Proliferation of Microcredit Service While Scaling Down Micro Saving and Micro Insurance in India

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Abstract: *The present thematic research paper highlights importance and low outreach of micro savings and micro insurance in India than that of microcredit reach. All these three are basic financial services extended through microfinance (MF). It has large been perceived as a vital development and economic tool and panacea for unbanked population. Microfinance is a provision of thrift, credit and other financial services of very small amount to the poor in rural, semi-rural or urban areas for enabling them to raise their income levels and in improving living standards. But there seemed a great rush to make better the living standards of poor, due to which there is high proliferation of only microcredit services are there ignoring thrift and micro insurance habit and outreach especially in India. In today's scenario of austerity how far this exclusion and scaling down of thrift and micro insurance practices will serve the purpose of financial inclusion? The present paper seeks to answer the same.*

Keywords: *Microfinance, Microcredit, Savings, Micro Insurance and Financial Inclusion.*

1. BACKGROUND:

Microfinance (MF) has large been perceived as a vital development and economic tool. It has succeeded in capturing attention of not only policy makers but also various non-government organizations and financial institutions. Hence since long MF is designated as panacea for unbanked population. Experts who favor microfinance are of the opinion that financial inclusion through MF will assist poor to overcome scarcity of basic needs. In a country like India where until 2015 high percentage of people were unbanked and microfinance promises to reduce poverty levels by bringing majority of the population under microfinance financial accessible net and aiding financial inclusion. Financial exclusion can adversely affect the lives of the people affected by it. Not only it will result into limiting income generating opportunities but also impose cost to the economy as it has deleterious effects on forma financial system itself by reducing the probability for businesses to broaden their customer base.

Genesis of MF in India lies not with the establishment of SIDBI and NABARD in 1982, but can be traced way back during 1904 with the commencement of rural credit cooperative movement. Also, with start up of SEWA in 1972 resulted as turning point in the history of microfinance. *But what is microfinance?* Microfinance encompasses wide range of financial service comprising microcredit, savings, micro insurance etc. to low income households who otherwise lack access to formal financial system. As per Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD), Microfinance has been defined as *Provision of thrift, credit and other financial services of very small amount to the poor in rural, semi-rural or urban areas for enabling them to raise their income levels and in improving living standards.*

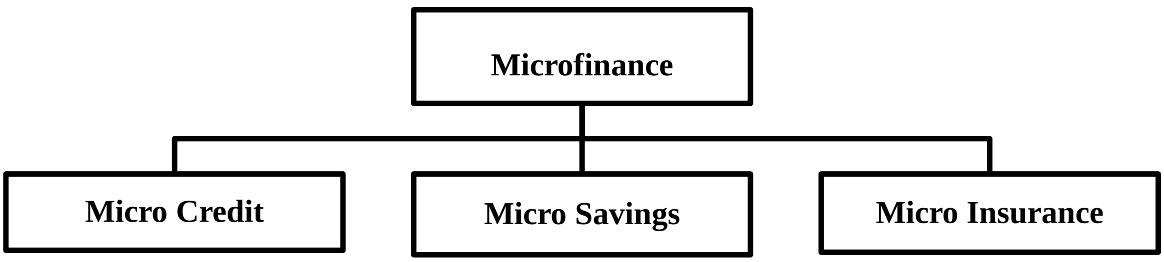

Figure 1: Core Elements of Microfinance (Author)

Post demonetization government aims to move closer towards 'cashless transaction'. Easily accessible financial facilities have been taken for granted by most urban population in a competitive market. Nevertheless, such financial facilities are far beyond reach for the disadvantage marginalized population. Even for an uncomplex transaction they face challenges. Apparently, the present trend towards 'cashless society' is making them more vulnerable in absence of proper access to the formal financial system.

2. PREDECESSORS TO FINANCIAL INCLUSION:

But there seemed a great global hush and rush to make better the living standards of poor, due to which there is high proliferation of only microcredit services ignoring thrift and micro insurance habit and outreach especially in India. Taking account of savings and micro insurance is more essential. In today's scenario of austerity how far this exclusion and scaling down of thrift and micro insurance practices will serve the purpose of financial inclusion? Financial inclusion is providing financial services at an affordable cost to marginalized low income people. *In the name of extending microfinance it has bypassed the core elements of overall financial health and stability that is primarily outcome of thrift and insurance practices as it has been credit cantered.* This is because a significant source of revenue earnings still comes from lending activities. Apparently both insurance and savings services do not feature commanding in government recent database. Both has not accorded equal priority in financial inclusion as credit.

