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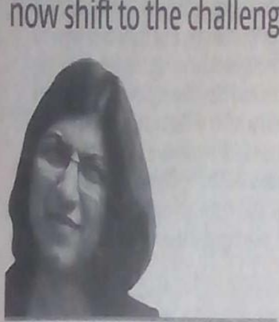
Time to move beyond the numbers game

Jan-Dhan Yojana has made a significant contribution in changing the paradigm of financial inclusion in India. The focus should now shift to the challenges ahead and how financial inclusion can play a coordinating role between stakeholders



SUMITA KALE

The news that bankers are reducing the number of zero-balance Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts by depositing ₹1 in those accounts (*The Indian Express*, September 13) is perplexing. For some strange reason, the authorities/bankers do not recognise that zero-balance accounts are a basic feature of no-frills/basic savings bank accounts (BSBA) or PMJDY accounts. The mission document for PMJDY, available on the website, clearly states, "The second pillar of this plan envisages providing basic bank accounts (basic savings bank deposit account or BSBDA, with zero balance) to all adult citizens starting with coverage of all households."

A high percentage of zero-balance accounts are perfectly in sync with accounts for the poor. Strangely, neither the government nor the media recognises that having less than a third of the accounts as zero balance is a natural outcome of a successful supply-push policy, namely the Jan-Dhan Yojana. Pushing for positive balance is not necessarily a good policy measure, and therefore, need not be monitored, or corrective action forced. The PMJDY was successful in covering everyone almost universally. There is no need to flog the horse more; the focus of financial inclusion now needs to be somewhere else.

It appears there is a perception problem — the news item quotes a bank official as saying: "There was a perception that so many zero-balance accounts mean no one is using them, so there was pressure on us to change that." So we have a basic feature now being perceived as the failure of a mission. Should PMJDY move to track usage of accounts instead? This would have been a good idea except it can lead to more such "rigging" if perceptions build up that accounts with more activity reflect better performance — the ₹1 can go in and out of the account to register usage!

We are actually stuck with the classic socialist mindset problem. In socialist Russia, when glass factories were given production targets of total weight, the glass became thick and lost its translucent quality, but the producers got their bonuses. The targets were then changed to square metres of glass, leading to thin, unusable glass being produced, and the producers got their bonuses. The world has moved on from those days, but our mindset remains the same. So where does PMJDY go from here?

The PMJDY has already made a significant contribution in changing the paradigm of financial inclusion in the country. The idea of linking all financial services — government benefits, insurance, pension, etc — to the account moved the BSBA towards a more comprehensive account. The PMJDY mission document recognises that this cannot happen overnight and includes the following in its challenges ahead:

- Fixing connectivity issues;
- Keeping the accounts "live";
- Brand awareness and sensitisation to ensure the "demand side pull effect" continues;
- Paying commission on Direct Benefit Transfer to improve viability of business correspondent agents;
- Providing services in difficult areas, including parts of North-East India, Himachal Pradesh, Uttarakhand, Jammu and Kashmir, and 82 left-wing extremism-affected districts.

CHANGING COURSE The battle for financial inclusion will be won in India when digital solutions adapt to the world at the bottom of the pyramid. The government will not be able to mandate this, nor is that its job

It is time now for the Department of Financial Services to move beyond the numbers game of accounts, agents, usage, etc. The focus should be on the challenges that it has itself laid out and shift to a coordinating role between stakeholders. For instance, the issue of connectivity is basic to account usage. In the present digital world, transactions are online and banking correspondents as well as customers report poor connectivity as a significant problem. It is a no-brainer that downtime in the data or power lines leads to dormancy in agents and accounts.

It is time that financial inclusion stops being a mandate pushed by the government and the Reserve Bank of India. They have done a stellar job in setting up the payments infrastructure and increasing access to banking. Now it is for the market to take over.

The business case will lie for those who make their product and the process truly customer-centric. This will not be easy — the poor are already running their financial lives the way they know best, within the networks they are comfortable with. Disrupting these lives will take ingenuity and time. A Financial Inclusion Insights Survey by Intermedia showed that while PMJDY has played a commendable role in raising bank account ownership, for credit needs, people continue to turn to their family and friends, the community they belong to and the village moneylender. The poor are comfortable with cash, and deal in networks they trust. From their perspective, they will not intuitively adapt to a formal banking channel.

So far, India has been using a mandate-driven, bank-led approach to financial inclusion. However, as we have just seen, excessive government push can yield perverse incentives. It is still not clear which kind of services and which type of models will be able to profitably meet the requirements of the masses. What is clear, though, is that the battle for financial inclusion will be won in India when digital solutions adapt to the world at the bottom of the pyramid. The government will not be able to mandate this, nor is that its job.

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