



1D: Insurance, Pension & Financial Inclusion

10 INSURANCE (बीमा): MEANING AND SIGNIFICANCE

- Meaning: insurance policy is a Debt instrument / Legal contract against eventualities of death or damage.
- 2 parties in this contract: 1) Insured / client 2) Insurer / Underwriter.
- Insurance provide stability to the households (against death, disability, damage) and entrepreneurs (against fire, theft, natural disasters etc.)
- Insurance companies invest clients' premium (बीमा-किस्त) in various public and private sector projects, thereby channelizing savings towards economic growth.

10.1.1 Insurance Principles (For ethics case studies)

1. Uberrima fides- Good faith, hide nothing. (HIV+ve in Health Insurance)
2. Indemnity- Only "REAL" loss, not imaginary. (couldn't give CAT exam due to fire)
3. Subrogation- Insurer can recover from negligent 3rd party.
4. Causa Proxima - Direct loss link. Bollywood fan can't buy policy for Bachchan.
5. Insurable interest- If "risk-x" not happen, client remains in same position, "risk-x" happens client in bad position.

10.2 HISTORY OF INSURANCE IN INDIA (भारत मे बीमा कं. का इतिहास)

- (1818): Europeans started insurance companies in India, but they charged higher premium on Indian clients with racist bias that inferior race = higher probability to die.
- (1870): Bombay Mutual Life Insurance was the first Swadeshi life insurance company and they did not charge extra premium for being India.
- (1912): Life Insurance Companies act to regulate them, but the norms were lax, so just like the banking industry, the insurance industry too faced problems in the aftermath of Great Depression. So, **1938**: Insurance Act for tougher regulation.
- Just like the banking industry, the insurance industry had to be nationalized after independence due to scams, financial inclusion and Five-Year Plans.

	Bank	Insurance
1948-49	___ nationalized	
1955	___ nationalized	
---		LIC Act took over ~245 (private owned) Life insurance companies.
1969	Nationalization of 14 Private Banks	
---		GIC Act: GIC and its 4 subsidiaries takeover ~107 (private owned) General insurance companies.
1980	Nationalization of 6 Private Banks	
Reforms	Narsimhan '91 & '98	Malhotra Committee 1993-> Private insurance companies were allowed, FDI was liberalized
Safeguard	CRR, SLR, BASEL	Investment Pattern, Solvency Margin. E.g. They must invest minimum "x%" of premium in G-Sec, they can't invest more than "y%" of premium in pvt



	Bank	Insurance
		companies shares/debentures etc. They must not invest in companies having less than “AA” credit rating etc. Exact norms not imp.
Financial Inclusion, Welfarism	PSL norms, 25% branches in unbanked rural areas	Rural & Social Obligation Norms: every year “x” number of policies must be sold in rural areas, PH/backward etc. Further Insurance companies required to invest minimum “x%” in affordable housing projects, state Govt’s fire equipment etc. Else IRDAI imposes penalty. Exact norms not imp.
Delivery Channel	Bank branch, Business Correspondence Agent (BankMitra)	<ul style="list-style-type: none"> - Agents & brokers. - Banks selling insurance (Bancassurance) - Surveyor/ Loss Assessor. - Third Party Administrators (e.g. Hospital where treatment is given)

10.3 LIFE INSURANCE

Life Insurance Type ⇒ Money returned?	At maturity	At death
Whole life= Longer policy: (e.g. 35-40 yrs) Endowment= Shorter policy: (e.g. 10-20)	Yes, savings returned**	YES
Term = Short Policy, Low Premium e.g. PM Jeevan Jyoti Bima Yojana	---	---
ULIP: Unit Linked Insurance Plans: Part of money goes in insurance, part in Mutual fund	Yes, savings returned**	YES
ELSS: Equity Linked Savings Scheme (entirely invested in shares)- so it's not an insurance.	YES	NO

10.3.1 Life Insurance ⇒ notable entities in public sector

10.3.1.1 Post Office Life Insurance

- Initially started as postal life insurance for the postal employees (1884), later extended to rural people as well.
- Presently, 6 schemes for govt employees** and 6 schemes for rural areas (usually with prefix of “GRAM” e.g. gram Suvidha / Suraksha / Santosh.)

Sampoorna Bima Gram Yojana (2017)

- by Ministry of _ _ _ _ _
- In every district, atleast 1 village identified → In that village, cover all households with a minimum of one RPLI (Rural Postal Life Insurance) policy.
- All villages under the **Saansad Adarsh Gram Yojana** will also be covered. (will learn this scheme in pillar#5).

10.3.2 Life Insurance Corporation of India, 1956

- Was setup by an act of parliament, to take over the private life insurance companies.
- Rigveda: “योगक्षेम” (Yogakshema: well being) – name of LIC HQ, Mumbai & corporate magazine.
- Gita: “योगक्षेमं वहाम्यहम्” (Yogakshemam Vahamyaham:- I ensure safety and well being (of my devotees) – LIC motto.
- 2018: became majority shareholder in IDBI bank.



LIC- Aam Admi Bima Yojana (AABY)

- 18-59: Below Poverty Line (BPL) and marginally above poverty line people.
- **Premium?** Rs.200 per year. (out of that Rs. 100 by Union Government. And remaining Rs.100 by either State Government / NGO).
- **Payment?** Children scholarship** and ₹30-75k depending on natural death accidental death / disability.
- **Previously** Janshree Bima Yojana –Unorganized workers “group insurance but merged with AABY (2012).
- Administrative control of this AABY scheme? Previous with DFS, now with Labour Ministry (2017)

10.3.3 PM schemes for Life Insurance & Accidental (Gen) insurance

Table 1: 2015: Dept of _____ launched these two schemes.

