

Financial Inclusion- A Study on PRADHAN MANTRI JAN DHAN YOJANA

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Abstract

Financial inclusion is the delivery of financial services at affordable costs to disadvantaged and low-income segments of society. Financial inclusion promotes financial literacy among the poor as financial inclusion and development go hand in hand, developing countries are focusing on financial inclusion measures. In India PMJDY is one of the measures. It has shown a record growth in Bank accounts in a short period.

Key Words: Financial inclusion, PMJDY, Financial literacy.

Introduction:

Even, after the 60 years of Independence a large section of Indian population still remain unbanked. This brought importance to the term "Financial Inclusion". The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty.

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion. Financial inclusion promotes financial literacy among the poor. An estimated 2 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions. It is argued that as banking services are in the nature of a public goods, the availability of banking and payment services to the entire population without discrimination is a key objective of financial inclusion.

The United Nations defines the goals of financial inclusion as follows:

- *access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;*
- *sound and safe institutions governed by clear regulation and industry performance standards;*
- *financial and institutional sustainability, to ensure continuity and certainty of investment; and*
- *competition to ensure choice and affordability for clients.*

In the light of the financial inclusion across the globe, prominent programme on financial inclusion, PMJDY is examined in this paper.

The objectives of the study are:

Objectives of the study

1. To understand the importance of Financial inclusion.
2. To study Financial inclusion measures adopted in India.
3. To study PMJDY as a financial Inclusion programme.
4. To suggest measures for the success of the programme.

Financial Inclusion in India:

In the Indian context, in the RBI Annual Policy Statement 2005-06, the term 'financial inclusion' was used for the first time by the then Governor, Reserve Bank of India Sri. Y.Venu Gopal Reddy. Later on, this concept

gained ground and came to be widely used in India and abroad. The 2005-06 Annual Policy Statement was presented by cognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion. The Report of the Internal Group to Examine Issues relating to Rural Credit and Microfinance (Khan Committee) in July 2005 drew strength from this announcement by Governor Y. Venu Gopal Reddy in the Annual Policy Statement for 2005-06 wherein he had expressed deep concern on the exclusion of vast sections of the population from the formal financial system.

In the Khan Committee Report, the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. The recommendations of the Khan Committee were incorporated into the mid-term review of the policy (2005–06). Financial inclusion again featured later in 2005 when it was used by K.C. Chakraborty, Chairman, Indian Bank. Mangalam village in the Union Territory of Puducherry became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit.

In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. RBI asked commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states and union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

Financial Inclusion Measures by RBI

In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

Opening of no-frills accounts: Basic banking no-frills account is with zero or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

Relaxation on Know-Your-Customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

Engaging Business Correspondents (BCs): In January 2006, RBI permitted banks to engage Business Facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs. India map of Financial Inclusion by MIX provides more insights on this. In the grass-root level, the Business Correspondents (BCs), with the help of Village Panchayat (local governing body), has set up an ecosystem of Common Service Centres (CSC). CSC is a rural electronic hub with a computer connected to the internet that provides e-governance or business services to rural citizens.

Use of technology: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

Adoption of EBT: Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

General purpose Credit Card: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to 25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

Simplified branch authorization: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centers without the need to take permission from RBI in each case, subject to reporting.

Opening of branches in unbanked rural centres: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

Initiation of Pradhan Mantri Jan Dhan Yojana:

PMJDY is India's National Mission for Financial Inclusion to ensure access to financial services, namely Banking Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. This financial inclusion campaign was launched by the Prime Minister of India, Sri. Narendra Modi on 28 August 2014.

In the run up to the formal launch of this scheme, the Prime Minister personally mailed to Chairmans of all PSU banks to gear up for the gigantic task of enrolling over 7.5 crore (75 million) households and to open their accounts. In this email he categorically declared that a bank account for each household was a "national priority".

The scheme has been started with a target to provide 'universal and clear access to banking facilities' starting with "Basic Banking Accounts" with overdraft facility of 5,000 (US\$74) after six months and RuPay Debit card with inbuilt accident insurance cover of Rs.1 lakh (US\$1,500) and RuPay Kisan Card. In next phase, micro insurance & pension etc. will also be added.

