The Innovative Financial Inclusion Schemes of the Modi Government

Prime Minister Narendra Modi has announced the launch of three major social security schemes at Kolkata on May 10. The schemes include a pension scheme named Atal PensionYojana (APY), a life-insurance scheme named Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and an accidental death or disability insurance scheme named Pradhan Mantri Suraksha Bima Yojana (PMSBY). To underline the importance of the schemes in the plans of the Government, these were launched simultaneously at 112 locations in different states and union territories; a dozen senior Union Ministers fanned out across the country to take part in some of these launch functions.

These schemes represent further unfolding of the 'financial inclusion' initiative that the Modi Government seems to have worked out in great detail. The objective of this effort is to draw all households into the banking and insurance system of the country.

Jan DhanYojana is at the Foundation

At the foundation of all this is the Jan DhanYojana, which the Prime Minister announced in his first Independence address to the nation on August 15, 2014. At that time, he invoked the name of the father of the nation and said that just as Mahatma Gandhi removed social untouchability from the country, he wishes to remove financial untouchability by providing a bank account for every family. The Prime Minister was so involved with this effort that, while launching the scheme, he sent a personal e-mail to all bank officers urging them to "put your shoulder to the wheel and try your level best to ensure that no one is left without a bank account. ...The Pradhan Mantri Jan DhanYojana lies at the core of our development philosophy of *Sab Ka Sath Sab Ka Vikas*. ..."

The personal interest that the Prime Minister took in the Jan Dhan Yojana has paid off. He had told the bankers that "We need to enrol over 7 crore house-holds and open their accounts. This is a national priority and we must rise to meet the challenge. ..." The bankers indeed rose to the challenge and by the end of March, 2015, a total of 14.72 crore Jan Dhan accounts had been opened in the country; 13.14 crore RuPay Debit Cards linked to these accounts had also been issued. Incidentally, of these 14.72 crore accounts, 11.54 crore are in the public sector banks and 2.56 crores in the regional rural banks; the private banks have been lukewarm, they have opened only 61 lakh such accounts.

An unexpected gain of the scheme is the large amount of money that it has brought into the banking system. The scheme allows any person to open an account with zero balance. Of the 14.72 crore accounts opened up to March 31, 2015, 8.52 crores indeed have no deposits. But deposits in the remaining 6.2 crore accounts add up to a considerable sum of 15,670 crores.

The huge number of accounts opened under the Jan Dhan Yojana form the basis of the three new financial inclusion schemes announced now. Jan Dhan Yojana itself includes an accidental insurance cover of Rs.1 lakh for every account holder; as an incentive for those who opened an account up to January 26, 2015, the scheme also provided a life insurance cover of Rs.30,000/- for five years. One of the objectives of the scheme was to open up the possibilities of new micro insurance and pension products linked to these accounts. In his e-mail to the bankers regarding the Jan Dhan Yojana, the Prime Minister had promised that, "As we go along, they (account holders) will be covered by insurance and pension products".

Financial Inclusion not Welfare Pay-out

Unlike the Jan Dhan Yojana, however, the insurance and pension schemes which have now been announced are not free of cost to the account-holder; these involve payment of regular premiums and subscriptions, which would be debited automatically from the accounts of the beneficiaries. These are not welfare-schemes, but innovative and affordable financial products designed for the vast market of unsecured Indians, especially in the unorganised sector of the economy which, according to the Government estimates, employs 88 percent of the Indian work-force. The Government is not funding these schemes, except for providing some incentives for a limited period and carrying out promotional activities like publicity and awareness-building, etc. Otherwise, these are commercially viable financial products designed, sold and implemented by the finance industry. The Prime Minister has himself emphasised this non-welfare aspect of the scheme; while launching the scheme at Kolkata, he said that the "poor do not need *sahara*, they need *shakti*", they do not need *help* but *empowerment*, which the Government is providing through facilitating their access to the banking and insurance system. Since what the Government has launched are regular commercially designed financial products, it is important for the prospective buyers to know the details of the commitments and entitlements they are entering into.

PM Suraksha and Jeevan Jyoti Bima Yojana

The simplest of the three new products is the accidental insurance scheme, PMSBY. The product is available to all saving bank account holders in the age of 18 to 70 years and it provides a cover of Rs.2 lakh in case of death or total disability and Rs.1 lakh in case of partial disability, in return for an annual premium of Rs.12/-, to be auto-debited from the account. The product is similar to the group insurance schemes available, for example, to credit card holders of several banks, except that the premium is much lower. But this level of premium does not seem too low if we make the not so unreasonable assumption that of every 20,000 persons insured less than 1 would be involved in a fatal or debilitating accident.

The PMJJBY, the life insurance product, is more expensive. It provides a cover of Rs.2 lakh in case of death for any reason for an annual premium of Rs.330/-, to be auto-debited from the savings bank account of the insured. The cover is available for persons in the age group of 18 to 50 years. Persons above the age of 50 years cannot join the scheme; but, if enrolled earlier they may continue up to the age of 55.