Features	Pradhan Mantri (PMJJB)	Pradhan Mantri (PMSBY)
Age	18-50 years with Bank account in India. NRIs eligible but payment in rupee currency only.	18-70 years. Remaining same as PMJJB
Purchase from	LIC or any empaneled pvt. life insurance company.	4 Public Sector, or any empaneled pvt Gen. Insurance company.
Premium amount	Rs. ____ per person/ annum	Rs.12/- per person/ annum
Type	LIFE Insurance	General Insurance
Nature of Plan	1 year “term” insurance. Term LIFE insurance = no death, no money returned	1-year “term” accident cum death.
Return?	Any type of death: ₹_ lakhs	Accidental Death: murder, natural disaster etc. ₹2 lakhs - 1 eye/hand/leg: 1 lakh - 2 organs/>: max. 2 lakhs Suicide, alcohol-drugs related death: not eligible

Neither scheme gives hospitalization cost.

10.4 GENERAL INSURANCE (सामान्य बीमा)

An insurance policy other than ‘life insurance’, is called General Insurance. e.g. Accident insurance, health insurance, crop insurance, fire-theft-marine & vehicle insurance.

10.4.1 Public Sector General Insurance Entities

- 1948-52: Employees' State Insurance Corporation (ESIC) under Labour Ministry – through an act of Parliament to protect selected category of workers.
- 1957: Export Credit Guarantee Corporation of India (ECGC) under Commerce Ministry. Gives insurance cover to exporters, and credit guarantee to Bank/NBFC who loan to exporters.
- 1961: DICGCI Act: banks must take deposit insurance from it- covers up ₹1 lakh. Although not considered a General Insurance Company in textbook sense because doesn't directly sell insurance policy to any individual household/business firm.



- 1972: General Insurance Nationalization Act: 107 (private) general insurance companies were taken over by GIC and its 4 subsidiaries (viz. National insurance, New India Assurance, United India, Oriental). Later, Govt took direct control over these 4 subsidiaries, and left GIC to take care of re-insurance biz.
- 2002: Agriculture Insurance Company Ltd, (formed with funding of GIC, above 4 public sector Gen. Insurance Cos and NABARD.)

10.4.2 Employees' State Insurance Corporation (ESIC कर्मचारी राज्य बीमा निगम)

- 1948: Employees' State Insurance Act -> 1952: ESIC corporation under Labour Ministry.
- Where does it apply? Any establishment with 10/> employees.
- Who are the ESIC subscribers? Employee in above establishment, with salary less than ₹21,000/-
- Who pays ESIC premium? "x%" from employee's wages, "y%" from employer's side.

An ESIC subscriber gets following benefits:

- 1) Medical insurance for the worker and his family from day 1 of joining
- 2) Maternity Benefit to women employees
- 3) Monthly payment to family, if worker dies by employment related injuries.
- 4) Sickness benefit: partial wages during medical leave.
- 5) Monthly payment of disability
- 6) Unemployment allowance if involuntary loss of employment

Project _____: digitization and automation of ESIC processes by WIPRO (2017),
whereas **Project** _____: Modernization of India Post (2008)

MCQ [Asked in UPSC-Pre-2012] Consider the following:

- 1) Hotels and restaurants
- 2) Motor transport undertakings
- 3) Newspaper establishments
- 4) Private medical institutions

The employees of which of the above can have coverage under ESIC?

- (a) 1, 2 and 3 only (b) 4 only
(c) 1, 3 and 4 only (d) 1, 2, 3 and 4

10.5 GEN-> HEALTH INSURANCE SCHEMES (स्वास्थ्य बीमा योजनाएं)

10.5.1 Niramya Health Insurance

- **Boss?** By Dept. of Empowerment of Person with disabilities (दिव्यांगजन सशक्तिकरण विभाग)-> Insurance Company (Oriental).
- **Benefit?** upto ₹1 lakh health insurance for handicapped and mentally challenged.
- **Fee?** Orphan Minor PWD= ZERO; other PWDs: Rs.250-500, depending on poverty/income status**.

10.5.2 Rashtriya Swasthya Bima Yojana (RSBY: 2008)

- **Fee?** One time registration Rs.30. No premium by beneficiary. Govt pays premium.
- **Benefits?**
 - o ₹ 30k for medical treatment [smartcard, cashless: even existing ailment, even private hospital.]
 - o ₹ 25k for accidental death. And if Breadwinner dies: Rs.50 x 15 days.
- ++Senior Citizen Health Insurance Scheme (SCHIS) –if 60/>-: they get additional 30k for treatment.
- Both RSBY and SCHIS are subsumed in PM-JAY (2018)



10.5.3 Ayushman Bharat

In last decade, in-patient hospitalization expenditure in India has increased nearly 300%. More than 80% of the expenditure met by out of pocket (OOP). So, rural households are forced to use household savings and borrowings = vicious cycle of poverty. So, Ayushman Bharat launched in Budget 2018, with two components:

- A) ___ lakh Primary Health Care Centers (PHC) to be transformed into Health & Wellness Centres (स्वास्थ्य और कल्याण केंद्र). Free drugs, checkup, mother-child care etc.
- B) National Health Protection Scheme (AB-NHPS) -> Later renamed 'PM Jan Arogya Yojana (PMJAY)' and launched with Motto "_____ " from Ranchi, Jharkhand (2018, Sept). It has subsumed Senior Citizen Health Insurance Scheme (SCHIS) and Rashtriya Swasthya Bima Yojana (RSBY).