As per the report of International Micro insurance Conference 2016[10], in Sri Lanka micro insurance reaches not less than 7% of the poor population. Also, the number of policies sold through mobiles surpasses 40 million in a region. Increasingly, a social protection mechanism such as microinsurance appears to be a prerequisite in national poverty reduction strategies (AG, GTZ and UNDP report 2006)[1]. India too possess one of the most dynamic micro insurance sectors having huge scope in both urban and rural regions.

Despite consistence interventions, cooperatives, nationalize commercial banks and regional rural banks have not been able to completely serve the needs of the poor. There is still exist a vacuum. Transaction cost turns out to be high when very small amount of money is involved. Conventional methods of banking have been unable to address the need for micro savings of these unbanked poor population. Due to this SHG-BLP movement emerged during 1990s. The prominent model of MF in India self-help group bank linkage program (SHG-BLP) model does emphasis on savings habit among the group members but wish core intention to become creditable and thereby avail credit form bank. But the objective of saving is not to make an individual or group to qualify for loans but rather it is useful habit for one's own sake. As per NABARD report on status of microfinance 2016-17[5], it was found that nearly 85.76 lakh SHGs had savings linkage with disbursement of microcredit of 38781.16 crore which rose by 4% post demonetization.

Moreover, the recent allegations of *commercialization of microfinance institutions* (MFIs) by lending at high interest rates and still unable not to reach poorest of the poor. Experts have argued that one of the main causes of mounting indebtedness for an individual is expensive loans which possess adverse consequences at macroeconomic level observed during subprime crisis in 2008 in US. In India such commercialization by MFIs has resulted in rising debts and suicides. Furthermore, even many of the world economies today are in trouble because of huge debts followed by insufficient savings. *A critical misapprehension that has been made is that there is supply push microcredit rather than demand pull credit. Also, savings and insurance goals for any individual are distant and ambiguous, while ease of availability microcredit feel tempting.*

3. ECONOMICS OF SAVINGS AND MICRO INSURANCE:

Savings as per Keynesian economics is residual of disposable income after making consumption expenditure in a given period of time. Also, it is needed to understand savings are flip side of credit itself. Automatically there would be less credit requirement in presence of substantial savings. Despite conventional wisdom, poor people actually do save, even if it's just pennies each day. They use a variety of informal tactics of hiding cash at home, loaning funds to relatives, participating in rotating savings groups with their neighbours, engaging deposit collectors, buying livestock or other physical goods such as jewellery or construction materials. For many, the answer is to tie up money in livestock, which can be sold if necessary This surprising diversity of savings mechanisms is in fact because none of them is reliable and safe (Moin Qazi 2017)[4]. The Indian RBI Governor Raghuram Rajan once emphasized that credit should follow and not lead. According to him 'savings habit, once inculcated, not only allows the customer to handle the burden of repayment better, it may also lead to better credit allocation'.

Saving is an essential component to economic progress of a country because of its relation to capital formation. Progress is not dependent on saving alone, there must also be individuals willing to invest and thereby increase productive capacity. saving is obviously at the heart of the economic growth that raises people's living standards. Micro savings has a vital role in broadening financial inclusion. Thus, it is unacceptable to have no or low saving levels in the economy.

Risk is yet another element associated with all individuals. There are various types of risk be it risk pertaining to life viz. accidents or death or non-life viz. loss of an assets (for rural households in terms of crop, livestock etc.). it is imperative to understand that there exists significant difference between risk and uncertainty. In economic sense, risk can be considered as static and has probability distribution while uncertainty is dynamic with no probability distribution. Risk are insurable, uncertainties cannot be insured.

Poor are more prone to vulnerable events relating to illness, death, loss of crop or livestock or variability in their earnings. Death of any key member of the family can be shocking nightmare for any household. These adverse events can sink households in to extreme stress. As a result, the poor lead precarious, anxiety ridden lives with risks looming much larger than opportunities. By and large villagers coping strategies to overcome these risks include dissaving, temporary migration, take loan etc. but how healthy these actions are to fight such risk? Here comes the importance of micro life insurance specifically as effective tool to combat such risk. *Microinsurance* can be defined as the protection of low earnings people against a specific peril in exchange for minimum premium proportionate to the probability of occurrence and cost of risk associated[6]. Micro insurance service enable poor to deal with different risks and can be considered integral to any poverty reduction strategy.

A strong uninterrupted linkage between savings, insurance and credit in imperative. Yet another option is to integrate micro insurance with savings. In such a packaged service, microfinance beneficiaries agree to receive a little low interest rate for their savings and the difference amount can be used to pay insurance premiums. A substantial benefit of this micro insurance-savings package is that it can lower the marginal costs for providing services such as paying premiums and receiving interest payments separately.

