Pradhan Mantri Jan Dhan Yojana: A Giant Leap Towards Financial Inclusion

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Abstract

It is indeed a matter of serious concern that despite tremendous growth of banking sector in India—both horizontally and vertically, a large section of Indian population continues to remain unbanked even after attaining 67 years of our Independence. Though, in recent years the Indian Government and the Reserve Bank of India have been pushing the concept of financial inclusion, but no palpable effect could be seen in the plight of these financially vulnerable people. To mitigate this long drawn financial sufferings, Prime Minister Narendra Modi announced a new scheme in his Independence Day speech on 15th Aug 2014, and called it as the National Mission on Financial Inclusion (NMFI) for weaker section and low income groups. While launching the Pradhan Mantri Jan Dhan Yojana on 28th Aug 2014, the Prime Minister commended the Banks, in particular, for having managed to open a record 1.5 crore new accounts on the inaugural day itself. This effort will certainly go a long way in promoting economic growth and reducing poverty, while mitigating systematic risk and maintaining financial stability. This paper focuses on the importance of financial inclusion and the impact Pradhan Mantri Jan Dhan Yojana (PMJDY) will usher to all stakeholders in our country.

Keywords

Financial inclusion, Weaker Section, Systematic Risk, and Financial Stability.

I. Introduction

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. This malaise has led to generation of financial instability and pauperism among the income group, who do not have access to financial products and services. The National Mission on Financial Inclusion (NMFI) is proposed to be implemented as a Mission Mode Project which has an integrated approach for providing banking, insurance and pension products together to the beneficiary. It also envisages a comprehensive coverage of all excluded households in the country in 2 phases:

Phase I (from 15 Aug 2014 -14 Aug 2015) proposes the following:
1. Universal access to banking facilities.
2. Providing Basic Banking Accounts with overdraft facility of up to Rs. 5000/-. 
3. RuPay Debit Card with inbuilt accident insurance cover of Rs. 1 lakh.

Phase II (from 15 Aug 2015 -14 Aug 2018) proposes the following:
1. Creation of Credit Guarantee Fund for coverage of defaults in overdraft accounts.
3. Unorganised sector Pension schemes, like Swavlamban.
4. Coverage of households in hilly, tribal and difficult areas, and coverage of remaining adults in the households and students.
5. Perhaps, financial inclusion through PMJDY will now commence the next revolution of growth and prosperity.

II. An Overview of Financial Inclusion in Public Sector Banks

The term “financial inclusion” has gained importance since early 2000s, as a result of findings about financial exclusion and its direct correlation to poverty. In India, the financial inclusion initiatives were undertaken since 2005-06, implementation of which faced the following challenges:

- Poor infrastructure and telecom connectivity in rural areas.
- Lack of financial literacy.
- Availability of required documents for banking activities.
- Limited technology adoption and know-how among the ecosystem partners.
- Lack of local support for scalability of banking services.

In partnership with the National Bank for Agriculture and Rural Development, the UN aims to increase financial inclusion of the poor by developing appropriate financial products for them and increasing awareness on available financial services and strengthening financial literacy, particularly amongst women. 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.

Former United Nations Secretary-General Kofi Annan, on 29 December 2003 had said: “The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.” During the IMF-World Bank 2013 Spring Meeting on 24 April 2013, the Alliance for Financial Inclusion (AFI) Executive Director Alfred Hannig highlighted progress in financial inclusion. He said, “Financial inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership.” The policy makers in India have been focusing on financial inclusion of rural and semi-rural areas, primarily for three most
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 aim at providing 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 on 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 do 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 therefore, is 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.

Sensing urgency, the Reserve Bank of India (RBI) set up Khan Commission in 2004 to look into financial inclusion. Recommendations of the commission were incorporated in the mid-term review of its policy (2005–06). In the report, with a view to achieve greater financial inclusion, RBI exhorted the banks to make available a basic “no-frills” banking account. In India, financial inclusion; which implies the delivery of financial services to all excluded people, vulnerable groups such as weaker sections and low income groups at affordable cost; first featured in 2005, when it was introduced by K.C. Chakraborthy, the then CMD 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 Reserve 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. RBI in the past had 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:

i. **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.

ii. **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.

iii. **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.

iv. **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.

v. **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.

vi. **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 Rs. 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.

vii. **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 centers 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-
Focus on account opening-large number of accounts remained dormant.

Offline accounts—technology lock-in with the vendor.

No guidelines on the remuneration of the BCs—banks went with Corporate BCs who used to be least expensive to them.

No active involvement of States/Districts.

Financial literacy had no focus.

No brand visibility of the Programme & BCs.

Interoperability of accounts not there.

Providing credit facilities not encouraged.

Cumbersome KYC formalities.

No grievance redressal mechanism.

A recent RBI survey finds that 47% of BC Agents are untraceable.

Keeping in view the gigantic task of successfully implementing this National Mission on Financial Inclusion (NMFI) throughout the vast stretch of our country; for the disadvantaged and low-income segments of our society; it is likely to pose some serious challenges also in its effective implementation. Some of these are:

Telecom Connectivity in about 50,000 villages in Hilly areas—parts of NE, HP, Uttrakhand and J&K.
82 LWE (Left Wing Extremism) Districts.
Sustainability of the Business Correspondents.
Increase in cash transfers through subsidy schemes.
De-duplication through UIDAI in providing OD facility.
2% commission to be paid to banks under Direct Bank Transfer (DBT) and 1% under DBTL.

III. Conclusion

Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. To mitigate such sufferings, the Pradhan Mantri Jan Dhan Yojna lies at the core of Govt of India development philosophy of Sab Ka Saath Sab Ka Vikas. Focus of this scheme remains at rapid move forward for those people who have still remained deprived of basic banking & financial systems, in this knowledge era with modern banking. Financial inclusion

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<td>Focus on village—full geography not covered.</td>
<td>Focus on household and coverage of full geography.</td>
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<td>Lacked regular monitoring.</td>
<td>Financial inclusion campaign in Mission Mode.</td>
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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 bottom of the pyramid section of Indian economy. Due to the tremor of awakening this PMJDY has generated, the subject masses have started referring to it by the name---“Modi Account”. Its huge success will enable the Bank Managers to understand and utilize the opportunity provided by Financial Inclusion to their advantage, by participating in Govt’s poverty alleviation programmes for weaker section, improving their CASA base, raising their deposit base through direct fund transfer scheme of the Govt, etc. The widely acknowledged & successful launch of this PMJDY scheme also strengthens the resolve that when coordination, dedication, opportunism, commitment, formalization, dependence, trust, satisfaction, cooperation and continuity is provided by all the constituents and stakeholders, a framework of construct is created which acts as a dominant force for accomplishment of any Mission.

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Author’s Profile
Dr. Sudhinder Singh Chowhan is presently working with Nims Institute of Management, Nims University, Jaipur Rajasthan INDIAN on the capacity of Vice Principal and Associate Professor. He has specialization in Pharmacy at undergraduate level and has done his M.B.A. in marketing. Further his Doctorate in Management and has focused upon Strategic Marketing Management practices with special reference to pharmaceutical industries. He has total experience of thirteen years to his credit which includes six years experience in marketing and administration management and seven years in academics.

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