PMJJBY is also in the nature of carefully structured group insurance scheme. The relatively low premiums in this case as well as in the case of PMSBY make commercial sense because of two reasons. One, the sheer size of the group lowers the costs. The Government is aiming at enrolling some 10 crore persons in these two schemes; it is said that a target of enrolling 1,000 persons has been fixed for every banking personnel. Two, the linking of these schemes to the Jan Dhan or other savings accounts greatly lowers the transaction costs. In the PMSBY, out of the premium of Rs.12/-, the insurer gets Rs.10/-; the costs of the bank and the intermediary are pegged at just Rs.1/- each. In the PMJJBY, the insurer gets Rs.289/- of the annual premium of Rs.330/-; only Rs.30 goes to the intermediary agent and Rs.11/- to the participating bank.

Such low transaction costs and the huge scale of operations involved make these schemes attractive to even the private sector insurance operators. It has been reported that some of the private companies have already sold thousands of these products; the SBI is said to have sold 2 lakh policies already by May 9.

Atal Pension Yojana

The third product, the Atal Pension Yojana (APY) is more complicated. It requires a person to make regular monthly contribution for a period of 20 years or more to become eligible for a pension of Rs.1,000 to Rs.5,000 per month depending upon the quantum of contribution. For example, to receive a pension of Rs.2,000, a subscriber joining at the age of 18 years shall have to contribute Rs.84 per month for 42 years; a subscriber joining at the age of 40, on the other hand, would contribute Rs.582 per month for 20 years.

Uninterrupted contribution over several years is essential for a subscriber to enjoy the benefits of this scheme. Delayed contribution involves penalties; and, delayed instalments along with the penalties shall be auto-deducted by the computer module as soon as any moneys become available in the account. Discontinuation of payment for 6 months leads to freezing of the account; after 12 months the account is deactivated and after 24 months it is closed. This feature makes the success of this scheme somewhat doubtful. After all the scheme is meant for workers in the unorganised sector, where there is little job-security. It is difficult to expect such workers to contribute continuously for as long as 20 to 42 years.

Perhaps the government would have to think seriously about protecting the subscribers who are unable to continue. Perhaps this could be done by creating a separate corpus for this purpose. Or, the Government could design another insurance product that insures the subscriber against disruption of contribution. This could be done through including a small additional premium in the defined monthly contribution. Many credit card companies do provide such insurance to cover failure to pay the due amounts.

In the absence of some protection for those who fail to continue contributing to the pension scheme because of the loss of job or other reasons, the scheme may lead to a very large number of frozen, inactivated or closed accounts. This can cause much discontent and heartburning among people who may end up compromising the meagre amounts they would have saved during better times.

The Financial Inclusion Architecture

The Jan Dhan Yojana and the three schemes announced now clearly show that this Government has already worked out in detail the financial inclusion architecture for the country, much of which has been revealed now. The foundation for the architecture has been laid with the resounding success of the Jan Dhan Yojana.

This new architecture is aimed at replacing the welfare responsibilities of the Government with social security provided through commercially viable yet widely affordable financial products. But even these products may not be affordable for many. The Government is therefore encouraging the employers in the private and informal sector to undertake to pay the small insurance premiums and pension contributions on behalf of their employees. The Prime Minister himself has issued a call on these lines.

Another component of the financial inclusion architecture being put in place is the proposal of direct transfer of government benefits to the bank accounts of the eligible beneficiaries. A beginning has been made in this direction though the *Pahal* scheme for LPG, in which the subsidy amount for each cylinder is deposited directly into the bank account of the consumer. DBT is in turn dependent on the *Aadhar* system. There has been much concern about the national security implications of Aadhar. The legal backing of Aadhar is also so weak that the Supreme Court has forbidden the Government from making it mandatory for any transactions. Notwithstanding all these concerns, the Government has chosen to strongly back Aadhar, because it is a crucial component of the emerging financial inclusion architecture.

It is worth mentioning at this stage that many components of this architecture were conceived and put in place by the previous Government. Aadhar was, of course, a pet project of the UPA Government; that Government also began tentatively experimenting with Aadhar based Direct Benefit Transfers. The Jan Dhan Yojana had its predecessor in the Swabhiman Yojana, which tried to take banking to every village. The Atal Pension Yojana had its parallel in the Swavalamban Yojana; the subscribers of that scheme have now been given the option to migrate to the APY. The phrase 'financial inclusion' in fact became popular in the UPA period. The Modi Government, however, has brought a new energy to these efforts and with the personal involvement of the Prime Minister the somnambulant schemes of the previous Government have now taken the form of a mass movement for financial inclusion.

Need to Tread Carefully in all Directions

But it is impossible to reduce all welfare requirements to financial measures alone. A welfare Government has to provide food, health, education and old-age care to all the needy people. These obligations have to be met directly through expansion of the necessary physical infrastructure; it is not possible to reduce these obligations to defined amounts of financial benefits to be transferred to the bank accounts of the needy people.

Creating the architecture of financial inclusion is of course necessary. But financial inclusion would ultimately occur only when more and more people are able to get gainful employment in the economy; only that would ensure that moneys begin to flow into the Jan Dhan accounts and people are able to confidently pay the necessary insurance premiums and pension subscriptions. There is widespread hope that the Modi Government would indeed create such employment opportunities for large numbers.

But in addition to the financial architecture, the Government must also begin creating the physical architecture to deliver nutrition, education and health. The efficiency, speed, commitment and confidence with which the Government has moved towards creating the structure of financial inclusion gives hope that soon equally effective steps would be taken to create the physical structures necessary for delivering nutrition, education, health and old-age care for all. Ultimately, that is what makes a society inclusive and empowered.

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