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BRIEF

India's Push for Financial Inclusion: The Story Two Years On

Rani is a domestic worker who lives in a New Delhi suburb with her husband, an electrician. Her three children (ages 18, 11, and 8) live with her in-laws in a village in a neighboring state about 200 kilometers away. She has never seen the need to participate in the formal financial services system: Her employers pay her in cash, she pays for all her expenses in cash, and she sends money to her in-laws every month through an agent who ensures the cash is deposited in her father-in-law's bank account.

In 2014 after a new Indian parliament was installed, her neighbor excitedly told her about a program she heard newly elected Prime Minister Narendra Modi talk about on TV. He talked about how Jan Dhan Yojana (translates to Scheme for People's Wealth) could help her receive a cooking gas subsidy directly into a bank account. Intrigued and encouraged by the hype, Rani went with her neighbors to an account opening camp near her house. Although the entire process took two hours because of long lines, the process itself was simple. She presented her national identity number, filled out one form, and handed over two passport-sized photographs. She was told to return three days later to collect her passbook. After providing the cooking gas dealer with her bank account details, which were linked to her national identification number, she was all set and would receive any subsequent cooking gas subsidies directly into her new account.

Although she is not aware of any other products or services available to her through this account, an unintended consequence of having this account is an accumulation of some savings. She leaves the \$2.50 cooking gas subsidy that she receives from the government every two to three months in her account and adds any remaining money she has after paying all her monthly expenses. A few months ago, she took out money to pay for a hospital bill when she got burnt cooking at home. She hopes to be able to save enough to pay for her children's weddings and build additional rooms to a house they own in the village.

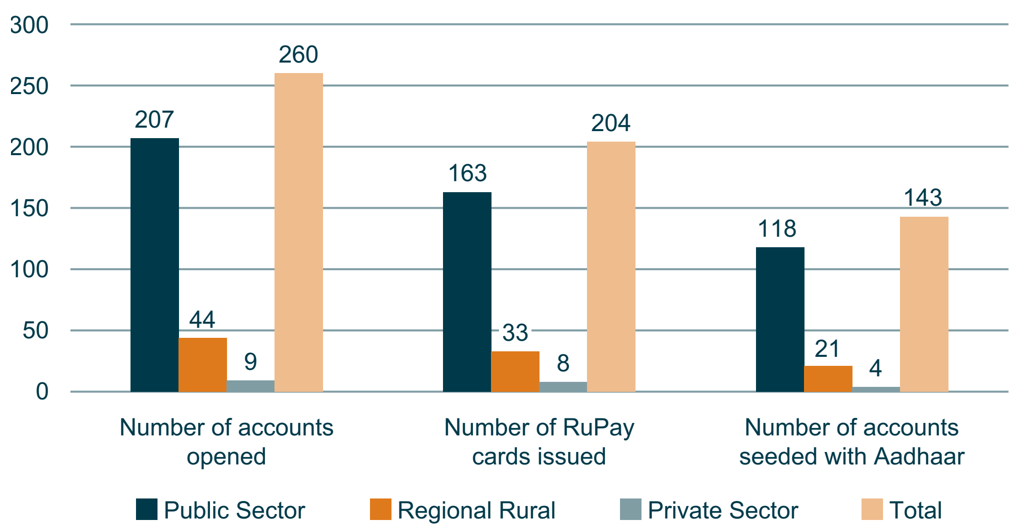
Rani's bank account experience is a result of an ambitious plan for comprehensive financial inclusion whose goal is to bank every household in India. The effort, dubbed the Prime Minister's Jan Dhan Yojana (PMJDY), was launched in August 2014. India has a long history of government efforts to promote financial inclusion and, while some progress has been made, only about half of adults had bank accounts before PMJDY was launched (InterMedia 2016).

Under this program, account holders

- Can receive subsidy payments directly into their account.
- Can transfer funds and check balances through a feature phone.
- Receive a RuPay (domestic alternative to Visa and MasterCard) debit card.
- Are not required to maintain a balance.
- Are eligible to enroll in an accidental insurance plan at \$0.20 a year for coverage of ~\$3,000.
- Are eligible to enroll in a life insurance plan at \$5 a year for coverage of ~\$3,000.
- Are eligible to enroll in a pension plan with a monthly payout of \$15–75.
- Are eligible to receive a ~\$75 loan from the bank after six months, depending on use.

Building on what was already a large base of 53 percent of people over the age of 15 having a bank account

Figure 1. PMJDY Account Openings, by Type of Bank, as of December 2016 (millions)



Source: PMJDY

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(469 million) (World Bank 2014), this program led to the opening of 260 million accounts in just over two years. While there is some uncertainty around how many of these accounts were for first-time account holders, a survey conducted in mid-2015 indicates adult bank account ownership increased to 63 percent (InterMedia 2016). 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. This is consistent with an independent, large-scale, and nationally representative survey that shows 99 percent of households have at least one member with a bank account (Bhattacharya 2016).

