studies in abroad has also concluded that living in remote places is one of the reason for financial exclusion (Kempson & Whyley, 2001; Ford & Rowlingson, 1996; Leyshon & Thrift, 1995).

The present study seeks to unearth the factors which motivate the respondents to open bank accounts under PMJDY and to detect the reasons for their preference for public sector banks. The reminder of the paper has built up as: the setting of the study has framed in section 2 and research method in section 3 respectively. In Section 4 the findings has presented while the interpretation of those findings are offered in section 5. The conclusions have drawn in section 6 and the scope for implementations of the findings has enumerated in section 7. The last section has indicated the future research agenda.

LITERATURE REVIEW

The prior studies carried out in related Government schemes domestically and in abroad has been extensively analyzed. As PMJDY has recently been launched (August, 2014), the academic research is not carried out in large numbers; although the findings of the relevant studies is incorporated in this section which has provided the basis for the formulation of hypotheses and pertinent items of the interview-schedule.

Gender and Savings

Prior studies has documented that women are lacking confidence and prefer risk-averse savings avenues (Byrnes & Miller, 1999; Deaux & Ennsuiller, 1994), use to save largely in lower volatility instruments (Lewellen, 1975; Chow & Rielly, 1992; Jianakoplos & Bernasek, 1998; Sunden & Brian, 1998), has a stronger preference for savings than men (Jelinek & Schneider, 1998). So, the present study hypothesizes that:

H_1: Respondents' gender has an influence in opening bank accounts under PMJDY.

Age, Income level, Education level, Marital status and Savings

Literature has indicated the influence of demographic characteristics towards savings behaviour e.g., positive attitude by youths (Danzinger, Van der Gaag, Smolensky, & Taussig, 1982; Hurd, 1987, 1990; Guariglia & Rossi, 2002; Yao, et al., 2011; Friedline & Song, 2013), by graduates (Kumbhar, 2011; DeVaney, Anong & Whirl, 2007), levels of income (Burbridge & Robb, 1985; Avery & Kennickell, 1991; Bosworth, Burtless & Sabelhaus, 1991; Browning, 1995; Browning & Lusardi, 1996; Lusardi, 2003; Mohammed, 2012) and marital status (Cohn, Lewellen, Lease & Schlarbaum, 1975; Xiao & Noring, 1994; Masson, Kremers & Horne, 1994). Thus, the second hypothesis is set as:

H_2: Respondents' non-gender demographic characteristics have an influence in the decision to open bank accounts under PMJDY.

Service expectations and banks

Literature has suggested that customer satisfaction and service quality are the important objectives of a business organization like a bank for long term growth (Jham & Khan, 2008; Rai, 2006; Parsuraman, Zeithaml, & Berry, 1994) and word of mouth (WOM) plays a pivotal role in that growth process (Godes & Mayzlin, 2004). Hence the present study hypothesizes that,

H_3: Service expectations have an influence in the decision to open bank accounts under PMJDY

Principal and Secondary benefits of Bank Accounts

Research works on financial inclusion in India has offered multiple findings, e.g., 'social banking' can be an instrument (Bhuvaneshwari & Pushpalatha, 2013), evaluation of progress affect the current status (Nanjibhai & Ranparia, 2013), focus should be on creating financial literacy campaign and training on mobile banking and e - banking (Dangi & Kumar, 2013), providing banking and other financial services to citizens accessibly, transparently and economically Paramasivan & Kumar, 2013), highlighted government's efforts in financial inclusion process and its achievement (Supkar, Satpathy & Patnaik, 2014) and strategies to attain universal coverage of the underprivileged population (Khuntia, 2014). Further, amongst the alternative avenues for investments, bank deposits are the most popular (Priyadhanlaxmi & Dhanlaxmi, 2014); the choice of individual account holders is affected by timing of investment and saving motives like insurance benefit (Kasilingam & Jayapal, 2012) and expected returns (e.g., Easton & Monahan, 2005; Easton & Sommers, 2007). Thus, the present study hypothesizes that,

H_4: Principal and secondary benefits of bank accounts have an influence in the decision to open bank accounts under PMJDY.

Research Methodology

This section is designed in the following sub heads.

Research Design

The present study has used cross sectional (survey) research design and the study has carried out at a particular point of time (during January-May, 2015). The survey approach was used since the objectives of the study is to understand the wider overview (Fisher, 2007) of respondents' perception about PMJDY; to produce quantitative details of the studied population (Pinsonneault & Kraemer, 1993; Groves, Fowler, Couper, Lepkowski, Singer, & Tourangeau, 2004) and since the context has specific objective (Malhotra, 2010; McDaniel & Gates, 2010).

Schedule Development

An interview-schedule was used as a tool to data collection since people are unwilling to give truthful answers to the questions that invade their personal finances (Churchill, 2001; Malhotra, 2005). The items in the schedule have been developed in the following ways:

Firstly, The researchers have accessed the University digital library sources and searched especially the e- journals of prominent publishers with the key words such as *saving behaviour, social saving schemes, precautionary saving, gender and saving, banking services* and have downloaded the relevant papers. Thereafter they have extensively reviewed those papers to generate a 45-items inventory.

Secondly, protocol interviews (Diamantopoulos, Reynolds & Schlegelmilch, 1994) were arranged with ten experts to assess their expertise about the validity of the items and doubts are duly clarified by them. Experts have voted on whether the items and underlying constructs used is (i) important, (ii) measurable and (iii) feasible to accomplish. The mean score for accepting any such item is set as seven. In all, from the 45- items, 40 items is retained for the pilot study.

Thirdly, a pilot study was conducted using convenient sampling technique with a sample size of 30 respondents; as suggested by Zikmund & Babin (2012) to check the clarity, relevance and completeness of the items. The outcome of the pre-test has reduced the number of items to 37, which is retained for the final survey. Further, the wording and rank of the items is marginally modified as indicated from the pilot study and as per the suggestions of the experts.

The values of the Cronbach's alpha of the items of pre-test is as follows: *.897, .778, .672, .901,.6 73,.598,.612,.704,.685,.903,.885,.456,.672,.626,.589,.716,.876,.804,.751,.687,.488,.587,.732,.688,.635,.733,.698,.622,.606,.708,.595,.643,.674,.666,.782,.611,.632,.653,.707,.658*.

Items having alpha value above .5 were retained for the final survey.

Finally, the 37-item scale which was developed from the pre-test is administered to a large sample.

Sampling Design & Sample Size

The primary data is collected using multi-stage research design.

Firstly, the present study assumed all the bank account holders under PMJDY in Baikhora locality are the study population of which 125 such account holders were selected in different steps. To collect the data, the enumerator has approached United Bank of India (UBI) Baikhora branch to provide the list of bank account holders under PMJDY, with prior approval from the Department of Commerce, Tripura University. The bank officials have provided a list of 69 account holders' name and address.

