



“PRADHAN MANTRI JAN DHAN YOJNA”: A NATIONAL FINANCIAL INCLUSION MISSION

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Abstract:

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 where those services are not available or affordable financial inclusion in India. The government of India recently 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. . The index- Inclusix- along with a report was released by the Finance Minister of India, P. Chidambaram at a widely covered program at New Delhi. CRISIL Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. CRISIL Inclusix is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services — branch penetration, deposit penetration, and credit penetration — into one metric.

Key words: Financial inclusion & Financial Inclusion Index

Introduction:

In the Indian context, the term ‘financial inclusion’ was used for the first time in April 2005 in the Annual Policy Statement presented by Y. Venugopal Reddy, Governor, Reserve Bank of India. Later on, this concept gained ground and came to be widely used in India and abroad. While recognizing 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. Venugopal 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, the chairman of Indian Bank. Mangalam 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. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or 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.

The government of India recently 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. 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 nil 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.

GCC:

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 centres 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.

Financial Inclusion Index:

On June 25, 2013, CRISIL, India's leading credit rating and Research Company launched an index to measure the status of financial inclusion in India. The index-Inclusix- along with a report was released by the Finance Minister of India, P. Chidambaram at a widely covered program at New Delhi. CRISIL Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. CRISIL Inclusix is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services — branch penetration, deposit penetration, and credit penetration — into one metric. The report highlights many hitherto unknown facets of inclusion in India. It contains the first regional, state-wise, and district-wise assessments of financial inclusion ever published, and the first analysis of trends in inclusion over a three-year timeframe. Some key conclusions from the study are:

- The **all-India CRISIL Inclusix Score** of 40.1 is low, though there are clear signs of progress – this score has improved from 35.4 in 2009.
- **Deposit Penetration** is the key driver of financial inclusion – the number of savings accounts (624 million), is almost four times the number of loan accounts (160 million).
- **618 out of 632 Districts** reported an improvement in their scores during 2009-2011.
- The **Top Three States** and Union Territories are Puducherry, Chandigarh, and Kerala; the top three districts are Pathanamthitta (Kerala), Karaikal (Puducherry) and Thiruvananthapuram (Kerala).

Controversy:

Financial inclusion in India is often closely connected to the aggressive micro credit policies that were introduced without the appropriate regulations oversight or consumer education policies. The result was consumers becoming quickly over-indebted to the point of committing suicide, lending institutions saw repayment rates collapse after politicians in one of the country's largest states called on borrowers to

stop paying back their loans, threatening the existence of the entire 4 billion a year Indian microcredit industry. This crisis has often been compared to the mortgage lending crisis in the US. The challenge for those working in the financial inclusion field has been to separate micro-credit as only one aspect of the larger financial inclusion efforts and use the Indian crisis as an example of the importance of having the appropriate regulatory and educational policy framework in place.

Pradhan Mantri Jan Dhan Yojana:

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 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.¹ In this email he categorically declared that a bank account for each household was a "national priority". On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened.

Financial Inclusion in India:

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs.

1. **Creating a platform for inculcating the habit to save money** – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc.
2. **Providing formal credit avenues** – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.
3. **Plug gaps and leaks in public subsidies and welfare programmes** – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government's subsidy bill (as it shall save that part of the subsidy that is leaked) and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

The Steps Taken by RBI to Support Financial Inclusion:

RBI set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the

policy (2005–06) and urged banks to review their existing practices to align them with the objective of financial inclusion. RBI also exhorted the banks and stressed the need 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. Of the many schemes and programmes pushed forward by RBI the following need special mention.

- A. **Initiation of no-frills account** – These accounts provide basic facilities of deposit and withdrawal to accountholders makes banking affordable by cutting down on extra frills that are no use for the lower section of the society. These accounts are expected to provide a low-cost mode to access bank accounts. RBI also eased KYC (Know Your customer) norms for opening of such accounts.
- B. **Banking service reaches homes through business correspondents** – The banking systems have started to adopt the business correspondent mechanism to facilitate banking services in those areas where banks are unable to open brick and mortar branches for cost considerations. Business Correspondents provide affordability and easy accessibility to this unbanked population. Armed with suitable technology, the business correspondents help in taking the banks to the doorsteps of rural households.
- C. **EBT – Electronic Benefits Transfer** – To plug the leakages that are present in transfer of payments through the various levels of bureaucracy, government has begun the procedure of transferring payment directly to accounts of the beneficiaries. This “human-less” transfer of payment is expected to provide better benefits and relief to the beneficiaries while reducing government’s cost of transfer and monitoring. Once the benefits starts to accrue to the masses, those who remain unbanked shall start looking to enter the formal financial sector. Financial inclusion of the unbanked masses is a critical step that requires political will, bureaucratic support and dogged persuasion by RBI. It is expected to unleash the hugely untapped potential of the bottom of pyramid section of Indian economy. Perhaps, financial inclusion can begin the next revolution of growth and prosperity.

Conclusion:

Although financial inclusion is imperative for all-round development of the country, there are major barriers to its growth, Crisil said in its research report released today by Indian Chamber of Commerce. The report stated that the three big challenges were high cost, lack of robust technology, and lack of awareness, and while these challenges are significant, they are not insurmountable. So we have to find ways to eliminate these problems and strengthen our country financially. This is a great effort by the banks to promote financial inclusion, which is critical to promote equitable economic growth.

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