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A Study on Impact of Financial Inclusion with special reference to Pradhan Mantri Jan DhanYojana(PMJDY)

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ABSTRACT

There is a relationship between development of financial markets and economic growth. Thus the development of financial market and the reduction of poverty on a larger scale also contribute towards economic growth. With a population of over 125 crore, 40% of families do not have access to banking and other financial services and such households have to rely on entrusted credit lenders who charge heavy interest from the man thus pushes them to an inescapable cycle of poverty. So the basic objective was to provide account to every family along with banking services. Finally, financial inclusion comes as a sign for better future and seamless social inclusion because a population that identifies itself best with the rest of the society contributes more positively towards economic progress. Many initiatives taken by the government specially targeted towards rural people in India. But unfortunately, financial systems in India till date have not seen enough in uplifting the lives of the bottom of the pyramid masses because providing basic financial services such as bank accounts, credit, and insurance have a higher cost for those people.Theproposed paper attempts to address uponchallenges and strategies of the Pradhan Mantri Jan DhanYojana and its impact on the people and financial institutions and how all this has shaped the present degree of inclusion in India.

Key Words: Financial Inclusion;No frill account; Inclusive Growth; Financial services.

INTRODUCTION

For developing nations, the key for inclusive growth is financial inclusion. Financial inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. The financial system has to provide its function of transferring resources from surplus to deficitunits but both deficit and surplus units are those with low incomes, poor background etc.The small, medium and micro size enterprises are very vital to an economy, and therefore it’s even more vital to improve their access to adequate financing. Now, there is a needto increase financial inclusion of the poor by developing appropriate financial products for them and increasing awareness on available financial services and strengthening financial literacy.

FINANCIAL INCLUSION IN INDIA

The Reserve Bank of India setup a commission (Khan Commission) in 2004 to lookinto financial inclusion and the recommendations of the commission were incorporated intothe Mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a viewof achieving greater financial inclusion to make available a basic "no-frills" banking accountand all printed bank material has to be made available in regional languages.In India, Financial Inclusion first featured in 2005. In addition to this KYC (Know your Customer) norms were relaxed for peopleintending to open accounts with annual deposits of less than Rs 50, 000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easycredit. In January 2006, the Reserve Bank permitted commercial banks to make use of theservices of non-governmental organizations (NGOs/SHGs), micro-finance institutions andother civil society organizations as intermediaries for providing financial and banking services.These intermediaries could be used as business facilitators (BF) or businesscorrespondents (BC) by commercial banks.The Credit Information Bureau Act, 2006, will eventually establish a credit bureau that makes available credit histories of individuals and small businesses. This should lower risk for banks, in extending credit further.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 road block to financial inclusion in many states.

REVIEW OF LITERATURE

Sarma&Pais (2008)in their study concluded that the income is positively associated with the level of financial inclusion. Further physical and electronic connectivity and information availability, indicated by road network, telephone and internet usage, also play positive role in enhancing financial inclusion.

Chibba (2009) found financial inclusion as an inclusive development and poverty reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up financial inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

Massey (2010) found in his study the vital roleof financial institutions in a developing country in promoting financial inclusion. The efforts of the government to promote financialinclusion and deepening can be further enhanced by the pro-activeness on the part of capitalmarket players including financial institutions. Financial institutions have a very crucial and awider role to play in fostering financial inclusion. National and international forum haverecognized this and efforts are seen on domestic and global levels to encourage the financialinstitutions to take up larger responsibilities in including the financially excluded lot.

STATEMENT OF THE PROBLEM

To achieve greater financial inclusion, financial services should reach the poor of socially excluded group's particularly poor people. This study helps us to know the challenges faced by the government and financial institutions to start a new initiative for financial inclusion and awareness level of the low income groups.

OBJECTIVES

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- ✓ To evaluate & analyze the contribution of PMJDY initiative for enhancing financial inclusion.
- ✓ To study the challenges faced by the government with respect to PMJDY for enhancing financial inclusion.
- ✓ To study the role of financial institutions for the implementation of PMJDY.

