Chapter – 1
Basics of Financial Inclusion – I

Participant Handout

Chapter 1: Basics of Financial Inclusion – I

Learning Objectives

After completing this chapter, you will be able to learn:

- What financial inclusion is
- Why financial inclusion is required
- Steps taken by RBI to promote financial inclusion
- Steps taken by Government to promote financial inclusion

Introduction

Financial Exclusion is the scenario in which a section of the population or a cluster of individuals are denied access to basic financial services in certain areas having poorer, marginalised and socially deprived people. Despite the many progressive actions taken by Government of India, Reserve Bank of India and financial service providers, there are still considerable efforts to be made across India to ensure access to banking services. Therefore, financial exclusion has become a key policy concern.

This process becomes self-reinforcing and financial exclusion is often an important factor in social exclusion. Financial exclusion is also a question of economic efficiency in India, as an agrarian economy in which 69 per cent of the population is living in rural areas with poor background and without the access to banking services.

What is Financial Inclusion?

Financial inclusion is the process of confirming access to appropriate financial products and services – deposit accounts, payment services, micro-credit and micro-level insurance – to vulnerable groups such as weaker sections and low-income groups, at an affordable cost, in a fair and transparent manner.

Financial inclusion is connecting every family of the rural and unbanked areas to the financial system of the country. Urban areas, to some extent, are still connected with the banking system, but rural areas are still not able to take complete benefit of the financial system.

To manage a country's financial system, two institutions are required. One is the ***country's Government,*** and the other is the ***country's central bank***. Together these two institutions develop a financial system.

In simple terms, ***financial inclusion means linking every family in the country to the financial system***.

Important Milestones in Financial Inclusion

Year	Milestone
1904	Created Rural Cooperative Society
	Created Rural Credit Survey Committee
1955	Created State Bank of India
1969	Nationalized 14 Major Commercial Banks Introduced Lead Bank Scheme
1972	Introduced Mandatory System of Priority Sector Lending (PSL)
1975	Created Regional Rural Banks (RRBs)
1990	Created Self Help Groups (SHGs)
1992	Created SHG – Bank Linkage Programme
1998	Introduced Kisan Credit Card
2005	RBI Advised Banks to Open No Frill Accounts
2006	RBI Allowed BC/BF to Act as Agents of banks
2010	RBI Allowed Profit Companies (Except NBFCs) to act as Banking Correspondent
2011	NPCI Launched IMPS System
2014	Pradhan Mantri Jan Dhan Yojana Launched
2016	PSL Target for RRBs Increased from 60% to 75% of Total Outstanding

2004 – An eye-opening year

In 2004, the United Nations, headed by Mr Kofi Annan, requested the Indian Government to check the status of Financial Inclusion in India. Indian Government assured UN that every family is connected to the banking system as the concept of Regional Rural Banks (RRBs) were already introduced in 1975. Not satisfied with the Indian Government response, the Un again insisted India to at least conduct a survey to find out the exact status of financial inclusion.

In 2004, the Indian Government had set up a committee to find out the status of Financial Inclusion in India. The committee was headed by H R Khan, Dy Governor of Reserve Bank of India. The Khan Committee had identified that 67% of India's population was not linked to any financial system. Only 33% of India's population was linked to the financial system.

The concept of ***Banking Correspondent*** stemmed from a report of H R Khan, Dy Governor of RBI. Banking Correspondents (BCs) are individuals/entities engaged by a bank in India (commercial banks, Regional Rural Banks (RRBs) and Local Area Banks (LABs)) for providing banking services in unbanked / under-banked geographical territories. A banking correspondent works as an agent of the bank and substitutes for the brick and mortar branch of the bank.

Activity

1. Write a short note on ‘The Khan Committee’.

The need of Financial Inclusion in India

1. ***Boosting savings***
   The maximum population of India belongs to the middle class, and most of the middle-class families focus on savings instead of an investment. Therefore, the main aim of financial inclusion is to boost savings.

2. ***Ensuring the benefits of subsidies and other welfare schemes***
   Along with boosting savings, Government also wants to reduce leak in subsidy and welfare distribution. The Government wants the public to directly get the benefits of the subsidies and other welfare schemes. Earlier, because of the involvement of middlemen in the process, the common men were unable to get the complete benefits of the Government schemes.