Secondly, on the basis of the list, the enumerator has contacted with all the account holders, explained them his motive and requested them to volunteer in the study. During the weekly haat (market) day the enumerator has collected the data along with their interviews.

Finally, in course of interview with the respondents, the enumerator has gathered details of other account holders who have opened bank accounts in other banks under the scheme. Based on that, using Snowball technique, 70 account holders were requested to participate in the study of which 56 has given their consent. Accordingly the survey was executed on 56 respondents and the eventual sample size has reached to 125; the sample size computed as per the guidelines of Roscoe's (1975), Tabachnick & Fidell (2013), they have advocated that for social science research a sample size between 30 and 500 is sufficient. The schedule comprised of 37-items covering the socio-economic background as well as the motivating factors of the respondents to open the bank accounts. 85 men and 40 women (17:8) sample respondents were chosen which are in the line of findings of Min & Khoon (2013), who has reported that men and women customers' perceptions are different about the tangibility dimension of service quality.

Secondary Data: The study has gathered the pertinent secondary data from online and printed academic journals, books, bulletins, conference proceedings, business newspapers and websites.

Statistical Power & Confidence Level

To test the hypotheses, the study has taken the confidence level (□=5%). The statistical power analysis is carried out using G*3 software and the results have documented that the power is 82 percent, more than the conventional threshold limit of 80 percent as suggested by Cohen (1988).

Variables & Statistical Tests of the Study

Variables	Null Hypotheses	Statistical Tests used		
		Name	Objectives	Rationality
Predictor Variables: 1. Gender	H_{01}	Independent Sample t-test	To test whether two variables are different	1. Sampling distribution is normally distributed. 2. Interval data 3. Presence of homogeneity of variance in population 4. Scores are independent
2. Non-gender demographic characteristics	H_{02}	Cross-tabulation	To describe the relationship between two variables	1. Interval data
3. Service expectations	H_{03}	Regression coefficient	To evaluate the power of relationship between one predictor and one outcome variable	1. Interval data 2. Linear relationship
4. Principal and Secondary benefits	H_{04}	Stepwise Backward Regression Coefficient	To evaluate the power of relationship between predictors and one outcome variable	1. Prescience of multiple variables. 2. Interval data 3. Outcome variable is quantifiable. 4. Non-zero variance 5. Homoscedasticity 6. Linearity
Outcome Variable: 1. Decision to open bank account under PMJDY	H_{01}, H_{02}, H_{03}, H04			
Confounding Variable:	Not Available	Not Required	Comment proposed to be made after the completion of study, if required	Not Available

Strategy for Data Analysis

The statistical software IBM Statistical Package for Social Sciences (SPSS)-20 was used for data analysis. Items has addressed either through simple descriptive statistics (means and standard deviations) or through inferential statistics (Independent Sample t-test, Cross-tabulation, Simple and Multiple Regression analysis). Factor analysis has been used as a data reduction technique for the items identified initially from prior studies, refined through protocol interviews followed by pilot study and eventually has tested using interview-schedule. It is a set of techniques which reduce the variables into fewer factors economically (Nagundkar, 2010; Hair, Black, Babin, Anderson & Tatham, 2010). Principal Component Analysis (PCA) method of Factor analysis was employed to identify theoretically meaningful underlying factors (Ho, 2006, Mitchelmore & Rowley, 2013) which spilt the data into a group of linear variants (Dunteman, 1989).

PROCEDURE

An interview-schedule along with a cover letter has been used to collect the information from the respondents to understand their perceptions, e.g., the modus operandi of their financial decisions (Oberhofer & Dieplinger, 2014). The study has used fixed alternative items for prompt response, and for the added features such as coding, tabulation and interpretation of data (McDaniel & Gates, 2010; Hair, et al., 2010). To eliminate the risk of non-comprehension and ambiguity problems, the items have been translated into Bengali; as suggested by Peytchev, Conrad, Couper & Tourangeau (2010). The number of items in the schedule has restricted to such a level to get proper response (Dillman, 1978). The study used a close ended and pre-coded schedule with a 5-point Likert scale ranging from strongly disagree (1) to strongly agree (5) since the scale is interval in nature (Cooper, 2000).

FINDINGS

Descriptive Statistics

The study has documented that lion's share of the respondents are Hindus (76 percent), general (39.20 percent), has taken education up to under matriculation (62 percent), monthly income is less INR .005-.01million (40 percent), married (89.6 percent), are in the age group of 26-36 years (36 percent), involve in other occupation (79.20 percent), Bank accounts mostly are with UBI (58.90 percent) and A/c has opened with some amount of deposit (59.20 percent).

With respect to *Principal Benefits of Bank A/c Factor*, mean values indicated that `respondents

conceptualized the principal benefits of having bank accounts (Average Mean=4.2157, S. D. = .6265). Mean score for items range from 4.0887 to 4.8710 excluding the reversed score item 'access of mobile banking facility'. In the second factor Supplementary Benefits of Bank A/c, mean values documented that respondents has agreed about secondary benefits of having bank accounts (Average Mean = 4.0239, S. D. = 0.6921). Mean score for items lie between 3.9129 and 4.4274 excluding the reversed score item 'instrument to fight against corruption.' In the third factor Policy lags in Private Banks, mean values has suggested that respondents have agreed about the delay in the implementation of policies by the private banks (Average Mean = 4.3750, S. D. = .5610). Mean score for items range from 3.1613 to 3.5726. The fourth factor Perceptions about Private Banks, mean values have reported that respondents have agreed about the coverage and clusters of different benefits of PMJDY (Average Mean = 4.1237, S.D. = .7508). Mean scores for items range from 3.9597 to 4.3790.

Factor Analysis

Participants are requested to fill up the schedule comprising of 22 key items related to their perceptions about their motives behind opening bank accounts under PMJDY and their preference for nationalized banks. The Cronbach's alpha results for the items stand as .861, well above the acceptable level (Hair et al., 2005).

The Kaiser-Mayer-Olkin (KMO) measure of sampling adequacy (MSA) is computed as .872, above the threshold limit of 0.6, for conducting Factor analysis (Kaiser & Rice, 1974; Kline, 1994).

The Bartlett Test of Sphericity (approx. Chi square =1371.389 and significance at .000) also has supported for validity of the Factor analysis.

From the Table 1, the four factors have been extracted by using PCA method and appropriate names are labelled for each of them. We have excluded single item factors on the ground of parsimony (Lawson-Body, Willoughby & Logossah, 2010).

