

**Speech by Finance Minister Mr. Arun Jaitley for the KR Narayanan Oration at
Australian National University, Canberra on 31 March 2016**

THE NEW ECONOMICS OF FINANCIAL INCLUSION IN INDIA

Ladies and Gentlemen,

I am grateful to all of you for inviting me here to speak on the topic of “The new economics of Financial inclusion in India”.

I understand that the Narayanan Lectures were instituted in honour of the former Indian President, Dr. K R Narayanan and distinguished speakers deliver orations on political, economic and developmental issues and prospects in India, each year. It is a privilege for me to join you here today and share my thoughts with the scholars, researchers and students gathered here on our Government’s initiatives taken on Financial Inclusion. The South Asian sub-continent constituting nearly one-sixth of the world’s population, is endowed with rich natural and human resources and occupies a strategic position on the world map. From ancient times to our own, the region has been open to influences from around the world and has also influenced the rest of the world particularly Africa, , rest of Asia and the Asia Pacific. Today, this region is undergoing rapid transformation and is a center of economic activity and liberalization efforts. The region is witnessing a favourable environment that promotes regional cooperation including with Australia and the wider circle of the Asia Pacific. As one of the largest economies in the region, India has an important role to play in this transformation and at this time, which many describe as the Asian century.

The Indian economy is consolidating its recovery as evidenced in recent years. Two to three years back, it was struggling with lower economic growth, unacceptably high inflation, high levels of current account deficit and fiscal deficit, huge pile of stalled infrastructure projects, drying employment opportunities and industrial weakness. A gradual, but far-reaching transformation is taking place and our macroeconomic situation is characterised by strong economic growth, comfortable price situation, low current account deficit, highest ever foreign exchange reserve and contracting fiscal deficit to GDP ratio. Investors have come to view India as a haven of stability and an outpost of opportunity for investments. Multilateral Organisations, like International Monetary Fund (IMF) and World

Bank refer to India as the 'bright spot' in the global economy and project a higher economic growth in 2016 as compared to 2015.

Overall, the economy is moving in the right direction and is expected to perform better and gather momentum in the coming years, once the impact of the on-going economic reforms takes root. India's long run potential growth rate is still around 8-10 per cent. and achieving this potential would be best way for India to achieve its varied socio-economic objectives. High growth is necessary to help the poor to get out of the scourge of poverty, generate employment opportunities for the unemployed youth, create more irrigation facilities for the farmers, generate more resources for development in a fiscally sustainable manner and much else.

On the other side, it is critical to make such growth inclusive. Our agenda for skilling the young labour force, measures for improving the ease of doing business, encouragement to budding entrepreneurial talent in terms of Start-up India and Stand up India initiatives, increasing public investments in the rural infrastructure, focussing targeted delivery of public services and bringing the poor into the financial system are steps being taken in this direction.

When we conceptualized the Pradhan Mantri Jan Dhan Yojana, which is our National Mission for Financial Inclusion, we were aware that in the past too some attempts had been made in this space. For us, however, the ambition was much larger. For instance, instead of reaching out to geographically larger villages, we targeted reaching out to every household and providing them with the facility of a bank account. Secondly, we leveraged technology to our advantage. We opened all bank accounts on the online Core Banking platform, so that all the new customers could be provided with the facility of a Debit Card. This was something which wasn't thought before, since it was felt that the poor could not use these cards. Third, we combined all aspects of financial services like savings, credit, insurance and pensions with this Mission. And finally we adopted a Mission mode with very tough timelines and completed the herculean task of opening 125 million bank accounts in less than 150 days.

For us these bank accounts were not an end in themselves but the gateway to something bigger. In the past, many of the International agencies in the financial inclusion space had held the view that India has the dubious distinction of having the largest number of zero balance accounts. We have ensured that out of the 213 million accounts which have been opened so far, less than 28% are dormant. Our new customers have deposited more than 348 billion INR which is approximately equal to 50 billion USD. As we talk, there is a Mission team back home in India which is monitoring these accounts to ensure that the zero balance accounts decrease to less than 20%.

Financial inclusion is at the core of our development philosophy. We therefore immediately started utilizing these new accounts for

- a) Providing social security to the people and
- b) Providing affordable credit to the entrepreneurs
- c) Plugging the leakage in our subsidy disbursements

In order to provide social security, we launched three schemes last year. The first scheme provided a life cover of Rs. 200,000 , the second provided an accident insurance cover of Rs. 200,000 and the third provided a Pension scheme for the youth in the age group of 18 to 40 years. The beauty of the insurance schemes was that not only these schemes were being offered at very nominal premium, they were also linked to the bank accounts opened by the people. This linking with accounts ensures that the auto-debit takes place from the accounts and the customers only need to be aware that they need to have sufficient balance in their accounts. More than 130 million customers have joined the two insurance schemes so far. We ensured that social security coverage was paid for by the people themselves, by ensuring that the rates were the lowest so far in the industry.