10.5.3.1 PM Jan Arogya Yojana (PMJAY, 2018)?

- **What is given?** A FREE insurance cover upto ₹ _____ for secondary and tertiary hospitalization. All pre-existing disease covered from day 1. Pre and post hospitalization & medicine expenses. Cashless and paperless access [NITI partnered web portal with privacy protection]
- **Beneficiaries?** Socio-Economic Caste Census (SECC) data-> _____ = ~50 crore people. No limit on family size or age of members. [SECC: सामाजिक आर्थिक जाति जनगणना]
- **Where to get treatment?** All public hospitals and empaneled private hospitals (by the respective States). Hospitals to have **Pradhan Mantri Aarogya Mitras (PMAMs)** to help patients with admin procedures. These PMAMs are trained using National Skill Development Corporation (NSDC) and Ministry of Skill Dev.

10.5.3.2 National Health Authority (राष्ट्रीय स्वास्थ्य प्राधिकरण)

- Originally it was "Agency", then restructured & renamed into "Authority" (2019, Jan).
- NHA oversees the implementation of PM-JAY, operational guidelines, collaborate with insurance companies & IRDAI, running web-platform etc.
- NHA is an 'attached (Adjunct) office' with health ministry. i.e. Health Min only looks after parliamentary matters like replying in question hour, tabling annual reports etc. thus giving NHA more freedom in day to day functioning.
- NHA has a CEO Dr. Indu Bhushan with status of Secretary to Govt of India.
- Above NHA, there is "Governing Board" Chaired by the Minister of Health & Family Welfare, and Members: NITI Ayog CEO, NHA-CEO & other govt officials and domain experts. States will be represented in the Governing Board on rotational basis.

10.5.3.3 State Health Agency (SHA)

- Each State to form a trust / society / Not-for-Profit Company / Nodal Agency -> that will act as SHA.
 - o SHA can directly implement the scheme by themselves OR.
 - o SHA can tie up with an insurance company to implement the scheme.~~Although these administrative nuances / modalities are not so IMP.~~
- **Cost Sharing?**
 - o Union bears 100% cost for UT without legislature.
 - o Union: State = 60 : 40 for ordinary states
 - o Union: State = _____ (for NE+3 Himalayan states viz. J&K, Uttarakhand, HP)



10.5.3.4 Challenges in PM-JAY?

- **Cooperative Federalism (सहकारी संघवाद)** spirit is missing. States have to sign MoU with Union to begin operations. But, W.Bengal already has state-govt sponsored "Swasthyasathi" scheme in State with similar features so CM Mamta has left PM-JAY (2019, Jan). Similar issues in other Non-BJP states.
- **Fiscal Challenges (राजकोषीय चुनौतियाँ):** Budgetary allocations insufficient. If govt borrows more money-> rise in fiscal deficit. Private hospitals may perform unnecessary surgeries & prescribe excessive amount of medicines to extract more money from govt.
- **Administrative Challenges:** Beneficiary identification, Doctor to patient ratio, Physical and IT infrastructure, transport & connectivity upto village level. Medical privacy of Patient- data may be leaked to pharma companies for their clinical trials and commercial motives.

10.5.3.5 Conclusion (PM-JAY)

- Sustainable Development Goal SDG#3 Ensure healthy lives and well-beings at all ages. PM-JAY is a right step in this regard, provided aforementioned challenges are addressed. OR
- Disease burden robs a poor person of his wages and savings. If aforementioned challenges are addressed, PM-JAY can greatly help in poverty removal and human development in India. OR
- If above challenges are addressed, PM-JAY can improve health outcomes, productivity and efficiency of Indian population, thus leading to improvement GDP and in quality of life.

10.6 GENERAL INSURANCE → OTHER THAN HEALTH INSURANCE

10.6.1 Pradhan Mantri Fasal Bima Yojana (2016)

- Against natural calamities, pests, diseases; Protects before, during and after harvest.
- Premium paid by farmers against the total insured amount: Rabi winter crops (1.5%) – Kharif summer monsoon crops (2%) – Horticulture & Commercial crops other than oilseed & pulses (___%). Remainder premium is paid by Union: State Govt (50:50). It's optional for States to join.
- It's compulsory for farmer to buy a crop-insurance IF he's taking crop-loan from banks
- **Nodal Ministry:** _____ ⇒ Public sector general insurance companies, and empaneled private sector insurance companies.
- **Challenges?** States not paying their portion, Pvt insurance companies not settling claims quickly.
- **Related Schemes?**
 - PM Fasal Bima subsumed National Agricultural Insurance Scheme and Modified NAIS
 - Apart from PM Fasal Bima, there is Restructured Weather Based Crop Insurance Scheme (RWBCIS, 2016)- protects against weather only. (so not pests/diseases).

10.6.2 Third Party Motor Insurance (थर्ड पार्टी मोटर इंश्योरेंस)

- Motor Vehicles Act (1988) requires all motor vehicle owners to purchase it.
- When your vehicle hits another vehicle, person or property-> that victim (third party) registers a case, gets compensation. IRDAI regulates premium rates & other norms.



- Comprehensive Vehicle Insurance covers both third party as well as you & your vehicle against accident, vandalism, natural disasters etc but then it has higher premium than simple 3rd party-walla insurance.

10.7 RE-INSURANCE (पुनर्बीमा)

- DICGCI Act (1961) requires banks to take deposit insurance from DICGCI. Similarly, _____ Act (1938) requires insurance companies take 're-insurance' on their business.
- Previously, only _____ was the sole-reinsurer, but then norms liberalized (2015). New re-insurance cos allowed. e.g. India's ITI Reinsurance Ltd. Even foreign re-insurers such as Swiss Re, Munich Re, General Reinsurance (Warren Buffet) are permitted.
- **Benefits of multiple re-insurance cos?** GIC's monopoly in dictating re-insurance premium rates is gone. So, insurance cos' cost of operations to decline -> biz. expansion, launch innovative products etc.