While earlier financial inclusion efforts in India resulted in accounts not being serviced well and customers losing interest, PMJDY could be different. One early sign of this is that 76 percent (up from 55 percent in August 2015) of accounts have a balance greater than zero, and deposits totaled $6.74 billion in mid-October 2016. This received a massive push following Prime Minister Modi's move on 8 November 2016 to withdraw the majority of currency notes in a move dubbed "demonetization." Within a month of that move and as a result of people shifting cash into their accounts, deposits in PMJDY accounts surged to over $11 billion. While the sources of these deposits are unclear and the longer term implications unknown, the shift to date is notable (Shashidhar 2016).

Key Enablers

PMJDY did not come out of thin air; it is made possible by a number of key enablers in the Indian system.

High level of government involvement in implementation/execution. Prime Minister Modi announced the plan in his first major national speech and has since demonstrated sustained commitment to its success. As the owner of the program and primary shareholder in India's large public-sector banks, the government has been able to stay close to PMJDY implementation and execution. The prime minister's office has remained active in monitoring its progress. The program's senior bureaucrat overseeing the program organized weekly video conference meetings in which all banks were required to participate. During these meetings, they were expected to report on numbers, raise issues they were facing, and present possible solutions.

Credibility/strength of public-sector banks. The Indian banking system is made up of 26 public-sector banks, 25 private-sector banks, 43 foreign banks, 56 regional rural banks, and several thousand smaller cooperative banks, according to India Brand Equity Foundation (IBEF). While private-sector banks gain more market share each year, public-sector banks hold about 70 percent of banking assets (IBEF 2016). Public-sector banks accounted for almost 80 percent of PMJDY accounts and hold the same share of PMJDY deposits.

The public-sector banks' extensive branch network and scale facilitated account opening nationwide. Consumer trust in public-sector banks is also an important contributing factor.

A well-established biometric-based, online, digitally verifiable national identification system. By the time PMJDY launched, about 700 million Indians had biometric national identification—called Aadhaar (Kumar 2016). Those with Aadhaar numbers are able to open PMJDY accounts quickly. To expedite account opening, the government accelerated Aadhaar enrollment along with PMJDY account opening and issued 210 million Aadhaar numbers in 2015 at a rate of more than 4 million a week (Government of India 2016e). About 1.075 billion Aadhaar numbers have been issued as of December 2016 (UIDAI 2016).

Drawing on Lessons Learned from Previous Efforts

PMJDY's design builds on lessons learned from earlier government efforts, especially lessons learned to minimize the high level of account dormancy experienced in earlier efforts.

Targeting the household instead of villages. The most ambitious previous financial inclusion program launched in 2012 and focused on providing banking services to villages with populations over 2,000 (Government of India 2012). That program has been credited with providing banking services to 74,000 villages, but it was not enough to reach those in smaller villages. PMJDY shifts the focus from geographical coverage of villages to a goal of providing each household at least one account.

Going beyond account opening. Previous programs suffered from account dormancy. PMJDY has tried to encourage use by routing subsidy payments into these accounts. Increasing proportions of the $700 million in wages and subsidies that are disbursed to 300 million individuals every month are pushed through PMJDY accounts (Government of India 2016a). Sixty-two percent of beneficiary bank accounts are linked to Aadhaar numbers, which makes it easier to verify the identity of the beneficiary, thereby also helping to eliminate ghosts and duplicates. The monthly payment of wages to workers under the National Rural Employment Guarantee Act (NREGA) of $350 million to 100 million people makes up the largest program under the government's digitized payment program followed by the $285 million disbursed to 165 million households for liquid petroleum gas subsidies every month (Government of India 2016a). There are 57 national programs across 14 ministries and departments that are routing their subsidy payments through these accounts, and this number is expected to go up.

While there is a big push to ensure full use of these accounts, and balances are increasing, there are challenges. There is anecdotal evidence that many beneficiaries withdraw the subsidy soon after it enters into their accounts. Also, consumers have shown only modest enthusiasm in the products offered through the program with only 38 percent of account holders signing up for accident insurance, 12 percent for life insurance, and 1.3 percent for pension plans. There is still a long way to go to make associated services more attractive to consumers.

Increasing availability of agents. In earlier efforts, roving agents would occasionally visit villages. Under PMJDY, agents are required to be at fixed points in each service area, readily accessible as and when needed. Surveys conducted between December 2014 and December 2015 show that the proportion of agents ready to transact rose from 48 percent to 79 percent (MicroSave 2016).

Simplifying account opening. Those with a unique identification number need only complete a single simple form to open an account. Those without a unique identification number can provide alternative forms of identification. If an individual has no form of identification, he or she is still able to open an account that has limits on credit, withdrawal, and deposit sizes.

Making accounts more user friendly. With 616 million unique mobile subscriptions as of June 2016 the majority of the population has access to a mobile phone, and the hypothesis is that almost everyone now uses one (GSMA 2016). Keeping this in mind, PMJDY has focused on mobile banking whereby account holders are able to transfer funds and check balances.

The Story So Far

PMJDY offers a new approach to government-promoted financial inclusion that leverages new infrastructure and capabilities and aims to learn from earlier low use of accounts.

As a result of the prime minister's decision to remove most of the currency notes in circulation and promote digital payments, consumers have been strongly pushed to deposit old notes into their accounts, which in turn has given the PMJDY effort a major boost. This recent change on top of all the other efforts under PMJDY since August 2014 are creating a lot of new banking activity. It is unclear whether this can or will be sustained. It will be important to watch and learn from how these accounts fare in the months and years ahead.

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