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Financial Inclusion and Pradhan Mantri Jan Dhan Yojna

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Abstract

"Poor do not need charity, they need funds".

From past so many years poor were kept out of the reach of banks because either they lack the documents required to open bank account or they were considered as non-profitable by the banks. They were excluded from the financial system. The ever-growing poverty scenario forced the government to take some strong steps to include the majority of the people in the financial system through financial inclusion. The Pradhan Mantri Jan Dhan Yojna is the current most effective and appreciable effort made by the government in this direction.

Financial inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy.

An attempt has been made through this paper to understand how the financial inclusion helps people come out of the state of poverty and how the same leads to the economic growth in the country.

Financial Inclusion and Pradhan Mantri Jan Dhan Yojna

"Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom.

Sometimes it falls upon a generation to be great. You can be that great generation. Let your greatness blossom. Of course, the task will not be easy. But not to do this would be a crime against humanity, against which I ask all humanity now to rise up."

- Nelson Mandela

Meaning of Financial Inclusion:

The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty.

"Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy."

"Financial inclusion, or broad access to financial services, is defined as an absence of price or non-price barriers in the use of financial services."

World Bank

Financial inclusion includes gaining access to the financial products and services like,

- Savings facility
- Credit and debit cards access
- Electronic fund transfer
- All kinds of commercial loans
- Overdraft facility
- Cheque facility
- Payment and remittance services
- Low cost financial services
- Insurance (Medical insurance)
- Financial advice
- Pension for old age and investment schemes

- Access to financial markets
- Micro credit during emergency
- Entrepreneurial credit

Earlier there were various hurdles in Financial Inclusion. Some of them are:

- **ID Proof:** like voter id , driving license , birth certificates ,employment identity card etc
- **Lack of literacy :** Lack of basic education prevent people to have access from financial services .
- **Low income :** Level of income decides to have financial access . Low income people generally have the attitude of thinking that banks are only for rich.
- **Conditions :** While getting loans or at the time of opening accounts banks places many conditions , so the uneducated and poor people find it very difficult to access financial services .
- **Complicated procedures :** Due to lack of financial literacy and basic education , it is very difficult for those people who lack both to read terms and conditions and account filling forms .
- **Psychological and cultural hurdles :** Many people voluntarily excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services .
- **Proximity Problem :** As the name suggests that commercial banks operate only in commercially profitable areas and they set up branches and main offices only in that areas .People who lived in under developed areas find it very difficult to go to areas in which banks are generally reside .
- **Lack of awareness :** Finally , people who lack basic education do not know the importance of the financial products like Insurance , Finance , Bank Accounts , cheque facility ,etc.

Extent of Financial Exclusion

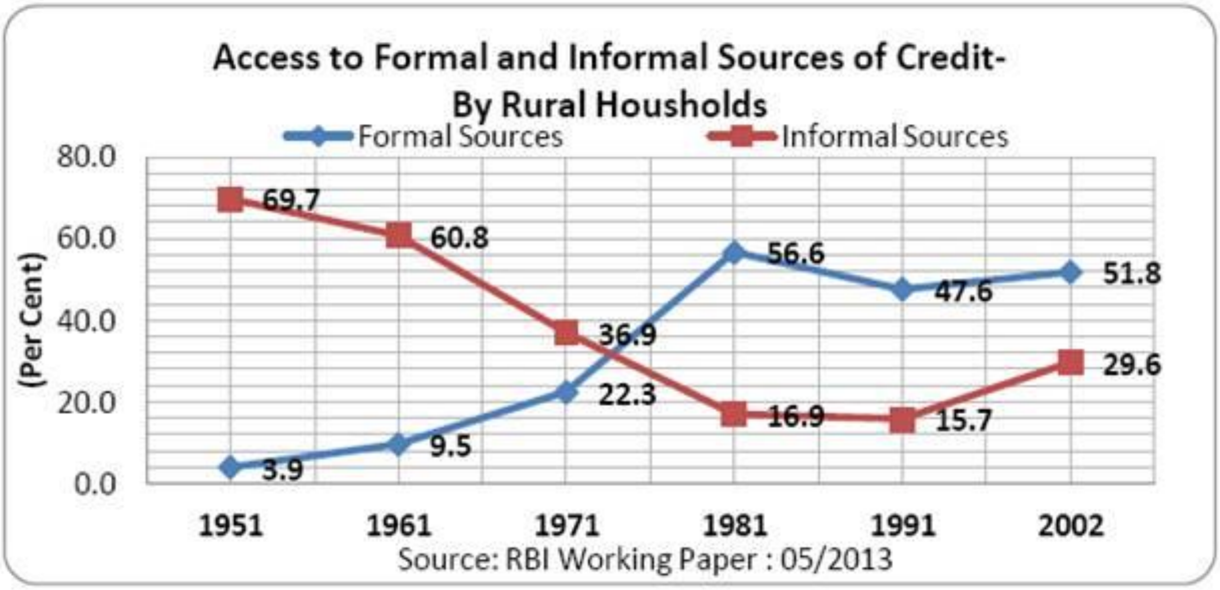
In this section, the extent of financial exclusion from different perspectives / angularities is presented based on five different data sources viz.:

NSSO 59th Round Survey Results

- 51.4% of farmer households are financially excluded from both formal/ informal sources.

- Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources.
- Overall, 73% of farmer households have no access to formal sources of credit.
- Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66%.
- However, over the period of five decades, there has been overall improvement in access to formal sources of credit by the rural households

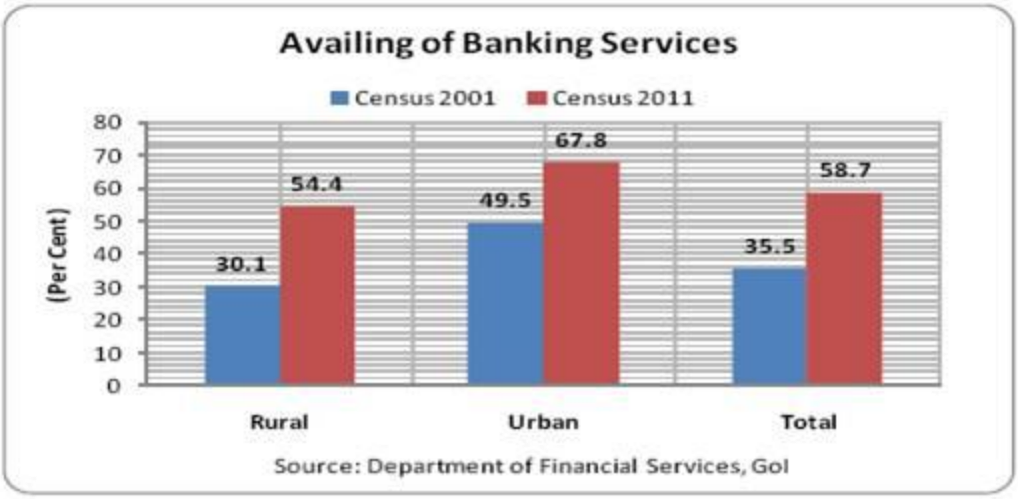
Chart 1: Access to Formal and Informal Sources



Government of India Population Census 2011

- As per census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas.

Chart 2: Availing of Banking Services

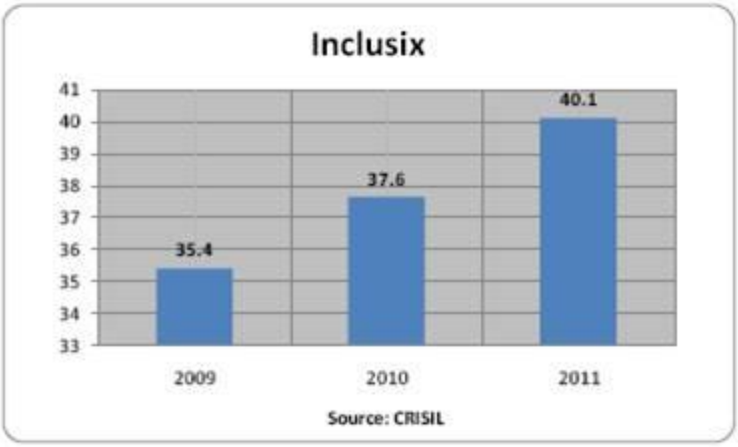


CRISIL Financial Inclusion Index (Inclusix)

- In June 2013, CRISIL first time published a comprehensive financial inclusion index (viz.,Inclusix). For constructing the index, CRISIL identified three critical parameters of basic banking services namely branch penetration[5], deposit penetration[6] and credit penetration[7].
- The CRISIL Inclusix indicate that there is an overall improvement in the financial inclusion in India .

- CRISIL –Inclusix (on a scale of 100) increased from 35.4 in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011.

Chart 3: CRISIL - Inclusix



Progress in Financial Inclusion in India.