Inferential Statistics

Independent Sample t-test. To test whether respondents' gender has an influence in opening bank accounts under PMJDY (H01), Independent Sample t-test is carried out and the following procedure was adopted. Descriptive Statistics (Means and S. D.) scores for the two sub-groups- men and women were computed in Table 2. In addition, the standard error (S.D. of sampling distribution) of men was 1.138 (12.14/√85) and that of women was found 1.70. From Table- 3, t-test was used in order to test the hypothesis. For this data the Levene's test has found to be statistically non-significant as ($p = .393 > .05$) and as seen in labelled 'Equal variances assumed'. Here, two tailed value of p has computed as .03 which is less than .05. Hence, it is found that a significant difference exists between men and women in their perceptions about in opening bank accounts under PMJDY. Therefore, the null hypothesis H01 stands rejected.

Table 1

Rotated Component Matrix[a]

***(Factors:** Principal Benefits of Bank A/c Factor, Supplementary Benefits of Bank A/c Factor, Policy lags in Private Banks Factor and Perceptions about Private Banks Factor)*

Particulars	Components			
	1	2	3	4
Protect the principal amount	.712			
Access of different Government schemes	.686			
Free life insurance coverage	.641			
Bi-annual interest accumulation	.623			
Easily accessibility and withdraw able	.610			
Zero balance account with Rupay Debit card	.529			
Easy funds transfer	.558			
Access of mobile banking facility	.508			
Supportive document		.717		
Facility of small savings		.703		
Personal life insurance		.689		
Financial literacy enhancement		.622		
Overdraft facility		.576		
Motivation for deposit in future		.533		
Instrument to fight against corruption		.524		
Lack of awareness about the schemes			.807	
Hesitation to open no-frill accounts			.742	
Late in policy implementation process			.666	
Maintenance of mandatory minimum balance			.598	
Low penetration in rural areas				.872
Middle and high income group customers				.765
Reliability of private banks is low				.613

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 8 iterations.

Table 2

Group Statistics of Respondents

	Gender	n	Mean	S. D.	Std. Error of Mean
Decision to open bank account under PMJDY	Men	85	140.68	12.14	1.138
	Women	40	133.23	10.80	1.70

Table 3

Independent Sample t-Test

	Leven's test		t-test statistics					95% confidence interval of the difference	
Decision to open bank account under PMJDY	F	Sig.	t	d. f.	Sig. (2-tailed)	Mean Diff.	S. E. Diff.	Lower	Upper
Equal variances assumed	.718	.393	1.53	123	.03	3.56	8.639	-4.37	26.12
Equal variances not assumed	-	-	.912	222.18	.13	3.56	8.639	-4.72	27.77

Cross Tabulation

Cross tabulation and Chi square test have been employed at 5 percent significance level to measure the association (or not) between the non-gender demographic variables (predictors) of the respondents and their decision to open bank account under PMJDY (outcome).

The results of the test are calculated as follows:

- The *monthly income* and the outcome is related positively i.e. higher the monthly income, higher the motivation to open bank account under PMJDY. The Chi square is 31.768 and the likelihood ratio is 34.454. Further, the significance value is .000, which is less than .05. So, the null hypothesis H02 is rejected and alternative hypothesis is accepted. In other words, a significant association is established between monthly income and the decision to open bank account under PMJDY.
- The *age* of the respondents and the outcome is negatively related i.e. lower the age, higher the motivation to open bank account under PMJDY. The Chi square is computed as 28.93 and the likelihood ratio as 22.67. Further, the significance value is .03, which is less than .05. So, the null hypothesis is rejected and alternative hypothesis has accepted.
- The *level of education* is also negatively related i.e. lower the level of education, higher the motivation to open bank account under PMJDY. The Chi square has scored as 19.887 and the likelihood ratio as 16.924. Further, the significance value is stand as .002, which is less than .05. So, the null hypothesis is rejected and the alternative is accepted.
- The *marital status* of the respondents and the outcome is related in a way that those who are married, are more inclined to open bank account under PMJDY. The Chi square score is 63.980, likelihood ratio is 54.458 and the significance value is .031, which is less than .05. So, the null hypothesis is rejected and alternative hypothesis is accepted; i. e., a significant association is established between marital status of the respondents and their decision to open bank account under PMJDY.

Regression Analysis

To test the remaining hypotheses, the study runs a Regression analysis, a statistical process for estimating the relationships among the variables of our study.

Table 4

Model Summary[a] of Service expectations

Model	R	R^2	Adjusted R^2	Standard error of estimate
1	.638a	.592	.584	61.53

a. Predictor: (Constant), Service expectations

From Table 4, it is seen that the value of R is .638 as the service expectation, being the sole predictor; this value has represented the simple correlation between the third predictor and the outcome of our study. The value of adjusted R2 was computed as .592, which suggested that service expectations accounted for 58 percent of the variation in the outcome. This model, which has included only service expectations, explained approximately 58 percent of the variation, indicate the probability of other factors which might impact the outcome.

Table 5

ANOVA[b] Results of Service expectations

Model	Sum of Squares (SS)	d. f.	0	F	Sig.
Regression	583357.431	1	583357.43	98.35	.000*
Residual	905445.320	123	73621.50		
Total	1488802.751	124			

b. Outcome variable Service expectations

From Table 5, the various sums of squares and the degrees of freedom associated with each has been reported. The average sum of squares (the mean squares) is calculated by dividing the sums of squares by the associated degrees of freedom. The F-ratio was calculated as 98.35, indicating significant at $p < .001$ (since the value in the column labelled sig. is less than .001). The results have suggested that there is less than a .1 percent probability that F-ratio would happen if the null hypothesis is true. So, it is concluded that the results are significantly better predictor of service expectations than the mean value of the same so, the alternative hypothesis is accepted.

To measure the extent to which the principal and secondary benefits of motivation affect the outcome variable, stepwise backward regression is run, since it is one of the appropriate methods of theory testing (Studmund & Cassidy, 1987). The data is further put to use in regression for hypotheses validation. The results indicated that both the factors are significant and considered as predictors of the outcome variable.