Across the world, the provision of credit to the entrepreneurs is the need of the hour. For this purpose, we launched the MUDRA scheme which provides credit of upto a million Indian rupees to the entrepreneurs without any collateral. The banks were naturally worried about the prospect of any such credit turning bad. Hence we created a Credit Guarantee mechanism for the banks so that the defaults can be taken care of. Our larger view is that the self-employed and the small entrepreneur sector in India is the largest employment provider. According to our surveys, there are 57.7 million small business units in the country, which employ 120 million people and are mostly outside

the formal banking system. Hence, we want to strengthen this sector. So far, 29.8 million customers have benefitted under the scheme with total loans of 1180 billion INR.

The problem of leakages in Government subsidy had been affecting the nation for sometime. We have started linking the accounts opened under Jan dhan scheme with Aadhar (which is our unique identity number) and with mobile numbers. The database of 1.2 billion bank accounts when linked with 900 million mobile phones and about a billion Aadhar numbers would effectively ensure that the subsidy flow only happens to those who actually need it. The Direct Benefits Transfer schemes of our country have therefore become the largest in the world. So far, our estimates show that about about 170 billion INR of subsidy has been saved in cooking gas alone. Parliament has now approved the bill granting a statutory status to Aadhar which will further accelerate Aadhar seeding in bank accounts.

As can be seen from our journey so far, we have largely adopted a self funding model for financial inclusion. We have been successful in telling the people that certain services need to be paid for and certain subsidies are meant only for the poor and downtrodden and not for the middle class. Deregulation of diesel prices, new fertilizer policy and introduction of PAHAL for transfer of cooking gas subsidy have rationalized subsidy expenditure. The deployment of JAM trinity of Jan Dhan Yojana, Aadhar, and mobile telephones is a hugely innovative intervention to carry this forward and place government finances at prudent levels.

Govt is also bringing about several reform measures for promotion of payments through cards and digital means. The goal of the proposed policy changes is to replace the use of cash - either in government transactions, or in regular commerce by providing the necessary incentives to use digital financial transactions over a period of time through policy intervention. These measures will further strengthen our efforts in financial inclusion as it would be ensured that each eligible account holder under PMJDY may be provided access to the digital financial services in addition to the 'RuPay Card'. In this regard, 'PayGov India' will be developed as a "single unified portal" across central, state governments and their public sector undertakings for collection purposes. Wherever needed, the Departments/ Ministries shall make modifications in the Rules and Regulations that may have been issued, so that

appropriate change is incorporated to allow payments / receipts by using cards/ digital means also. Mobile banking will be promoted to leverage upon the huge infrastructure available at lower cost. This will also bring efficiency in payments system and ensure that merchants/ consumers can leverage their credit history to access instant, low-cost micro-credit through digital means and create necessary linkages between payments transaction history and credit information. The efficiency gained and the reduction in transaction costs will consequently benefit all including the poorer sections of society.

Government's quest to extend financial inclusion to the most deprived sections of the society would be made possible by another of our government's initiatives: the Digital India. As stated by the Prime Minister Shri Narendra Modi, it was not enough for India to say that it is an ancient civilization, and a country of 1.25 billion people enjoying demographic dividend. Modern technology should also be blended with these strengths. Our Prime Minister has reiterated our Government's resolve to not allow the Digital Divide to become a barrier between people. Our vision of e-governance and mobile governance is where all important government services, including financial services, are available on the mobile instruments. Our Prime Minister has resolved, and I quote, "I dream of a digital India where High-speed Digital Highways unite the Nation; 1.2 billion connected Indians drive innovation; technology ensures the citizen-government interface is incorruptible."

From a commercial viewpoint, Banks get a 1% commission on the amounts transferred under Direct benefits Transfer particularly for those schemes which are rural oriented. This effectively compensates them for the costs that they incur in extending the last mile reach of the Bank Mitras-which are our channels of branchless banking in the villages.

The Indian model of Financial Inclusion has been recognized and appreciated across the world. While others have talked about it, we have demonstrated to the world that indeed there is fortune at the bottom of the pyramid.

I would like to conclude by saying that a clear political will combined with effective monitoring structures can accomplish such great financial inclusion milestones as has been done in India.