10.8 IRDAI: THE INSURANCE SECTOR REGULATOR

Org	<ul style="list-style-type: none"> - 1996: IRDA setup-> given statutory status in 1999 - 2014: Its name changed to _____ - _____ (IRDAI: भारतीय बीमा विनियामक एवं विकास प्राधिकरण) - HQ: @Hyderabad, Telangana
Structure	1 Chairman: Dr. Subhashchandra Khuntia (IAS) (5/65), 9 members (5/62) = Total 10. They can be re-appointed.
Functions	<ul style="list-style-type: none"> - IRDAI gives separate licenses for life, general & re-insurance companies. - Prescribes norms for insurance companies for accounting, solvency, audit, commission to agents etc. It can penalize companies, suspend or cancel registration. Appeal-> _____ - Norms for Agents & brokers, banks selling products (Bancassurance), Surveyor/ Loss Assessor, and Third-Party Administrators (e.g. Hospital) - Consumer grievance redressal via Insurance Ombudsman. - IRDAI is member of Financial Stability and Development Council (FSDC).

10.9 CHALLENGES TO INSURANCE INDUSTRY

- 1) Capital intensive industry: Private players not generating enough profits esp. post-subprime crisis. Bleeding in commission rates and marketing
- 2) Products are not cheap, innovative tailor-made policies not available for MSME. So, problem of Underinsurance= not taking sufficient insurance to cover losses.
- 3) Insurance agents need more skill, network than banker. For bankers- loan recovery easier (SARFAESI, I&B) compared to an insurance company that invested into shares/bonds of a failing company (like IL&FS).
- 4) Rural people: either disinterested / un-served despite schemes & IRDAI norms.
- 5) People hesitate in buying House / Factory / Fire / Theft insurance due to fear of discovery of 'asset value'- IT/GST raids & ransom demands. As a result, India's "insurance gap" is high i.e. total assets (in value) divided by insured assets (in value).
- 6) Insurance: Highly regulated, but Healthcare: highly unregulated, so supply demand mismatch: between (doctors-hospitals) vs. patients. Standardized treatment costs difficult to ascertain, unlike car damage. Delays in claim settlement= fewer repeat customers.



Insurance _____ (3.5%, 2016)	Insurance _____ : less than Rs.60, 2016)
(Total insurance premium / Total GDP)	Total Premium / Total population

For India, both indicators have improved in last decade, but both are low compared to many developing countries due to aforementioned challenges.

10.9.1 Should we increase FDI from present 49%?

Pro, yes we should raise FDI limits	No we shouldn't raise FDI limits
<ul style="list-style-type: none"> - Indian insurance companies will get additional capital from Foreign investors = this can help mitigating above challenges. - They can expand overseas, mobilize money from Bangladesh/Kenya etc. for Indian economy. - IRDAI prescribes "Investment pattern", there is ombudsman for customer complaints. Further, Companies Act has norms for independent directors, auditing, whistleblower protection, CSR. So, apprehension that Foreign investors will cause mischief = unlikely. 	<p>Foreign investors will put pressure on Indian insurance companies to generate more profit. So</p> <ul style="list-style-type: none"> - speculative trading & investment in junk bonds that offer higher return =>Collapse. - Company may reject insurance claims for frivolous reasons to increase its profitability.

11 PENSION

11.1 EMPLOYEE PROVIDENT FUND ORG. (कर्मचारी भविष्य निधि संगठन)

- 1951-51: EPFO was setup initially by ordinance & then act. Nodal: Labour Ministry.
- EPFO governed by Tri-partite "Central Board of Trustees" त्रिदलीय केन्द्रीय न्यास बोर्ड -
 - I. Government (Union + state) – 15 nominees
 - II. Employers (Boss) - 10 nominees
 - III. Employees (worker) – 10 nominees
 - o They make policy decision about where to invest money (usually G-sec>C-Bonds>Shares; with minimum and maximum slabs) and they decide how much interest should be paid to subscribers.
- **3 schemes:** Provident Fund (1955), Deposit Linked Insurance (1976) & Pension (1995).
- EPFO subscribed **worker** has ____ (Universal Account Number) that remains the same even if he changes jobs. Whereas, **factory owner** has LIN (Labour Identification Number)- which he uses while uploading the compliance documents on _____ webportal of Labour Ministry.
- EPFO transactions can be done through both public and pvt sector banks and through Ministry of Electronics and Information Technology (MeitY)'s _____ App (Unified Mobile Application for New-age Governance).


11.1.1 2016: Pradhan Mantri Rojgar Protsahan Yojana (Labour Min)

- Private sector employers hire workers informally, but don't report them in official formal records lest they've to contribute to EPFO-funds under statutory norms, face harassment of EPFO officials.
- As a result, worker is hired informally, denied job-security & social security. Economic Survey 2015-16 diagnosed it as "EPFO Regulatory Cholesterol preventing formal-job creation.)




- Hence, to encourage pvt companies to hire new workers 'formally' -> Govt pays employer (Factory owners) portion for the first 3 years.**

EPFO applies to any establishment with 20/> workers**



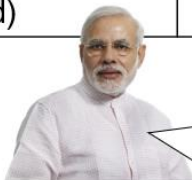
Salary is 15k/<

But, our boss is not 'showing on records' that he's recruited us. "we are Informal labourers".