From Table 6, Model 1 is the first stage in the hierarchy when the study has applied only principal benefits as predictor. Model 2 is referred when both the predictors was put in use. The column R represents the values of the multiple correlation coefficients between the dependent and independent variables. When only principal benefits were used as a predator, it resembles the simple correlation coefficients between predictor and outcome (.615). The next column R2 has showed the proportion of variability in the outcome as represented by the predictors. For Model 1 its value stand as .592, which imply that principal benefits accounted for 59.2 percent of the variation in the outcome. With the inclusion of other predictor (Model 2), this value has increased to 90.7 percent. So, if principal benefits accounts for only 59.2 percent, it is concluded that secondary benefits accounted for an additional 31.5 (90.7 – 59.2) percent; hence the inclusion of the new predictor has explained the balance amount of the variation in the outcome. The adjusted R2 has provided an idea of how well the model generalizes and as per norm, it is predicted its value to be the same or very close to R2. In the present model the difference is negligible (.05 percent) which reveals that the model has derived from the study population rather than a sample. In the change statistics, the significance of R2 has tested using F-ratio for each of the blocks. Model 1 has caused R2 changes from

Table: 6

Model Summary[c]

Model	R	R^2	Adjusted R2	Standard error of estimate	Change Statistics					Durbin- Watson
					R^2 Change	F Change	df1	df2	Sig. F Change	
1	.615a	.592	.587	64.87	.447	178.25	1	123	.000	1.954
2	.804b	.907	.902	52.45	.454	104.71	2	122	.000	

c. Predictor: (Constant), Principal benefits

d. Predictor: (Constant), Principal benefits, Secondary benefits

e. Decision to open bank account under PMJDY

0 to .592, and this change in the amount of variance raised to an F-ratio of 178.25, which is significant with a probability less than .001[since we have one predictor (k) and sample size=125].

The addition of new predictor (Model 2) has caused R2 to increase by .315. Using R^2, k_{change}= 2-1=1, the F change is calculated as 104.71 which is again significant (p<.001). This increase indicates about the difference cause by adding new predictor in Model 2. The Durbin-Watson statistic shows whether the presumption of independent errors is justifiable and in the model it has computed as 1.954, which is close to 2, has met the assumption.

Table: 7

ANOVA^c Results

Model	Sum of Squares (SS)	d. f.	Mean Square [SS/d. f.]	F	Sig.
Regression	424537.87	1	424537.87	99.541	.000*
Model 1 Residual	897196.67	0	7294.28		
Total	1321734.54	124			
Regression	886127.76	2	443063.88	127.842	.000*
Model 2 Residual	421378.98	122	3453.92		
Total	1307506.74	124			

a. Predictor: (Constant), Principal benefits

b. Predictor: (Constant), Principal benefits, Secondary benefits

c. Decision to open bank account under PMJDY

Table 7 reports the analysis of variance (ANOVA) which was tested whether the model is significantly better in predicting the outcome or not. Specifically, the F-ratio represents the ratio of the improvement in prediction that results from fitting the model, relative to the inaccuracy which might exist in the model. For Model 1 the F-ratio is computed as 99.541, which is most unlikely to have happened by chance (p<.001). For the second model, the value of F has increased to 127.842, which is also highly significant (p<.001). The conclusion of Model 1 has significantly improved the ability to predict the outcome variable, but the Model 2 (with extra predictor) is even better (as the F-ratio was more significant) and the alternative hypothesis was accepted. In other words, principal and secondary benefits influence the respondents to open bank accounts under the scheme with the nationalized banks.

INTERPRETATION

Factor analysis identifies four underlying constructs which has explained the different motivating factors for opening bank accounts under PMJDY and the respondents' preference for public sector banks. High factor loadings indicate statistically significant items. Table 8 presents the summary of the Factor analysis and Descriptive Statistics.

Table 8:

Summary Results of Factor Analysis & Descriptive Statistics

S. No.	Extracted Factors	Included items	Cronbach's Alpha value	Mean value	S. D. value
1	Principal Benefits of Bank A/c	8	.715	4.2157	.6265
2	Supplementary Benefits of Bank A/c	7	.702	4.0239	.6921
3	Policy lags in Private Banks	4	.697	4.3757	.5610
4	Perceptions about Private Banks	3	.731	4.1237	.7508

The outcome of independent sample t-test has validated in favour to probably reject the first null hypothesis (H01) that gender of the respondents has an influence on the decision to open bank account and it has statistical significance. The association (i.e. different from no relationship) with non-gender demographic characteristics of the respondents and their perceptions about the decision to open bank account under PMJDY has tested using Cross-tabulations and the results document that it has statistical significance hence the study rejects the null hypothesis, H02. To test whether service expectations has any influence in the decision to open bank account under PMJDY, the study has conducted stepwise simple regression analysis and the findings point out to probably reject H03, i.e. the alternative hypothesis is accepted. To measure the strength of relationships between principal and secondary benefits (predictors) and the decision to open bank accounts under PMJDY (outcome variable), the fourth hypothesis (H04) was tested using backward step regression method and based on the finding, the study rejects H04 and alternative hypothesis is accepted.

To sum up, the findings has shown that number of factors which motivated the respondents to open bank accounts under PMJDY and has expressed their preference for public sector banks in lieu of private sector banks. In course of data collection, a number of issues is highlighted by the respondents like using Rupay debit cards with pin which, for most of them is cumbersome; the ceiling imposed on deposit to the tune of INR .1 million and withdrawal of .01million per day is caused a difficulty to access the banking service. Although PMJDY is a new avatar in the ambit of financial inclusion mission, but it does not have any dedicated provision for credit disbursement amongst the beneficiaries; poor rural connectivity pose a major challenge in implementing the scheme in rural areas; the business correspondents (BCs) who usually carry INR .025 million at a time due to risk of theft and robbery impediments the spirit of the mission and customers need to walk miles to banks for deposit and withdrawal of large chunk of amount. Further, the respondents shared additional motivating forces like different social effects of finance and literature has also validated the same. They have indicated that words of other (Brown et al., 2008), the herding behaviour of others (Banerjee, 1992), reference group effects (Duflo & Saez, 2002), social impact (Kaustia & Knupfer, 2012), and access to information (Li, 2012) has played the catalyst role.

The study has not only highlighted the scope for expansion of customer base by the banks and improving their credit-to-deposit (CD) ratio in general; but has also documented the benefits accessed by the unbanked population after opening bank accounts under the PMJDY in particular. The success of the scheme not only depends upon the active participation by all the stakeholders of the society (Chowhan & Pande, 2014; Barhate & Jagtap, 2014); technology up gradation in rural India (Watts, 2015); improving and expanding banking service access (Shaikh & Bhavsar, 2014), but also participation of private banks (Kaur & Singh, 2015). Further, to address the financial exclusion, the piggybacking on mobile networks in remote areas such as in the north-east region, opening government funded bank accounts, interest-free banking windows for ethical banking needs, direct cash transfers to small and marginal farmers, seeding all bank accounts with Adhaar numbers, mapping the digital footprint of all financial customers and digitisation of documents are the need of the hour.**onclusion**

The study was undertaken to unearth the attributes for opening bank accounts by the respondents under PMJDY in public sectors banks instead of private sector banks. The study used an interview-schedule to collect the primary data during January-May, 2015. In three stages, data from 125 respondents was collected which was subsequently processed through IBM SPSS-20. The data set is tested for its validity, reliability and sample adequacy. The data dimension test (Factor analysis) has extracted four factors *viz. Principal Benefits of Bank A/c, Supplementary Benefits of Bank A/c, Policy lags in Private Banks and Coverage & Cluster of Customers*. The first null hypothesis is tested on the basis of gender using independent sample t-test. The result has found to be statistically significant hence H01 is rejected. The second hypothesis was tested using cross tabulations and the results have pointed out significant association between the variables, obviously rejecting H02. To assess the strength of relationship between the service expectations - decision to open bank account under PMJDY, simple regression test is applied and the relationship was proved to be significant, H03 was rejected. The fourth hypothesis was tested using Stepwise backward regression method and the results documented that the predictors extracted are significant indicator of the outcome and H04, was rejected.