RESEARCH MEHODOLOGY

Research methodology is descriptive in nature. The data has been collected with the help of Magazines, Newspapers, Research Articles, RBI Reports, books on financial inclusion and the sites of Pradhan Mantri Jan DhanYojna.

TO EVALUATE &ANALYZE THE CONTRIBUTION OF PMJDY INITIATIVE FOR ENHANCING FINANCIAL INCLUSION-

Pradhan Mantri Jan DhanYojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. Slogan of the scheme is **'MeraKhata-BhagyaVidhaata'**.The long term vision of the Jan DhanYojana is to lay the foundation of a cashless economy and is complementary to the Digital India Scheme.It is an ambitious scheme for comprehensive Financial Inclusion launched by the Prime Minister of India, NarendraModi on 28 August 2014. He had announced this scheme on his first Independence Day speech on 15 August 2014.

On the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme.This scheme has set an ambitious target of bringing in more than 7.5 crore unbanked families into India's banking system by opening more than 15 crore bank accounts at the rate of two bank accounts per household.Under this plan, the various banking services are provided such as Withdraw cash, Deposit money, Transfer of funds, Check balance enquiry, Get mini-statement, Mobile banking facility,become financially literate through literacy programmes.The mission will be implemented in two phases-

Phase -I from 15th August 2014 to 14th August 2015:

- ✓ Account holders will be provided zero-balance bank account with RuPay debit card, in addition to accidental insurance cover of Rs 1 lakh.
- ✓ Overdraft facility up to Rs.5,000/- will be available to only one person in the family (preferably lady of the house).
- ✓ Those who open accounts by January 26, 2015 over and above the Rs1 lakh accident, they will be given life insurance cover of Rs 30,000.
- ✓ A person can transfer funds, check balance through a normal phone with the help of new technology introduced by National Payments Corporation of India (NPCI).
- ✓ Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.

Phase -II from 15th August 2015:

- ✓ Providing micro-insurance to the people.
- ✓ Unorganized sector Pension schemes like Swavalamban through the Business Correspondents.

- ✓ Electronic transfer of subsidies under various schemes of Government would be enabled.

The ultimate purpose of the government is to include the poor people in the financial system, so that they can avail the financial services. To encourage the use of the debit card and the account, the government plans to increase the number of the rural ATMs, and use kirana and public distribution system counters as point of sales. As a result of this, the poor people have money in their bank accounts and they will start savings also. The Reserve Bank of India has also created a fund for the expanding rural ATM network.

TO STUDY THE CHALLENGES FACED BY THE GOVERNMENT WITH RESPECT TO PMJDY FOR ENHANCING FINANCIAL INCLUSION-

1. **Duplication of Accounts**-Under this scheme, the first challenge is the duplication of accounts and their usage as the target is universality, not just speed or numbers. According to this scheme, the purpose is financial inclusion and government wants everybody in the system. Many existing account holders have also opened a new account under PMJDY. It means that the untapped rural market is not fully tapped under this plan and the government has to take strict action against it, to remove and control such duplicate accounts.

2. **No Transactions**-The second challenge is existence of banking accounts with zero balance. Almost 80% of the accountsunder PMJDY,are still zero balance. We are encouraging people to deposit money in the account and use the Rupay debit card. Most of the people have not started the transactions because they are waiting for RuPay Debit Card,which will be issued to them within 1-2 months of the opening an account.Five of the seven crore bank accounts opened under this scheme have fallen outside the ambit of the in-built Rs 1lakh accident insurance cover as these accounts have not seen transactions since they were opened but as per PMJDY the account require at least one transaction in the preceding 45 days for an account holder to be eligible for the insurance cover. It means most of the accountholders seem unaware of the '45-day clause'.

3. **Lack of Awareness**-The third challenge is to make awareness among the people. As the government has taken good initiative for financial inclusion, but the customers (the untapped market) are not fully aware about the benefits and conditions of this plan. For this reason,5 crore out of 7 crore bank accounts are still zero balance, at the time when the scheme was launched. Either there is a gap between policy maker and service provider or a gap between service provider and the people (target for financial inclusion).For this reason they are not aware of the PMJDY fully.