Well, its EPFO's regulatory cholesterol that prevents me from hiring you "ON PAPER"

Employee: 12%	Employer (Factory owner / Boss) co-contribute (12%)	
12% into EPF (Provident Fund)	3.67% EPF (Provident Fund)	8.33% EPS (Pension)



@Factory owner : "Formally" hire them on paper, & other new recruits, we'll pay your side of contribution for first 3 years= *Pradhan Mantri Rojgar Protsahan Yojana*

11.2 PENSION FOR GOVT EMPLOYEES & MIDDLE CLASS?

Govt Employees (from 2004)	Middle Class (from 2009)
<ul style="list-style-type: none"> - New Pension Scheme- नवीन पेंशन योजना. - Subscriber? Those who joined govt. service on / after 01/01/2004** - Mechanism? Employees (10 % of basic pay) + Govt. contribution (14% of basic pay: since Interim-Budget-2019)->goes to PFRDA empaneled NPS-Fund-manager -> Invested G-sec, Corporate Bonds and Shares depending on your preference in Tier1/T2**. 	<ul style="list-style-type: none"> - Same scheme renamed into "National Pension System (NPS: राष्ट्रीय पेंशन प्रणाली)", made open for all citizen (and NRIs) on voluntary basis. - 2010: NPS-Lite (Swavlamban): If poor person from unorganized sector joined NPS, then govt to co-contribute money for five years**.

NPS subscribers have ____: Permanent Retirement Account Number, Just like EPFO subscriber has ____ Number.

11.2.1.1 Jeevan Pramaan (2014)

- Previously, A pensioner (in any Govt / public sector org.) has to submit a physical Life Certificate in November each year to prove that he's alive = hardship, bribery.
- "Jeevan Pramaan" – an "Aadhar-based Digital Life Certificate" by Ministry of Electronics & Information Technology (_____)
- pensioner's Aadhar number + biometric reading device-> PC, Mobile-> "Digital Life Certificate"-> submit to the authority -> pension released.



11.3 PENSION FOR SENIOR CITIZENS WITH CAPACITY TO INVEST?

11.3.1.1 Pradhan Mantri Vaya Vandana Yojana (2017-DFS, LIC)

- Post-demonetisation, Banks were flush with deposits, so deposit interest rates were likely to fall -> so to protect the senior citizens' income government launched this.
- A ___years/> senior citizen can join, latest by 31/3/2020.
- He can invest min. ~1.5 lakhs to maximum 15 lakhs.
- Guarantees ___ interest on investment, which results into a monthly pension of ₹1000-10000, for a period of ___ years. Then original amount returned. In between, if senior citizen dies then nominee (spouse, children) gets original amount back.
- If LIC can't generate guaranteed return, then Govt (DFS) to pay subsidy for shortfall.
- Other similar schemes: Senior Citizen Savings Scheme, LIC Varistha Pension Bima Yojana but they are old schemes so poor cost: benefit in preparing the difference / comparisons.

MCQ [Asked in UPSC-CDS-2019-1] Consider the following passage about a scheme : It was launched to provide social security during old age and to protect elderly persons aged 60 years and above against a future fall in their interest income due to uncertain market conditions. The scheme enables old age income security for senior citizens through provision of assured pension / return linked to the subscription amount based on government guarantee to Life Insurance Corporation of India (LIC). Identify the scheme.

Answer Choices:

- a) Pradhan Mantri Swasthya Suraksha Yojana b) Pradhan Mantri Vaya Vandana Yojana
c) Liveability Index Programme d) Rashtriya Vayoshri Yojana

11.4 PENSION FOR POOR PEOPLE WITH CAPACITY TO INVEST?

Yojana (APY)	Pradhan Mantri
By Dept of Financial Services, 2015	Interim Budget-2019.
Only 18-40 age Indian citizen residing in India (No NRI)	Scheme yet to be fully notified.
No minimum or maximum income limits. Mukesh Ambani can also join, but given that fact that maximum pension is ₹5,000 a month so target-audience is poor people, unorganized workers outside EPFO security.	unorganized sector workers with monthly income upto ₹____. E.g. street vendors, rickshaw pullers, construction workers, rag pickers, agricultural workers, beedi workers etc.
Monthly pay ₹42-210 rupees till the age of 60	Monthly invest ₹55-100 (depending on age). Govt to co-contribute equal amount. Till the age of 60
₹_ _ _ _monthly pension- depends on @which age joined, how much contributed?	Fixed ₹__ pension per month.
One person-1-subscription only.	Same
<ul style="list-style-type: none"> - If husband dies after 60, then wife continues to receive pension. - If husband dies before 60 age, wife gets premium OR if she continues to pay then she gets pension when she reaches 60. - Both die, then beneficiary (child) receives the entire principal (premium). 	Scheme yet to be fully notified, but we can hope for similar.

**MCQ [Asked in Prelim 2016] Find correct statement(s) regarding 'Atal Pension Yojana':**

1. It is a minimum guaranteed pension scheme mainly targeted at unorganized sector workers.
2. Only one member of a family can join the scheme.
3. Same amount of pension is guaranteed for the spouse for life after subscriber's death.

Codes: (a) 1 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3

11.5 PENSION FOR POOR PEOPLE WITHOUT CAPACITY TO INVEST?

- For such Below Poverty Line (BPL) people, _____ Ministry's National Social Assistance Programme (NSoAP: राष्ट्रीय सामाजिक सहायता कार्यक्रम) in 1995, where direct money is given without asking for any premium.
- It's a core of the core scheme i.e. 100% paid by Union. It's optional for state govt. to contribute money in if they want to enhance the scheme's features:

NSoAP Components	Union	State (Optional to give extra)
Old age pension @60	₹200-500*	May give extra.. & rename it e.g. Samajwadi Pension
Widow pension 40-59	₹200	May give extra and rename it e.g. UP Vidhva Pension @1k
Disability pension: 18-59	Same as widow	e.g. Guj: Sant Surdas Scheme
National Family Benefit INSURANCE	Death of bread winner: ₹10k	e.g. Guj: Sankat Mochan (Total 20k)
Annapurna (2001)	If senior citizen uncovered in any other scheme 10kg grain / pm for FREE.	May give additional.. लेकिन बुजुर्ग या भी कितना सकता है?