3. ***Credit facility to the weaker sections***
   Financial inclusion is needed in India is to make credit available to the weaker sections of the society.

Steps Taken by RBI to Promote Financial Inclusion

We already know that to manage a country’s financial system, two institutions are required. One is the country’s Government, and the other is the country’s central bank. Indian central bank is Reserve Bank of India (RBI).

Both RBI, as well as the Indian Government, has taken steps to promote financial inclusion in the country. The steps taken by RBI to support financial inclusion include:

1. Introduction of Kisan Credit Card
2. Introduction of No Frill Account
3. Banking Service Through Business Correspondent
4. Electronic Benefits Transfer (EBT) - transfer all the subsidies and benefits directly to the account of the beneficiary

Kisan Credit Card (KCC)

KCC is a credit scheme prevalent in India, which was introduced in August 1998 all over the country. The prime motive of this credit scheme is to enable farmers in having quick and timely access to affordable credit. The plan was launched by the National Bank for Agriculture and Rural Development (NABARD) and Reserve Bank of India.

The scheme aims to reduce farmers' dependency on informal banks for credit, which is often lucrative yet very expensive. The card is offered by cooperative banks, regional rural banks, and public sector banks.

The KCC scheme currently offers:

- Insurance coverage for KCC holders
- Credit to meet the financial requirements of farmers, primarily related to crop production and other contingencies
- Coverage for crop loans given under KCC scheme for some specific crops only
- Protection against loss of crops due to pest attacks, natural calamities, etc.

In some cases, collateral security is to be provided. If the loan amount is above Rs. 100000/-, then the cardholder has to offer his land as mortgage and pledge the crops raised on it.

No Frill Account

In 2005, RBI introduced No-Frill Account to provide basic banking facilities to poor and promote financial inclusion. The No-Frill Account can be maintained without or with a very low minimum balance.

This account is beneficial for low-income individuals, who have to deposit 2-3 times in a month and withdraw occasionally. The nature and number of transactions in such accounts would be limited.

On August 2012, RBI asked banks to rename the "No-Frill Account" as "Basic Saving Bank Deposit Account (BSBDA)". The BSDBA should be considered as a normal banking service, which is available to all.

The following are the features of a BSDBA:

- This account shall not have the requirement of any minimum balance. It can be opened with Zero balance.
- There will be no limit on the number of deposits that can be made in a month.
- Account-holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals.
- The facility of ATM card or ATM-cum-Debit card is available.
- Total credits in such an account should not exceed one lakh rupees in a year.
- The maximum balance in the account should not exceed fifty thousand rupees at any time.
- The total of debits by way of cash withdrawals and transfers should not exceed Rs 10000 in a month.

Types of Basic Saving Bank Deposit Accounts

There are two types of Basic Saving Bank Deposit Accounts:

1. Small account: A small account can be opened with the help of an introducer. There is no KYC required for such accounts. Foreign remittances cannot be credited to small accounts without completing normal KYC formalities. Small accounts are valid for 12 months initially, which may be extended by another 12 months if the person provides proof of having applied for an officially valid document.
2. Normal account: A small account can be opened with the help of an introducer. There is no KYC required for such accounts.

Activity

1. Elaborate the steps taken by RBI to support financial inclusion.

Financial Inclusion Schemes

The earlier section of this chapter discussed the steps taken by RBI to support financial inclusion in the country. Let us take a look at the steps taken by the Government of India to support financial inclusion.

Government of India has introduced various Financial Inclusion schemes including:

Self-help Group

Self-help Group (SHG) is a village-based financially intermediary committee usually composed of 10-20 local men or women. The SHGs create a common fund by contributing their small savings. Every member of the group actively participates in the functioning of SHGs.

SHG rely on the notion of "Self Help" to encourage self-employment and poverty alleviation. It provides collateral-free loan with terms decided by the group at the market-driven rates. The loan is sanctioned on 'trust' with minimum documentation and without any security.

Self-Help Groups have emerged as the most effective mechanism for the delivery of microfinance services to the poor.

Self-help Groups – Bank Linkage Programme

The Self-Help Group - Bank Linkage Programme (SBLP) started in the year 1992. The SHG Bank Linkage Project, launched by NABARD in 1992, has blossomed into the world's largest microfinance project.