4. **Verification related issues**-The next challenge is to check about the income level of the poor people. As the benefits of this scheme is only for those people who have annual income of less than one lakh. Still number of bank accounts opened in the bank branches without any verification of income statements. It will be sent further for verification and later on they will check about number of bank accounts eligible for PMJDY benefits (who have income less than 1 lakh per annum).

5.**Financial and Technology Illiteracy**: Multiple initiativeshave been launched by successive

Indian Governments toachieve financial inclusion but more than 40 per cent of thepopulation still lacks access to even basic financial serviceslike savings, credit, investment and insurance facilities . Lackof financial literacy is a key roadblock. A survey conducted byfinancial services giant, Visa reveals that 65 per cent of Indianslack financial literacy. There is a lack of awareness, knowledgeand skills among rural people to make informed decisions aboutsavings, borrowings, investments and expenditure.

TO STUDY THE ROLE OF FINANCIAL INSTITUTIONS FOR THE IMPLEMENTATION OF PMJDY-

Jan Dhan account can be opened at all the public and private sector banks.There are 27 public sector banks in India which provide Jan Dhan Account facilityand it includes State Bank of India and all it's 5 affiliated banks – State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore, Bank of Baroda,Andhra Bank, Bank of Maharashtra, Bank of India,Canara Bank, Corporation Bank, IDBI Bank, Indian Bank, Punjab National Bank,Central Bank of India, Vijaya Bank, Punjab & Sind Bank, Syndicate Bank ,Dena Bank ,Allahabad Bank ,Union Bank of India, Oriental Bank of Commerce. There are few private banks where Jan Dhan Account can be opened and it includes ICICI Bank,Axis Bank, HDFC Bank, Federal Bank,IndusInd Bank, ING Vysya Bank, Karnataka Bank, Kotak Mahindra Bank, YES Bank, Dhanalaxmi Bank.

Public Sector Banks have shown good progress as compared to Private sector Banks in order to open saving accounts under Jan DhanYojana and have garnered deposits of Rs 1,500 crore in zero balance accounts opened under the PradhanMantri Jan DhanYojana (PMJDY) scheme within two weeks of the launch of the scheme. On the inauguration day, 1.5 Crore (15 million) bank accounts were opened. It shows the positive sigh towards Jan DhanYojana.

By September 2014, 3.02 crore accounts were opened under the scheme, amongst Public sector banks, SBI had opened 30 lakh accounts, followed by Punjab National Bank with 20.24 lakh accounts, Canara Bank 16.21 lakh accounts, Central Bank of India 15.98 lakh accounts and Bank of Baroda with 14.22 lakh accounts.However, major private sector banks taken together opened just 5.8 lakh accounts, much lower than even Regional Rural Banks which have opened 49.28 lakh accounts.In order for easy access to the banking services, bank outlets would be open within 5 kilometer distance of every village. In fact, on the day of the launch over 77, 892 camps were organized. Also to speed-up the process, government has asked banks to organize special camps on every Saturday between 8am-8pm.For promotional purpose, the various bank representatives went to villages and made announcements in Schools, Gurudwara and through Sarpanch of the village and distribute pamphlets. Following table 1.1 shows state wise data of the total number of accounts opened and total deposit under this scheme.

Table 1.1-State Wise Data of PMJDY Contribution towards Financial Inclusion-

S.No	State Name	Rural Accounts	Urban Accounts	Total Accounts	Deposit (in Crore)