The study is not flawless and it duly acknowledges the same. Firstly, sample respondents might not be the proxy of the whole study population. Secondly, in the line of the objectives, only impressing factors for opening bank accounts under PMJDY and the choice of nationalised banks has exclusively been taken as variables for this study and other variables are excluded from the scope of the study, which has confined the generalization of the findings. Thirdly, the choice of Baikhora region of South Tripura as study area due to parsimony and time constraint might be another shortcoming of the study to generalize the findings. Fourthly, a lower sample size was considered and the samples have selected using non-probability sampling techniques which might not be unbiased. Fifthly, the validity of the results relies on the responses, which perhaps is not flawless. Finally, the different statistical techniques used have their own limitations which might restrict the generalization of the outcome of the research.

Managerial Implications

The inferences of the study have empirical application for the present as well as prospective bank account holders under PMJDY. The private banks may take a note from the findings in their policy formulating decisions by exploring the large number of unbanked population nationwide by attracting them under the formal banking system. The public sector banks may incorporate the results in their strategic policy formulations to attract the potential customers and may frame course of actions to compete with the tentative private players in PMJDY. Further, the policy makers of these banks should chalk out with strategies to combat the shortcomings of the scheme either as highlighted from the results of the study or disclosed by the respondents to improve the customers' base as well as their bottom-line by extending credit to them.

Scope for Future Research

The scope of the research is confined within Latuatila Gram Panchayats due to parsimony and time constraint and in future intra-district and inter-district studies may be undertaken. Studies may also be attempted in a wider scale by considering a larger study population, sampling frame and greater sample size covering stakeholders from other sectors of the economy, including inter- bank and inter-state population covering multiple social and economic dimensions of the scheme. The study has considered demographic characteristics as predictor and ignored the influence of religion in personal finance decision. Earlier research have validated that religious affiliation has significant impact in savings decision (e.g., Delener, 1994; Keister 2003; Lehrer, 2004; Wan Ahmad et al., 2008) and the future research agenda may incorporate the same since the religion of our sample respondents are skewed to Hinduism. Additionally, instead of arriving at the measures of investment factors in PMJDY by self-assessed responses, actual measurements based on other technology enabled databases could be used.

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APPENDIX 1

Schedule

Note: The schedule has three sections, namely A, B and C. For each section the response style is mentioned at the beginning. You are requested to follow the response style and mark your response category accordingly.

SECTION – A

General Profile of the Respondent

(Please put tick mark in the applicable box as applicable.)

1. Name of the Respondent :
2. Date of Birth (DD/MM/YYYY) :
3. Contact No. :
4. E-Mail ID (If any) :

5.	Gender	:	Male	Female		Divorcee
6.	Marital Status	:	Single	Married		
7.	Age Group	:	18 – 25 years 26 – 35 years 36 – 45 years 46 – 65 years 66 and above			
8.	Educational Qualification	:	Under Matriculation Higher Secondary Graduate Post-Graduate			
9.	Religion	:	Hinduism Muslim Christian Buddhism Other			
10.	Caste	:	General	SC	ST	OBC
11.	Occupation	:	Student Business Service			
12.	Monthly Income	:	Less than INR 5,000 INR 5,001 - 10,000 INR 10,001 – 20,000 INR 20,001 and above			
13.	Date of Bank A/c opened	:				
14.	Bank A/c opened with	:	State Bank of India United Bank of India Tripura Gramin Bank State Co-operative Bank Others			
15.	Amount deposited at the time opening	:	No Yes, the amount is			

Section B

Motivating Factors for Opening Bank Account under PMJDY

Please read each of the statement carefully and indicate your level of agreement or disagreement that you think is the best describing your perception about the Motivating Factors for Opening Bank Account under PMJDY. Indicate your response in 5-point Likert Scale stated below and fill the box accordingly.

SD= Strongly Disagree, 2. D= Disagree, 3. N= Neutral 4. A=Agree, 5. SA= Strongly Agree

Statements	Score
1. You have opened the A/c to protect the principal amount invested in the account.	
2. You have opened the A/c to access the different Government benefits and subsidies.	
3. You have opened the A/c to earn bi-annual interest on the invested amount.	
4. You have opened the A/c to the invested funds can be easily be accessible and withdraw able.	
5. You have opened the A/c to avail personal life insurance benefit up to INR 1, 00,000.	
6. You have opened the A/c to avail zero balance account with Rupay Debit card.	
7. You have opened the A/c to avail overdraft facility up to INR 5,000 (after six months from the date of opening).	
8. You have opened the A/c to avail easy fund transfer facility from any Government scheme.	
9. You have opened the A/c to avail mobile banking facility.	
10. You have opened the A/c since it can be used as a supportive document.	
11. You have opened the A/c to avail the facility of small savings.	
12. You have opened the A/c as it helps to enhance your financial literacy.	
13. Your A/c will motivate you to deposit in future.	
14. You have opened the A/c and it can be used as an instrument to fight against corruption.	
15. You have opened the A/c to enjoy the free accident insurance coverage schemes of banks.	

Section C

Perception about choosing Public Sector Banks instead of Private Banks

Please read each of the statement carefully and indicate your level of agreement or disagreement that you think is the best describing your perception about Perception about choosing Public Sector Banks instead of Private Banks Indicate your response in 5 Likert Scale stated below and fill the box accordingly.

SD= Strongly Disagree, 2. D= Disagree, 3. N= Neutral 4. A=Agree, 5. SA= Strongly Agree

Statements	Score
1. Lack of awareness about the scheme in private banks compels the customers to move public sector banks.	
2. Penetration of private banks in rural areas is very few.	
3. Private banks hesitate to open no frill accounts due to low profitability.	
4. Private banks usually target the middle and high income group customers only.	
5. Private banks are generally late in policy implementation process.	
6. Reliability of private bank is lower in compare to public bank.	
7. Maintenance of minimum amount is a strategy for private banks which impairs to create PMJDY accounts.	