11.6 PFRDA, THE PENSION FUNDS' REGULATOR

Org	2003: executive order to setup PFRDA- Pension Fund Regulatory and Development Authority (पेंशन निधि विनियामक एवं विकास प्राधिकरण) 2013: given statutory status. HQ: _____, just like IBBI.
Structure	1 Chairman: Hemant G Contractor (5/65), 5 members (5/62) = 6 people. Can be re-appointed.
Functions	<ul style="list-style-type: none"> - Implement National pension system (NPS), select its fund-managers. - Regulate all public and private pension funds except EPFO, J&K, Seaman, Coal miners, Assam tea plantations related pension schemes as they've their separate acts / mechanisms. - Protect Clients, Pensioners - Prescribe Liquidity, auditing, investment norms for Pension funds. - Powers of civil court. Documentation, fin awareness - Pension FDI is linked with insurance FDI (49%) so not decided by PFRDA.



12 FINANCIAL INCLUSION (वित्तीय समोवेशन)

- **Financial Inclusion:** providing access to banking, investment, pension, insurance and credit (loan) facilities to each citizen. This ensures social, economic and transaction security (लेनदेन में सुरक्षा) (S-E-T), improves social harmony, women empowerment, helps reaping the benefit of “LESS CASH Economy” (Ref: Handout#1)
- **Social Security (सामाजिक सुरक्षा):** a system of payments / assistance by the government to citizens who are ill, handicapped, poor, aged or unemployed. The foundation of SS in our constitution @DPSP Article 41- State to provide public assistance to its citizens in case of unemployment, old age, sickness and disablement; and DPSP Article 42- The State shall make provision for securing just and humane conditions of work and for maternity relief.
- **Social Justice (सामाजिक न्याय):** distribution of wealth, opportunities, and privileges within a society- through reservation in jobs, admissions and election and through legal safeguards for protection of civil rights, prevention of atrocity and personnel laws.
<Homework: Write Constitutional Article No. & its provision keywords in margin>
- Collectively, these three (FI,SS,SJ) help in human development, inclusive economic growth and Sustainable Development Goals (SDG: सतत विकास लक्ष्य).

12.1 FINANCIAL INCLUSION: BANK ACCOUNTS FOR EVERYONE

- Nationalization of Banks (1955, '69, '80) → 1961: _____ Act → 1966 Cooperative Banks under RBI's Ambit → 1969 Lead Bank Scheme (SCB:Pvt or Public) given lead role in district → 1971 State level Bankers' Committee → 1976 Regional Rural Bank (RRB).
- Further, RBI requires commercial banks to setup atleast 25% of their branches in unbanked rural areas. Similar norms for White label ATM Cos.
- 2005: RBI permitted no-frills account with zero balance
- 2006: RBI permitted Banking Business Correspondent Agents (BCA)
- 2011: Government's Swabhiman to increase banking presence in rural area.
- 2013: eKYC permitted.
- 2014: JDY, new Private Commercial Banks (Bandhan, IDFC First), BMB
- 2015: Small Finance Banks and Payment Banks.
- 2017-18: India Post Payment Bank

12.1.1 Pradhan Mantri Jan Dhan Yojana (प्रधान मंत्री जन धन योजना)

- 2014: launched by Dept of _____, with two phases, 6 objectives:

PM JDY – phase I (2014-15)	PM JDY – phase II (2015-18)
1. Financial literacy 2. Banking within 5 kms 3. Account for every family with overdraft, with Rupay ATM-cum-DEBIT Card	1. Credit guarantee Fund (For Overdraft defaults) 2. Direct Benefit Transfer (DBT) 3. Sell Micro insurance & pension products through bank.

- PM-JDY bank account can be opened in any commercial or Cooperative Bank provided that (1) bank has CBS (2) bank is tied with _____ Payment Gateway.
- Basic Savings Bank Deposit Account - Age ____/>; Zero balance- no penalty. But, Chequebook only with “balance”;
- There are restrictions on max. number of money withdrawals per month.



- Overdraft upto ₹_____ depending on balance history of min. 6 months. Overdraft given on only one account holder in household (preferably woman). Money has to be returned with interest within 3 years. Banks to decide the loan rate**.
- EVERY Jan Dhan account comes with FREE Rs.1 lakh Accident Insurance; Premium by _____, it's therefore necessary to regularly use card- atleast for checking balance. Union Government employees, and income tax payers not eligible for this free insurance.
- **Significance?** JAM trinity (JanDhan, Adhar, Mobile) for targeted and direct transfer of subsidies, scholarship and payments to beneficiaries.
- **Criticism?** PM-JDY accounts were used as money mules during demonetization.

MCQ [Asked in Pre-2015] Pradhan Mantri Jan-Dhan Yojana' has been launched for:

- (a) providing housing loan to poor people at cheaper interest rates
- (b) promoting women's Self-Help Groups in backward areas
- (c) promoting financial inclusion in the country
- (d) providing financial help to the marginalized communities

12.2 FINANCIAL INCLUSION: INVESTMENTS OTHER THAN BANK ACCOUNT

What if poor / lower middle-class person wants better returns than bank deposit rates? He may opt for...

Act	Small Savings Schemes: लघु बचत योजनाएं
Govt Savings Bank Act 1873	Post Office schemes: monthly, 5 year, savings, time deposit
Govt Savings Bank Act 1873	Senior Citizen Savings (2004)
Government Savings Certi Act '59	National Savings Scheme (NSC)'59
Government Savings Certi Act '59	Kisan Vikas Patra 1988-11, 2014
PPF Act 1968	Public Provident Fund (PPF)
No Act.	Sukanya Samriddhi Yojana '2005

- Money (usually) goes into national small savings fund (NSSF)-> loans to Union and (selected States) with caveats not imp for us.
- Interest rates are decided by FinMin's Dept of _____ on quarterly basis.
- Individual eligibility, upper-lower limits etc. poor cost: benefit...except Sukanya Samriddhi.