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1	ANDAMAN & NICOBAR	37910	15298	53208	17.54
2	ANDHRA PRADESH	4223498	3125843	7349341	780.69
3	ARUNACHAL PRADESH	93593	36097	129690	28.89
4	ASSAM	5472251	1797782	7270033	1452.89
5	BIHAR	13676728	6090548	19767276	2775.24
6	CHANDIGARH	45306	175041	220347	65.26
7	CHHATTISGARH	6658871	3152498	9811369	1141.05
8	DADRA & NAGAR HAVELI	47831	9850	57681	16.69
9	DAMAN & DIU	15551	8370	23921	13.6
10	GOA	97262	35038	132300	45.34
11	GUJARAT	4242104	3572847	7814951	1401.76
12	HARYANA	2991284	2196399	5187683	1435.36
13	HIMACHAL PRADESH	765976	101754	867730	253.11
14	JAMMU & KASHMIR	1456477	255336	1711813	452.82
15	JHARKHAND	4475208	1740838	6216046	681.9
16	KARNATAKA	5698223	3559288	9257511	1347.87
17	KERALA	1458022	1285581	2743603	642.69
18	LAKSHADWEEP	4531	689	5220	4.42
19	MADHYA PRADESH	9364323	9306961	18671284	1670.96
20	MAHARASHTRA	6956602	6929155	13885757	2119.51
21	MANIPUR	269253	330510	599763	91.8
22	MEGHALAYA	197074	59630	256704	70.03
23	MIZORAM	65685	98519	164204	11.27
24	NAGALAND	89185	70255	159440	19.39
25	DELHI	372614	2687525	3060139	880.81
26	ORISSA	6186613	2079574	8266187	1531
27	PUDUCHERRY	56296	58534	114830	24
28	PUNJAB	2901241	1919917	4821158	1544.29
29	RAJASTHAN	10955448	5891785	16847233	2803.95
30	SIKKIM	64695	10939	75634	18.37
31	TAMIL NADU	4343242	3676670	8019912	1005.02
32	TELANGANA	4599639	3320281	7919920	872.33
33	TRIPURA	500165	202158	702323	329.83
34	UTTAR PRADESH	19505901	12735466	32241367	5871.22
35	UTTARAKHAND	1247544	576707	1824251	451.21
36	WEST BENGAL	12972986	5915024	18888010	4727.96
	Grand Total	**132109132**	**83028707**	**215137839**	**36600.07**

Source-http://pmjdy.gov.in/statewise-statistics

From the above table,Uttar Pradesh (16.04%) and West Bangal (12.91%) is showing more contribution of deposits in financial inclusion through PMJDY. One of the reason behind the success of these states is financial literacy programmes on 'Banking and Finance' that were organized by financial institutions in rural schools by distributing the banking comic books.

Role of supporting bodies in PMJDY-

BANKS	➢ Providing easy access of banking facilities to the beneficiaries ➢ Setting up financial literacy and credit counseling centers
NABARD	➢ Allocatingfunds to the Financial Inclusion Funds to carry out financial literacy by self help groups ➢ Monitoring of implementation progress with respect to organizations working under NABARD
RESERVE BANK OF INDIA	➢ Responsibility of aligning operational course of the banks for financial inclusion with the mission mode. ➢ Support banks in the financial literacy campaign and availing financial intermediary funds allocation
LOCAL BODIES	➢ Assisting in implementing financial inclusion by organizing camps for opening bank accounts, driving financial literacy campaigns and educating the account holders
NPCI	➢ Proving necessary technology support to banks in making USSD based mobile banking a reality ➢ Support to banks for providing proper operations of RuPay cards
DEPARTMENT OF FINANCIAL SERVICES	➢ Implementing and performing a project management role in the PMJDY ➢ Acting as a central advisory board to guide other stakeholders
STATE GOVERNMNETS	➢ Monitoring financial inclusion campaign in coordination with state level banker's committee and all stakeholders within the state

Source- http://pmjdy.gov.in/Pdf/PMJDY_BROCHURE_ENG.pdf

CONCLUSION

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Deepening the financial system and widening its reach is crucial for both accelerating growth and forequitable distribution, given the present stage of development of our country.PMJDY is the ultimate plan of financial inclusion that has given a tremendous record of opening bank accounts in huge number and holds greater promise than its predecessors because it is more geographically widespread, provides greater benefits, embraces technology and greater support from critical stakeholders i.e. the Government, banks and regulators. Financial literacy is critical to ensure and educate the people about their rights and benefits. The financial institutions have an interesting role to play in the entire transformation, provided they show higher levels of innovation in technology, business, and product and service delivery. In conclusion, PMJDY can be a solid foundation for holistic growth and inclusive development.

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