Signature:

APPENDIX: 2

Statistical Measurements

Table: 1

Reliability Statistics

Cranach's Alpha	Cranach's Alpha Based on Standardized Items	No. of Items
.861	.861	22

Table: 2

Sample Adequacy Statistics

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.872
Bartlett's Test of Sphericity	Approx. Chi-Square	1371.389
	d. f.	312
	Sig.	.000

Descriptive Statistics & Factor Loadings, Communalities

Caste					
	General	**Scheduled Caste**	**Scheduled Tribe**	**Other Backward Caste**	**Total**
No. of Respondents	49	23	29	24	125
Percentage	39.20	18.40	23.20	19.20	100
Occupation					
Student	Business	Service	Any other	Total	
No. of Respondents	15	11	00	99	125
Percentage	12	8.80	00	79.20	100
Religion					
	Hinduism	Muslim	Christian	Buddhism	Total
No. of Respondents	95	1	20	9	125
Percentage	76	0.80	16	7.20	100.00
Monthly Income (in INR)					
	Nil	Less than 5000	5001-10,000	10,001-20000	Total
No. of Respondents	21	46	20	8	125
Percentage	16.80	36.80	40	6.40	100
Bank Account Opened					
	UBI	**Tripura Gramin Bank**	**State Co-operative Bank**	**Other Banks**	**Total**
No. of Respondents	76	39	10	00	125
Percentage	58.90	30.20	31.20	00	100
Amount Deposited					
Yes	No	Total			
No. of Respondents	74	51	125		
Percentage	59.20	40.80	100		

Age					
Less than 18	18-28 years	26-35 years	36-45 years	45-60 years	total
No. of Respondent	6	24	45	39	11
Percentage	4.8	19.2	36	31.2	8.8
Education Qualification					
	Under Matriculation	Higher Secondary	Graduate	Post-graduate	Total
No. of Respondents	80	37	8	00	125
Percentage	64	29.60	6.40	00	100
Marital Status					
	Married	Divorcee	Total		
No. of Respondents	121	4	125		
Percentage	96.80	3.20	100		

Table 1:

Principal Benefits of Bank A/c Factor

Items	Factor loading	Communalities	Mean	SD
Protect the principal amount	.712	.809	4.8710	.3366
Access of different Government schemes	.686	.791	4.5081	.5912
Free life insurance coverage	.641	.729	4.3387	.6100
Bi-annual interest accumulation	.623	.658	4.4194	.5424
Easily accessibility and withdraw able	.610	.644	4.1129	.6402
Zero balance account with Rupay Debit card	.529	.633	4.5000	.6687
Easy funds transfer	.558	.620	4.0887	.7757
Access of mobile banking facility	.508	.604	2.8871*	.8478
Total			4.2157	.6265

**Reversed score items*

Factor 1 –Principal Benefits of Bank A/c Factor

Factor 1 is assigned the name of 'Principal Benefits of Bank A/c Factor' which explains 28.814percent of the variables and includes eight items with statistically significant factor loadings ranging from.712 to .508 and Cronbach's alpha .715.

Table 2

Supplementary Benefits of Bank A/c Factor

Items	Factor loading	Communalities	Mean	SD
Supportive document	.717	.810	4.1129	.9876
Facility of small savings	.703	.761	4.2339	.6261
Personal life insurance	.689	.788	4.0566	.4472
Financial literacy enhancement	.622	.719	3.9129	.8226
Overdraft facility	.576	.698	4.1661	.5958
Motivation for deposit in future	.533	.677	4.4274	.5536
Instrument to fight against corruption.	.524	.635	3.2581*	.8121
Total			4.0239	.6921

**Reversed score items*

Factor 2 –Supplementary Benefits of Bank A/c Factor

Factor 2 is assigned the name of 'Supplementary Benefits of Bank A/c Factor' which explains 19.525 percent of the variables and includes seven items with statistically significant factor loadings ranging from .717 to.524 and Cronbach's alpha .702.

Table 3

Policy lags in Private Banks Factor

Items	Factor loading	Communalities	Mean	SD
Lack of awareness about the schemes	.807	.684	3.3710	.5908
Hesitation to open no-frill accounts	.742	.632	3.5726	.6887
Late in policy implementation process	.666	.616	3.1613	.3692
Maintenance of mandatory minimum balance	.598	.603	3.3952	.5956
Total			3.3750	.5610

Factor 3–Policy lags in Private Banks Factor

Factor 3 is assigned the name of 'Policy lags in Private Banks Factor' which explains 12.229 percent of the variables and includes four items with statistically significant factor loadings ranging from .807 to. 598 and Cronbach's alpha .697.

Table 4: Perceptions about Private Banks Factor

Items	Factor loading	Communalities	Mean	SD
Low penetration in rural areas	.872	.641	4.3790	.6698
Middle and high income group customers	.765	.630	4.0323	.7428
Reliability of private banks is low	.613	.608	3.9597	.8400
Total			4.1237	.7508

Factor 4– Perceptions about Private Banks Factor

Factor 4 is assigned the name of 'Perceptions about Private Banks Factor' which explains 9.857 percent of the variables and includes two items with statistically significant factor loadings ranging from .872 to.665 and Cronbach's alpha .731.

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ENABLING FINANCIAL INCLUSION THROUGH INSURANCE

YOGESH GUPTA*

Micro-insurance has become a buzzword today, reaching out in ways not imagined earlier to the financially excluded. It has helped create awareness about savings and security-based instruments even amongst the not-so-literate and the financially weak. But this was not always the case even though over 60 per cent of the country's population operates out of segments that have hitherto been beyond the reach of insurance companies. The reasons were varied: logistical difficulties, poor paying capacity of the people or the operational structure of the financial institutions which rendered operations economically unfeasible or the quantum of investment was very low value-wise.

"The approach in launching this scheme was a bottoms-up approach, i.e., the rural poor. This was a market that leading FMCG, consumer durables and other companies have just begun targeting in the hope of adding incremental volumes to their businesses, while insurance companies were yet to realise its potential."