12.2.1 Sukanya Samriddhi Yojana (2005)

- Parents open a (fixed deposit type) bank account in the name of a 0-10 years girl child, and deposit annually ₹_____ to 1.5 lakhs till she reaches age of 14.
- FinMin's Dept of Economic Affairs announces interest rate (originally 9.1%, presently 8.5%)
- Money (principal and interest) can be withdrawn @ the age of 18-21** depending on whether married or not. So, it indirectly prevents child marriages & empowers the grown-up daughter with money to pursue higher education, small business etc.

12.2.2 Proposed Government Savings Promotion Act (in 2018)

It aims to merge (outdated) laws related to small saving schemes (ref: previous table) Benefits?

- Easier withdrawal during medical emergency, college fees etc,
- Clarification on Minor account, PH people- guardian rights; Grievances redressal.



12.2.3 Chit Funds (चिट फंड)

- Chit fund is a type of “contract” = subject to Concurrent list. So, UNION has Prize Chits and Money Circulation Schemes 1978, Chit Funds Act 1982; Further state have their own acts / rules / State regulator of Chit Funds.
- **Chit fund mechanism?** collective investment scheme wherein members make regular contribution to chit fund, and it's loaned to one of the members via bidding system. From this activity, chit fund manager gets fees, members earn profit (interest). ~~How does that work? How's that different from NIDHI companies (regulated by Ministry of Corporate Affairs) = B.com thing not. Imp. For UPSC.~~

12.2.4 What is Chit Fund Scam?

- Saradha Chit Fund scam, Rose Valley Chit Fund Scam: The scamsters ran multiple schemes in W.Bengal and neighbouring states, invested money in sharemarket, real-estate, shopping malls etc. thus violating the chit-fund laws.
- Further, any collective investment scheme of ₹100 cr/> requires SEBI permission. Yet they didn't obtain permission.
- They also engaged in Multi-level marketing (MLM) / Pyramid / Ponzy Selling = they'd use new investors' money to pay-off old investors. But once new investors stop coming, it'll collapse. Further Modus Operandi / Timeline not IMP.
- **Action?** CBI & other agencies investigating. Union Govt proposed “Banning of Unregulated Deposit Schemes Bill 2018”, already covered in Bitcoin lecture.

12.3 FINANCIAL INCLUSION: PENSION & INSURANCE

Various schemes are given in previous sections: But just to quickly recall the notable terms:

12.3.1 Micro Insurance (सूक्ष्म बीमा)

- ⇒ Insurance policy may be Life / General Insurance with a very low premium.
- ⇒ When small sum insured (upto ₹50k) & target audience is poor / villagers / farmers. It may be an individual / group based insurance.
- ⇒ Intermediaries such as NGO, SHG, MFI help in selling such policy.
- ⇒ Policy/ Contracts are given in local language.
- ⇒ e.g. LIC's Jeevan Madhur and Jeevan Mangal

12.4 FINANCIAL INCLUSION: CREDIT (LOANS: ऋण)

12.4.1 Micro Finance Institutions (MFI: सूक्ष्म वित्त संस्थान)

- They give loan (upto ₹50k) to poor without collateral, flexible EMI; but interest rates higher than banks as MFI can't accept deposits- they arrange funds via banks/NBFC/AIFI & keep their profit margin in between.
- E.g. Bandhan (WB- got PvB license), SKS (Andhra), Cashpor (UP), Ujjivan (Karnataka).
- **Regulator:** RBI + Ministry of Corporate Affairs



12.4.2 Priority Sector Lending (PSL), MUDRA, Standup and others

- **PSL:** Banks required to lend 40-75% of their loans to farmers, weaker section, MSME and other priority sectors as per RBI norms. *REF: Monetary Policy Handout.*
- **MUDRA Ltd:** Shishu, Tarun, Kishor upto Rs.10 lakh. *REF: Bank Classification Handout.*
- **Standup India:** Each Bank Branch to give Rs 10 lakh and Rs 1 Crore loan to atleast 1 SC/ST, and 1-woman borrower for a greenfield non-farm enterprise.

12.4.3 Kisan Credit Card (1998)

- 1998: Launched by RBI +NABARD.
- Farmer gets credit card from PSB, RRB, State Cooperative Banks.
- Can swipe it to buy farm inputs (seeds, fertilizers, pesticides etc.)
- Can withdraw cash (as loan).
- Money to be repaid with interest. Accidental insurance also given.
- **Budget-2018:** Kisan Credit Card (KCC) extended to Animal Husbandry and Fisheries farmers. Interim-Budget-2019: they (animal/fisheries-walla) too will get the interest subvention
- **Interim-Budget-2019:** comprehensive drive with a simplified application form to get all farmers under KCC cards.

12.4.4 Interest Subvention (ब्याज सहायता)

Government pays part of the interest rate for borrower. (farmer, MSME, affordable housing etc) such as:

- Farm loans upto 3 lakhs-> 9% MINUS 2% (to all farmers) MINUS 3% (regular paying farmers)= only 4% interest rate farmer has to pay.
- **Interim-Budget-2019:**
 - o KCC-card-walla Animal Husbandry and Fisheries farmers also eligible.
 - o If natural disaster- then crop loans are rescheduled, we'll streamline the subvention norms there.
 - o **MSME:** incremental loans upto ₹1 crore to GST registered MSME industry= _% subvention. (As such already announced by Modi last year)

12.4.5 Credit Guarantee (ऋण अदायगी गारंटी)

- **Meaning?** if borrower defaults, then losses of banks/NBFCs will be covered by credit guarantor. So, Bank/NBFC may lend without requiring borrower to pledge collaterals.
- Earlier DICGC used to give credit guarantee for PSL borrowers, but now this work is done by organizations such as:

Organization	Credit Guarantee Fund	Loans covered
SIDBI + Govt	Credit Guarantee fund trust for Micro & Small Enterprise (CGTMSE)	Loans to Micro & Small Enterprise
Dept. of _ _ _	National Credit Guarantee Trustee Company (NCGTC)	_____, Skill & Education loans
_ _ Ministry	Export Credit Guarantee Corporation of India fund (ECGC)	Exporters

12.4.6 Co-origination of (PSL) loans (2018, Sept: ऋण की सह-उत्पत्ति)

- **Meaning?** Commercial Banks and NBFC-ND-SI can jointly pool money and lend to a PSL-borrower.
- **This is good for bank:** Saves their time in finding / approaching PSL-clients. Risk of NPA/default is shared with an NBFC.