NABARD along with RBI permitted SHGs to have a savings account in banks from the year of 1993. This action gave a considerable boost to the SHG movement and paved the way for the SHG-Bank linkage program.

Under the SBLP, there are three different models:

1. Model I: SHGs promoted, guided and financed by banks
2. Model II: SHGs promoted by NGOs or Govt. agencies and financed by banks
3. Model III: SHGs promoted by NGOs and Financed by banks using NGOs/formal agencies as financial intermediaries

Model II has emerged as the most popular model under the SBLP programme. Commercial banks, co-operative banks and the regional rural banks have been actively participating in the SBLP.

Pradhan Mantri Jan Dhan Yojana (PMJDY)

PMJDY is a national mission on Financial Inclusion to ensure financial access to every citizen of the country. Prime minister Narendra Modi launched it on 28th August 2014.

Jan Dhan Yojana means 'people money scheme'. The slogan of this scheme is "Mera khata bhagya vidhata" – my bank account, the creator of good fortune.

The features of this scheme include:

- It can be opened with zero balance.
- There is no minimum balance requirement.
- You will get interest on the deposit.

- The account holder gets an accidental insurance coverage of Rs. 1 lakh and a life insurance cover of Rs. 30,000.
- One can easily transfer money across India and also, gets a Rupay debit card.
- After six months of account usage, the account holder is eligible for an overdraft facility up to Rs. 5000.

Sukanya Samriddhi Yojana (SSY)

The objective of this scheme is to provide financial support for a girl child to pursue her higher studies later on in life. The scheme enables parents and guardians to save for the child's future education.

The account must be kept active by depositing a minimum of Rs. 1,000 per year and the maximum total deposits per year is capped at Rs. 1,50,000. The investment will earn interest at the rate of 8.6% per annum, and it will be revised annually at the discretion of the Government.

The account will be terminated on the following conditions if the child gets married or 21 years of the account has been completed.

If 21 years of the account is completed and the girl is unmarried, the account can be kept active. The deposit will earn a specified rate of interest. The interest rate, in this case, has not been decided yet.

Upon attaining the age of 18, 50% of the deposit can be withdrawn for the purpose of higher studies. Premature withdrawal is allowed in special cases for medical reasons, death of the child, or the parents are unable to carry forward with the scheme.

Pradhan Mantri Mudra Yojana (PMMY)

The Government of India launched Prime Minister Mudra Yojana (PMMY) on 8th April 2015 to extend affordable loans to the non-corporate, non-farm micro and small enterprises to cater to their funding needs.

To enable every last mile financer to lend credit to all types of businesses in the country, the MUDRA - Micro Units Development and Refinance Agency bank was established as a public sector financial institution. Micro financers provide low rate loans under this scheme.

The Pradhan Mantri Mudra Yojana has three products as per the funding requirements of the beneficiary:

Type of Loan	Coverage of the Loan
Shishu	< Rs. 50000
Kishor	Above Rs. 50000 up to Rs. 500000
Tarun	Above Rs. 500000 up to Rs. 1000000

Under the Pradhan Mantri Mudra Yojana (PMMY), 20.84 crore loan accounts totalling an amount of Rs 10.24 lac crore have been sanctioned up to November 1, 2019.

Atal Pension Yojana (APY)

Atal Pension Yojana, formerly known as Swavalamban Yojana is a government-backed pension scheme in India, primarily targeted at the unorganised sector.

The minimum eligible age for a person joining APY is 18 years, and the maximum is 40 years. An enrolled person would start receiving pension on attaining the age of 60 years. Therefore, a minimum period of contribution by the subscriber under APY would be 20 years or more.

The national Aadhaar ID number is the primary "know your customer" document for identification of beneficiaries, spouses, and nominees to avoid entitlement-related disputes in the long-term. For proof of address, an individual may submit a copy of their ration card or bank passbook.

Subscribers are required to opt for a monthly pension from Rs. 1,000 to Rs. 5,000 from the age of 60 years and ensure payment of the stipulated contribution regularly (monthly, quarterly, or half-yearly basis). Subscribers can opt to decrease or increase pension amount during the course of the accumulation phase, as per the available monthly pension amounts. However, the option to switch is only provided once a year during the month of April.