What was also not understood was that such insurance could help enable financial inclusion of these excluded communities, something that has been on the agenda of all governments. What was also not understood that micro-insurance, is different from insurance in general as it is a low value product, which requires different design and distribution strategies such as premium based on community risk rating (as opposed to individual risk rating), active involvement of an intermediate agency representing the excluded communities and so forth. Understanding the necessity to reach out to this vast uncovered population, which no insurance company, both public and private sector, had thought to serve in a structured way, Bajaj Allianz Life Insurance sought to create a revolution by covering a huge, geographically widespread mass, educating people on the need for personal security and saving avenues. Motivating it were these stark facts:

--> A UNDP Study states that 90 per cent of the Indian population - some 950 million people - are not covered by insurance and signify an untapped market of nearly US$2 billion;

-->According to estimates from Intellecap's Inverting the Pyramid: The Changing Face of Indian Microfinance (2007), there is an annual demand of $5.7 to $19.1 billion (Rs 230 to Rs 773 billion) assuming loan sizes between $100 and $250, if one says that India's entire poor population is deserving of some form credit or insurance;

-->The Indian banking network has a total of 1,53,000 bank branches serving a total of 6,00,000 Indian villages, however 90 per cent of villages do not have a branch within a radius of 5 km;

-->Over 50 per cent of India's 89.3 million farmer households are excluded from both formal and informal services; 27 per cent of households have access to formal credit sources while 66 per cent of households are completely excluded from any kind of financial services; and,

-->While loan products are still too inflexible, savings and insurance services that the poor need are not widely available due to regulatory barriers.

A joint venture between Bajaj Finserv and the Munich-headquartered Allianz SE, Bajaj Allianz pioneered the introduction of insurance linked financial inclusion by launching a savings linked insurance solution in April 2008. Its scheme, Swayam Shakti Suraksha, was the first-ever solution launched by a life insurance company in the country for this particular segment. Extensive research was conducted to understand customer requirements and the entire process of design, development and implemen-tation for the scheme

*Head of Business Procurement & Microinsurance Business Bajaj Allianz, India

was completed in only 45 days. The result: the company is optimistic of achieving a total of 10 million customers by March 2011 for its product, making it a landmark achievement not only in India but across other countries where such initiatives are pursued, including South East Asia, Latin America and Africa.

The approach in launching this scheme was a bottoms-up approach, i.e., the rural poor. This was a market that leading FMCG, consumer durables and other companies have just begun targeting in the hope of adding incremental volumes to their businesses, while insurance companies were yet to realise its potential. The challenge here was to convert a consumer, who could not even afford to buy a chocolate for Rs 2 or a shampoo for 50 paise, into a client for an Insurance policy requiring a good amount of premium and cumbersome documentation. This was also the chunk of our population, who were either hovering on or were below the poverty line, a segment just a notch below that banks and Insurance companies were already catering to.

"Understanding the necessity to reach out to this vast uncovered population, which no insurance company, both public and private sector, had thought to serve in a structured way, Bajaj Allianz Life Insurance sought to create a revolution by covering a huge, geographically widespread mass, educating people on the need for personal security and saving avenues."

The task was daunting. Consider this: how does one convert for a 35-year-old woman, with two children running a vegetable vending business in village like Soro in Orissa, which few people know about, to become our client? There reasons why she would not become a client included irregular income and wafer-thin disposable income; her semi-literacy and lack of knowledge of financial products; complex documentation; inability to lock in money for a long period due to emergency needs; no bank or post office account; and the intimidating prospect of having to go to an office to deposit premiums or to collect refunds.

The challenges to evolve a scheme that catered to such excluded section of the population were huge. These included:

- Introducing insurance products that were simple and involved less documentation;
- Evolving new distribution mechanisms;
- Creating new underwriting processes and streamlining operations creatively;
- Dovetailing the premium collection mechanism to suit the paying capability and habit of customers;
- Need to educate prospective clients about the advantages of such instruments; and
- Improving service delivery procedures.

The solution that Bajaj Allianz India came up with was the result of an extensive study of the dust-laden tracks of rural India and it took the form of the Sarva Shakti Suraksha (SSS). This is a unique endowment plans on a group platform to provide the benefits of life insurance and savings combined to the financially excluded population. The scheme, which comes with easy to understand features, is a financial inclusion product in the real sense, as it seeks to bring the common man under the ambit of life insurance for the first time. The company has succeeded in creating an attractive risk pool and today its scheme comes with low premiums, enabling it successfully cross-sell micro-credit and insurance.

Unique Product features

There are several firsts credited to this product. The scheme does away with the cumbersome application form and requires no documentation. Furthermore,

- Customers across the country can opt for this solution by paying nominal monthly premiums of Rs 45 ($1.13) and above, with a minimum term of 5 years, with coverage ranging from Rs 2,500 ($62.75) and upwards. In addition, they are offered accident and disability and death benefits.
- There is no lock-in period and there are low surrender penalties and non-forfeiture of premium under the scheme.
- Together with its partners, Bajaj Allianz offers extremely low-cost savings and security products. There are flexible periods for payments of premiums and no hidden charges.

Currently, the solution is distributed through a rural mix of distributors, including micro-financial institutions, regional rural banks, co-operatives, societies and associations. There are also plans to offer this product to other segments such as milk federations, and talks are underway with various public sector companies to integrate this product across their inclusion mandates in different States. The reason why such a unique mix of distributors is being used to popularise the scheme is simple: opening up branches or having a direct sales force was cost prohibitive.

All along, Bajaj Allianz was clear that the best way to reach this untapped segment for its unique product was through self-help groups, non-banking financial companies and micro-finance institutions In fact, one of the leading partners in its venture to distribute this product is SKS Microfinance, one of the country's largest micro-finance institutions, which has helped make this need-based, mass-customised product successful.

A major challenge that Bajaj Allianz overcame in distributing this product was on educating prospective clients on the importance and benefits of Insurance. This was aided by our service-at-the-doorstep policy. In fact, it was probable for the first time in Indian insurance history that a sales officer became the single point of contact for a customer's service needs, one who was available to them almost on demand. It was this single point of contact, which educated and helped a claimant to prepare documents for claims and initiated the process of claims. This was probably the first end-to-end solution provided to all its customers by an insurance company in the country. Aiding Bajaj Allianz company in this is its countrywide network, connected through the latest technology for quick communication and response in over 200 towns; from Surat to Siliguri and Jammu to Thiruvananthapuram, all offices are interconnected with the head office in Pune.

More importantly, this is probably the first micro-insurance scheme in the country that has been able to tie-up with regional rural banks to financially include the excluded. Given its simple documentation, affordable premiums, and lack of procedural procedures, the Sarva Shakti Suraksha scheme was able to tap customers of these banks, who otherwise had been avoiding such personal and financial security coverage avenues. The over-the-counter offering from Bajaj Allianz has been such a success that within a year, it has been able to enrol 300,000 customers from the RRBs alone.

Today, Bajaj Allianz is seeking to launch newer variants of the scheme, including single premium options, a child variant and a never-before conceived unit-linked plan offering consumers the benefits of investing in capital markets with premiums as low as Rs 500 per year.