Indian Prime Minister Narendra Modi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014 with a target to provide 'universal access to banking facilities' starting with Basic Banking Accounts with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kisan Card & in next phase, micro insurance & pension etc. will also be added. In a run up to the formal launch of this scheme, the Prime Minister personally mailed to CEOs of all 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 Pradhan Mantri Jan-Dhan Yojana (PMJDY) is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of ₹ 1 lakh. The plan also envisages channeling all Government benefits (from Centre / State / Local Body) to the beneficiaries accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. The technological issues like poor connectivity, on-line transactions will be addressed. Mobile transactions through telecom operators and their established centres as Cash Out Points are also planned to be used for Financial Inclusion under the Scheme. Also an effort is being made to reach out to the youth of this country to participate in this Mission Mode Programme.

RBI's Policy on 'Financial Inclusion' :

When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India places a lot of emphasis on financial inclusion.

With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual Policy Statement of the year 2005-2006, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion.

No-Frills' Account :

In the Mid Term Review of the Policy (2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking 'no frills' account either with 'NIL' or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. All banks are urged to give wide publicity to the facility of such 'no frills' account, so as to ensure greater financial inclusion.

Simplification of 'Know Your Customer (KYC)' Norms :

Banks are required to provide a choice of a 'no frills account' where the minimum balance is nil or very small but having restrictions on number of withdrawals, etc., to facilitate easy access to bank accounts.

Further, in order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the 'KYC' procedure for opening accounts for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts. In such cases banks can take introduction from an account holder on whom full KYC procedure has been completed and has had satisfactory transactions with the bank for at least six months. Photograph of the customer who proposes to open the account and his address need to be certified by the introducer.

- **Ensuring reasonableness of bank charges :**

As the Reserve Bank has been receiving several representations from public about unreasonable service charges being levied by banks, the existing institutional mechanism in this regard is not adequate. Accordingly, and in order to ensure fair practices in banking services, the RBI has issued instructions to banks making it obligatory for them to display and continue to keep updated, in their offices/branches as also in their website, the details of various services charges in a format prescribed by it. The Reserve Bank has also decided to place details relating to service charges of individual banks for the most common services in its website

Financial Inclusion has provided a relief to the nation by serving the following benefits:

- **Growth with equity :** In the path of super power we the Indians will need to achieve the growth of our country with equality . It is provided by inclusive finance.
- **Get rid of poverty :** To remove poverty from the Indian context all everybody will be given access to formal financial services . Because if they borrow loans for business or education or any other purpose they get the loan will pave way for their development .
- **Financial Transactions Made Easy :** Inclusive finance will provide banking related financial transactions in an easy and speedy way .
- **Safe savings along with financial services :** People will have safe savings along with other allied services like insurance cover , entrepreneurial loans , payment and settlement facility etc,
- **Inflating National Income :** Boosting up business opportunities will definitely increase GDP and which will be reflected in our national income growth .
- **Becoming Global Player :** Financial access will attract global market players to our country that will result in increasing employment and business opportunities .

Role of Digital Media in Financial Inclusion:

Digital finance holds an enormous opportunity for greater financial inclusion and expansion of basic services. Nearly 50% of people in the developing world own a mobile phone.
The challenge is enormous, with 2.5 billion individuals and over 200 million small businesses lacking access to basic financial services and credit.

Digital finance is a powerful means to expand access beyond financial services to other sectors, including agriculture, transportation, water, health, education, and clean energy.

The financial inclusion and efficiency gains associated with ubiquitous access to digital payments systems are very high. Digital payments can reduce transaction costs by up to 90 percent[1], save the Government more than Rs. 1 lakh crore[2], and provide accessible financial services to all residents while also lowering costs for financial providers. This is especially salient in India where its sheer size and wide-spread absolute poverty does not allow for many to absorb the costs associated with the management of physical currency notes and traditional branches.

The RBI Committee on Comprehensive Financial Services (CCFS) thereby envisions a much greater proliferation of digital payment points, especially in rural areas, such that every resident in India would be within a fifteen minute walking distance. The Committee thus recommends the evolution of Pre-Paid Instrument Issuers (PPIs) into Payments Banks that can leverage their existing networks and businesses, such as the sale of mobile airtime or postal products, to handle very small value transactions in an efficient, cost-effective, and secure manner.

Conclusion

The country has made good strides in this direction with the start of the ambitious national mission of financial inclusion by the NDA Govt. in 2014. A record 120 million new persons have been included in the financial services net in a span of mere 12 months since the NDA Govt. came to power in 2014. The country hopes to be at par with the developed world in terms of providing access financial services to its people within next decade. With the advent of digital media like cheaper mobiles and smartphones this is an achievable target.

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