- **This is good for NBFC:** They've better network & intelligence of PSL-clients (Farmers, Small Entrepreneurs etc). and risk of default is shared.
- Hence RBI permitted in 2018-Sept, with caveats**.

12.4.7 Refinance (पुनर्वित्त)

- When an AIFI (or MUDRA) gives new finance to Banks/NBFCs based on the quantum of finance they (Bank/NBFC) have already given to end-borrowers. Usually works via the process of securitization of the previous loan papers.

12.5 FINANCIAL INCLUSION: CUSTOMER PROTECTION

Bank/NBFC (under RBI)	Finances (SEBI)	Insurance (IRDAI)	Pension
Ombudsmans: Bank, NBFC, Digital Transaction (given below)	Portal-> SEBI->SAT	Insurance Ombudsman via IRDAI Act '1999, hear matters upto ₹30 lakhs. If higher claim then consumer courts / other courts.	<ul style="list-style-type: none"> - NPS: NSDL-> PFRDA. - If EPFO- then its internal machinery

12.5.1 RBI's 3 Ombudsman (ओम्बड्समेन/ शिकायत निवारण अधिकारी)

	Banking Ombudsman	NBFC Ombudsman	Digital Transactions Ombudsman
When	1995	2018	2019
RBI designates a senior RBI official under	Banking Regulation Act, _____	powers to regulate NBFCs under RBI Act, _____	Act, 2007
Where does he sit?	21 offices across India	4@ Chennai, Kolkata, New Delhi and Mumbai, looking after respective zones.	Same as BO
Customer can file free complaint against	Any type of bank	<ul style="list-style-type: none"> - Any NBFC-Deposit-taking (e.g Mahindra, Jindal, Sriram), OR - Any NBFC with assets size of ₹1 billion & customer interface. Although Exempt: Infrastructure finance/debt companies, Core Investment Companies, NBFCs under liquidation. (for them NCLT, SEBI-SCORE). 	Prepaid payment instruments, Mobile wallets, Apps, NEFT/RTGS and other digital transactions
For amounts	upto ₹20 lakhs	upto ₹10 lakhs	upto ₹20 lakhs
Penalty	Ombudsman can order penalty upto ₹1 lakh for customer's mental agony, waste of time and money		
Higher Appeal?	-----		



12.6 FINANCIAL INCLUSION: INDIA'S PERFORMANCE (भारत का प्रदर्शन)

12.6.1 Global _____ Report 2018

- To measure financial inclusion levels, this report is prepared by Accion global NGO's Center for Financial Inclusion (CFI) & partners like Bill & Melinda Gates Foundation, Metlife foundation.
- **Ranking?** Columbia (1), India (4) among 55 nations.
- Report identified following challenges:
 - × full interoperability across payment systems. lack of financial literacy, no trust in financial system or buying insurance.
 - × digital divide, grievances redressal. extreme poverty, no surplus to save / invest.
 - × No land / property records-> access to loans is difficult.

12.6.2 Global _____ Database 2017: (released in 2018, April)

- By _____ with help of Bill & Melinda Gates Foundation
- Appreciated PM-Jan Dhan, now we are parallel to China. Financial inclusion helps bringing rich poor divide through targeted delivery of subsidies via J-A-M.

12.7 MOCK QUESTIONS FOR MAINS (250 WORDS)

- 1) Explain the significance of financial inclusion & social security for achievement of Sustainable Development Goals for India. भारत के लिए सतत विकास लक्ष्यों की प्राप्ति के लिए वित्तीय समावेशन और सामाजिक सुरक्षा के महत्व को समझाएं।
- 2) Discuss the significance of crop insurance and health insurance in eradication of rural poverty. Enumerate the notable initiatives of the Government in this regard. ग्रामीण गरीबी उन्मूलन में फसल बीमा और स्वास्थ्य बीमा के महत्व पर चर्चा करें। इस संबंध में सरकार की उल्लेखनीय कदमों की सूची दीजिए।
- 3) How is Ayushman Bharat-PM-JAY is different from the previous centrally sponsored schemes on health insurance? Identify the fiscal and administrative challenges in its implementation. राष्ट्रीय स्वास्थ्य संरक्षण मिशन इससे पूर्व की केंद्र सरकार द्वारा प्रायोजित योजनाओं से अलग कैसे है? इस योजना को लागू करने आनेवाली वित्तीय व प्रशासनिक चुनौतियों को चिन्हित कीजिए।
- 4) (Asked in Mains-2016) Pradhan Mantri Jan-Dhan Yojana (PMJDY) is necessary for bringing unbanked to the institutional finance fold. Do you agree with this for financial inclusion of the poorer section of the Indian society? Give arguments to justify your opinion. प्रधानमंत्री जन-धन योजना (पीएमजेडीवाई) बैंकिंग से वंचित लोगों को संस्थागत वित्त / ऋण के दायरे में लाने के लिए आवश्यक है। क्या आप भारतीय समाज के गरीब वर्ग के वित्तीय समावेशन के लिए इससे सहमत हैं? अपनी राय को सही ठहराने के लिए तर्क दें।