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SAYING NO TO MUTUAL FUNDS IN FINANCIAL INCLUSION, MASSES EXPOSED TO WORSE RISK

JIMMY PATEL*

It is a fairly common belief that the Indian equity market is driven by fund flows from foreign institutional investors (FII). Whenever FIIs are net buyers, the market rises and when FIIs exit, the market drops. At times we may observe remarkable variations in general trends. These variations can either be aberrations or signs of transformation. One such variation was seen in the domestic equity market in FY2015-16, when FIIs turned net sellers for the first time since the 2008 financial crisis.

Crashing crude oil prices, sluggishness in Chinese economy and expectations of rising bond yields in the US were enough reasons for the hypersensitive FIIs to sell Indian equities worth Rs 14,171 crore. Going by the thumb rule, this should have triggered a sentiment driven free fall in the domestic equity indices. A 2008-type market crash was feared. However, there was a surprise. A force had countered the selling pressure. Although the indices closed the year in the negative, the damage was contained. What was it that softened the blow? We will come to that in some time.

On a different note, it is fair to state that the government seems committed to the financial well-being of citizens and the nation as a whole. The recent demonetisation drive is a step in this direction. Also commendable is the government's focus on financial inclusion. A multi-pronged approach has been implemented swiftly for this mission. This approach leverages technology (mobile payments and Aadhar-linked transactions) with well-thought-out schemes such as Pradhan Mantri Jan Dhan Yojna.

The aim of the financial inclusion drive is to extend financial services to the large unbanked population of the country. While the intentions are all good, there is a glaring omission in the scope of the initiative. It is rather surprising that mutual funds – one of the most regulated, professionally managed and cost-effective investment options, with the potential to deliver high returns over the long term – have been overlooked in the government's financial inclusion initiative. When one thinks of the possible reasons for this omission, the first thing that comes to mind is 'risk'

Some element of risk is inherent in most investment options and mutual funds are not an exception. Perhaps it is prudent to shield the gullible masses from such risk. However, by doing so, are we inadvertently compelling them to take unmanageable risks? The urge to earn high returns on investment or get loans at competitive rates is universal. This urge can lead to exploitation, particularly when people do not have access to well-regulated financial products that can cater to their needs. This is the reason why loan sharks and fraudsters thrive in our hinterlands, and almost every other year, we come across disturbing news of chit fund scams or ponzi schemes that rob unsuspecting investors of their lifetime's savings.

Won't it be better if people had the option to seek higher returns by investing in well -regulated financial products like mutual funds? This brings us back to concerns over risk, which cannot be ignored. It should be noted that risk is inherent in all financial instruments – including those which are deemed to be 'safe' . Fixed deposits and bonds, which are perceived to be safe investment options, may not give returns higher than or at least equal to the rate of inflation, particularly when interest rates are headed south.

Investors may thus suffer loss of purchasing power. Insurance, an absolutely essential element of any financial plan, is highly prone to misselling. Hefty commissions loaded in endowment policies and unit-linked insurance plans (Ulips) make agents push these products aggressively – even in cases where a reasonably-priced term plan could

*CEO of Quantum Asset Management (ETMarkets.com)

have served the purpose. Risks are unavoidable at large. Also, higher the return expectations, higher are the risks that need to be taken. However, there is a difference between undertaking manageable and unmanageable risks. Risks associated with products like mutual funds come under the former category.

This is because mutual funds are well-regulated and professionally managed. Sebi's stringent regulations that bind the mutual fund industry ensure that investors' money is not misappropriated. Strict rules on commission disclosure help prevent mis-selling. Professional fund management gives investors the benefit of informed decisions, while systematic investment mechanism counters the risk of market volatility. All this, combined with the benefits of higher return potential, adequate liquidity and the flexibility to make small-ticket investments make mutual funds ideal for retail investors.

The government is well aware about the suitability of mutual funds for the masses. This is validated by the Employees' Provident Fund Organisation's (EPFO) recent foray into the equity markets through mutual funds. Apart from EPF, equity investments also feature in the National Pension Scheme offered by the government. Bandaru Dattatreya, the Minister of Labour and Employment, has rightly said that "EPFO has invested only in fixed income securities so far, which has given a moderate rate of of return. Unless we change the investment philosophy, it would be difficult to give superior returns to subscribers."

The change in the government's philosophy on equity investments, though belated, is highly encouraging. This change needs to be transmitted in order to make mutual funds more accessible to the masses. The resounding success of the Pradhan Mantri Jan Dhan Yojna has given millions of people access to savings and deposits accounts, remittance facility, credit, insurance policies and pension schemes.

Let us not deny them the opportunity to invest in mutual funds. Bharat Bill Payment System, the integrated multi-channel payment system launched by the National Payments Corporation of India should support mutual fund investments amongst other utilities and services. Likewise, mutual funds should feature in all payment portals and financial inclusion initiatives. It is also essential that the mutual fund industry gets a level-playing field, at par with other financial products. For this, tax discrimination, such as the one seen in the GST Act, should be abolished.

The force that brought the rare resilience in our equity markets in FY2015-16 is none other than mutual funds. Even as FIIs exited the Indian markets, the net inflow into equity mutual funds hit a record high of Rs 75,000 crore, acting as a shock-absorber against the selling pressure. ..

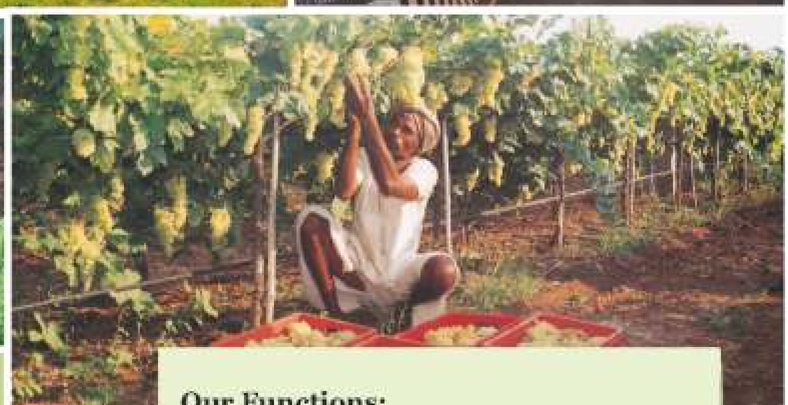
In the early 1990s, retail investors were dominant participants of the Indian equity markets. However, they were pushed to a corner post liberalisation, when foreign institutional investors emerged on the scene. Around the same time, a couple of scams scared away many of the already subdued retail investors.

However, it is fair to say that the times have changed. Retail investors are renewing their faith in Indian equities. Sebi's strict vigilance and control has deterred malpractices.

Financial education has empowered investors. A positive transformation is surely underway. The weak link is access. We need to urgently work on making mutual funds more accessible to the masses. Once that is done, we will come closer to achieving sab ka saath, sab ka vikas.

National Bank for Agriculture and Rural Development

NABARD



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