As a part of the measures, Government of India announced "Pradhan Mantri Jan Dhan Yojna" a national financial inclusion mission which aims to provide bank accounts to at least 75 million people by January 26, 2015. To achieve this milestone, it's important for both service providers and policy makers to have readily available information outlining gaps in access and interactive tools that help better understand the context at the district level.

Special features Under the scheme:

1. Account holders will be provided zero-balance bank account with RuPay debit card, in addition to accidental insurance cover of Rs. 1 lakh (US\$1,500) (to be given by 'HDFC Ergo').
2. Those who open accounts by 26 January 2015 over and above the Rs. 1 lakh (US\$1,500) accident claim will also be given life insurance cover of Rs. 30,000 (US\$450) (to be given by LIC).
3. After Six months of opening of the bank account, holders can avail Rs. 5,000 (US\$74) overdraft from the bank.
4. With the introduction of new technology introduced by National Payments Corporation of India (NPCI), a person can transfer funds, check balance through a normal phone which was earlier limited only to smart phones so far.
5. Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together

Progress of PMJDY

Due to the preparations done in the run-up, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened. The Prime Minister said on this occasion- "Let us celebrate today as the day of financial freedom." By September 2014, 3.02 crore accounts were opened under the scheme, amongst Public sector banks, SBI had opened 30 lakh (3 million) accounts, followed by Punjab National Bank with 20.24 lakh (2 million) accounts, Canara Bank 16.21 lakh (1.62 million) accounts, Central Bank of India 15.98 lakh (1.59 million) accounts and Bank of Baroda with 14.22 lakh (1.42 million) accounts.

It was reported that total of 7 Crore (70 million) bank accounts have been opened with deposits totaling more than 50 billion (US\$740 million) as of 6 November 2014. As the government met the target, the target was revised for opening of bank accounts under the Pradhan Mantri Jan DhanYojana (PMJDY), the ambitious financial inclusion scheme launched by the government, from 7.5 crore to 10 crore by 26 January 2015. On 20 January 2015, the scheme entered into Guinness book of world records setting new record for 'The most bank accounts opened in one week'.

Uttar Pradesh and West Bengal have got 29% of the total deposits under the scheme, whereas Kerala and Goa became the first states in the country to provide one basic bank account to every household.

Run by Department of Financial Services, Ministry of Finance, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme. Guinness World Records Recognises the Achievements made under PMJDY, Guinness World Records Certificate says "The most bank accounts opened in 1 week as a part of financial inclusion campaign is 18,096,130 and was achieved by Banks in India from 23 to 29 August 2014".

Conclusion

The scheme has often been criticized as an effort to please voters and has created unnecessary work-burden on the public-sector banks. It has been claimed that the poor deserves food more than bank accounts and financial security. Further, these accounts have not yet added considerable profits to PSU banks. According to the experts, offers like zero balance, free insurance and overdraft facility would result in duplication.

Many individuals who already have bank accounts may have had accounts created for themselves, lured by the insurance covers and overdraft facilities. As per the scheme, very few people are eligible to get the life insurance worth Rs. 30,000 (US\$450) with a validity of just five years. The claimed overdraft facility has been completely left upon the banks. As per the government notice, only those people would get the overdraft facility whose transaction record is satisfactory and financially.

As a scheme which has entered into Guinness Book of world records in opening bank accounts within a short period is really an innovative effort. But the programme's success primarily depends on the operational use of the accounts by the account holders. One impression on its success might have taken place because of the pressure to reach the targets by Government as it has taken as a prestige issue. Financial literacy, awareness

campaigns are also required. Some indigenous avenues like chit funds, local chit organisers are to be integrated with the governmental organizational efforts. But the continuous usage of the accounts by public for normal banking transactions is the crux of the problem. Linking Aadhaar, direct deposit of subsidies and loans to the masses can inculcate banking habit with the public, then this programme becomes a success.

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