4. MICRO SAVINGS AND MICRO INSURANCE REVOLUTION IN INDIA WITH VACUUM BETWEEN RIGHT AND REALITY:

India needs both savings and insurance revolution. Undoubtedly, the movement has begun by the commence of Jan Dhan Yojana (JDY) launched in 2014, Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) both these micro life insurance schemes launched in 2015 as inclusion strategy. This scheme has radically transformed the Indian saving account landscape by opening more than 270 million accounts within the three years of its commencement. This both schemes can be simply game changers for boosting financial inclusion in the economy. But are majority of these zero balance savings accounts indeed in functioning or operational mode or not? To probe in to this on-going 'revolution', we shall examine its outreach as shown the Table 1.

Table 1: Pradhan Mantri Jan - Dhan Yojana (As on 8/08/2018, in Crore)

Financial Institutions	No. of Beneficiaries	Deposits in accounts
Nationalized Banks	26.11	64798.43
RRBs	5.22	14189.69
Private Banks	1.00	2208.67
Total	32.33	81196.78

Source: www.pmjdy.gov.in

As per the Scroll. In's analysis this year it was found that post demonetization as people had to access bank accounts to exchange old banknote the balance in JDY has increased. Also, by august 2018 29.51 cr. accounts were opened but nevertheless this no concrete evidence to show the success of JDY as still one fifth of all the accounts are dormant for name sake. It was also found that post few months of the scheme nearly 75% of these accounts were empty in no functioning mode. Meaning there was a rapid rise in accounts opened but was matched by any operations happening in these accounts.

Table 2: Overview of Government Micro Life Insurance (as on June 2016)

Scheme	Male	Female	Total
PMJJBY	21,415 (70.19%)	9,073 (29.74%)	30,511
PMSBY	5,120 (83.62%)	1,000 (16.33%)	6,123

Source: www.jansuraksha.gov.in

Furthermore, Scroll. In's analysis showed that the aim to provide governments micro insurance scheme PMJSBY and PM with 30,000 to all those who opened accounts under the scheme between August 2014 to March 2015 which were not less than 14.71 cr accounts. However, till 2016 the the ministry of finance received only 3,936 claims for life insurance and disbursed 3,421 of them, while rejecting others. This amounts to just 0.002% of total eligible beneficiaries.

According to the report of International Micro insurance Conference 2016[10], in Sri Lanka micro insurance reaches not less than 7% of the poor population. Also, the number of policies sold through mobiles surpasses 40 million in a region. Increasingly, a social protection mechanism such as microinsurance appears to be a prerequisite in national poverty reduction strategies (AG, GTZ and UNDP report 2006)[1]. India too possess one of the most dynamic micro insurance sectors in the world. Designing microinsurance policies requires intensive work which not only helps to reduce pricing of existing insurance policies. IRDA has now allowed cooperative banks, regional rural banks, primary agricultural cooperative societies (PACS) and individuals such as shopkeepers, medical store owners etc. can act as micro insurance intermediaries in order to broaden micro insurance outreach[7].

5. CONCLUSION AND FURTHER ACTION:

Micro savings and micro insurance are not *substitute* to micro credit but rather *complementary* which indeed enable to bring in the marginalized population in to the mainstream financial system and thereby getting closer towards financial inclusion. Financial inclusions should enable all disadvantage section of the society to have full access to core financial facilities including emphasizing not only credit service but also savings and insurance at a reasonable, flexible and reliable terms. There is a strong action driven need for Savings-Insurance Led Microfinance Institutions.

It is indeed advisable to increase fund allocation in India Microfinance Equity Fund (IMEF) and plan to dispose effectively in credit and insurance schemes both. India Microfinance Equity Fund (IMEF) was set up in 2011 and allocated amount is not large at present and disbursement is only of Rs. 23 to Rs. 25 crores. Moreover, NABARD also maintains Financial Inclusion Fund of Rs. 2000 crores to be injected in bottom of the pyramid of economy through commercial banks, Regional Rural Banks and few other financial institutions which is advisable to be augmented.

Government are under the power of Technocracy (a ruling power with heavy reliance on technology), thus a combination of innovation in the delivery channel of above mentioned all three financial services will reduce transaction cost making it viable to reach poorest communities with these basic services as it was in case of Sri Lanka. Lastly the all financial Institutions in the system at the base level should prepare themselves to address the problems in acquiring savings and insurance services and find out the enabling factors in linkage of credit, savings and insurance so that corrective actions are taken for more inclusion.

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