This scheme will be linked to the bank accounts opened under the Pradhan Mantri Jan Dhan Yojana scheme, and the contributions will be deducted automatically.

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

Pradhan Mantri Jeevan Jyoti Bima Yojana is a government-backed life insurance scheme in India.

This scheme is available to people in the age group of 18 to 50 years having a bank account who give their consent to join/enable auto-debit. Aadhar would be the primary KYC for the bank account. The life cover of Rs. 2 lakhs shall be for the one-year period stretching from 1st June to 31st May and will be renewable. Risk coverage under this scheme is for Rs. 2 Lakh in case of death of the insured, due to any reason.

The premium is Rs. 330 per annum, which is to be auto-debited in one instalment from the subscriber’s bank account as per the option given by him on or before 31st May of each annual coverage period under the scheme. The scheme is being offered by Life Insurance Corporation and all other life insurers who are willing to offer the product on similar terms with necessary approvals and tie-up with banks for this purpose.

Pradhan Mantri Suraksha Beema Yojana (PMSBY)

It has an annual premium of Rs. 12 exclusive of taxes. The GST is exempted on Pradhan Mantri Suraksha Bima Yojana. The amount is automatically debited from the account. This insurance scheme can have one-year cover from 1 June to 31 May and would be offered through banks and administered through public sector general insurance companies.

The Scheme is available to people in the age group 18 to 70 years with a bank account.

Aadhar would be the primary KYC for the bank account. The risk coverage under the scheme is Rs.2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability. Full disability has been defined as loss of use in both eyes, hands or feet. Partial permanent disability has been defined as loss of use in one eye, hand or foot. Death due to suicide, alcohol, drug abuse, etc. are not covered.

This scheme will be linked to the bank accounts opened under the Pradhan Mantri Jan Dhan Yojana scheme. Most of these accounts had zero balance initially. The Government aims to reduce the number of such zero balance accounts by using this and related schemes. Now all bank account holders can avail this facility through their net banking service facility at any time of the year.

Activity

1. Write in your own words the role of self-help groups.

Summary

Financial inclusion is the process of confirming access to appropriate financial products and services – deposit accounts, payment services, micro-credit and micro-level insurance – to vulnerable groups such as weaker sections and low-income groups, at an affordable cost, in a fair and transparent manner.

To manage a country's financial system, two institutions are required. One is the country's Government, and the other is the country's central bank. Together these two institutions develop a financial system.

Boosting savings is the main aim of financial inclusion in India. Along with boosting savings, the Government also wants to reduce leak in subsidy and welfare distribution. The Government wants the public to directly get the benefits of the subsidies and other welfare schemes. Financial Inclusion also aims to make credit facility available to the weaker sections of the society. RBI and Government of India have taken many steps and introduced many schemes to support financial inclusion in the country.

Glossary

Agrarian Economy

An agrarian economy is a rural-based economy. It is cantered upon the production, consumption, trade, and sale of agricultural commodities, including plants and livestock.

Banking Correspondent

A banking correspondent works as an agent of the bank and substitutes for the brick and mortar branch of the bank.

Kisan Credit Card

KCC is a credit scheme prevalent in India, which was introduced in August 1998 all over the country. The prime motive of this credit scheme is to enable farmers in having quick and timely access to affordable credit.

National Bank for Agriculture and Rural Development

National Bank for Agriculture and Rural Development (NABARD) is an apex development finance institution fully owned by Government of India. The bank has been entrusted with "matters concerning policy, planning, and operations in the field of credit for agriculture and other economic activities in rural areas in India". NABARD is active in developing the Financial Inclusion policy.

MUDRA

Micro Units Development and Refinance Agency Bank is a public sector financial institution in India. It provides loans at low rates to micro-finance institutions and non-banking financial institutions which then provide credit to MSMEs. It was launched by Prime Minister Narendra Modi on 8 April 2015.

Self-help Group

A self-help group (SHG) is an intermediary financial committee usually composed of 10 to 20 local women or men between 18 to 40 years. Most self-help groups are in India, though SHGs can be found in other countries, especially in South Asia and Southeast Asia. SHG is nothing but a group of people who are on daily wages, they form a group, and from that group, one person collects the money and gives the money to the person who is in need.