Financial Inclusion for Sustainable Development through Pradhan Mantri Jan-Dhan Yojana

Dr. V K Joshi¹
Ms. Reema Singh²
Dr. Sonal Jain³

Abstract

For any developing country like India, the sustainable growth of nation is only possible by inclusive all financial services to those groups who are excluded to access financial system. The approach that was first used by the government for financial inclusion was Swabhimaan. In Swabhimaan, the target area was rural with account opening as the main focus ignoring the use of mobile banking. Pradhan Mantri Jan-Dhan Yojana (PMJDY) is introduced to overcome the loopholes of Swabhimaan. It is an urge of the hour to make the people understand that financial inclusion is the emerging financial means which play major role to develop country by eradicating poverty. The main objective of financial inclusion is a basic no frill account, credit availability at appropriate rate, knowledge of secure savings and financial products, remittance, pension and insurance etc. PMJDY is major financial plan with the objective of covering all households in the country with banking facilities along with inbuilt insurance coverage. The paper implies to study the need of financial inclusions in India with special reference to PMJDY for the sustainable growth of economy.

Keywords: Financial Exclusion, Financial Inclusion, PMJDY, Sustainable Growth.

Financial Inclusion: An Overview

Eradication of poverty is a major challenge of many developing nations. In the race of gaining an edge over the competitors and earning a greater amount of profit
year after year, the financial institutions are ignoring the weaker sections of the society. Financial inclusion or inclusive financing is the provision of financial services, at minimal costs, to the unprivileged or under privileged sections of the society. Financial inclusion have been a major challenge in front of the financial institutions as they were not able to bridge the gap between the sections of society that are not coming in framework of financial system and facing the problem of illiteracy. Thus the term Financial Inclusion can be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. To overcome the problem of poverty in India, government’s mega scheme ‘Jan Dhan Yojana’, is announced by the Prime Minister Shri Narendra Modi aiming at eradicating financial untouchability by providing bank accounts to the poor. RBI’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.”

Financial Inclusion: A Roadmap

India has, for a long time, recognised the social and economic imperatives for inclusive financial inclusion and has made a huge contribution towards economic development by finding innovative ways to empower the poor. RBI is continuously making efforts to increase the access to the urban as well as rural under privileged segments through the route of providing numerous banking services like priority sector lending, establishment of regional rural banks, micro credit, lead bank scheme etc.

RBI took its first step towards the adoption of financial inclusion in India in 2005. The scheme was launched by K C Chakraborty, the chairman of Indian Bank. Since, then RBI is making continuous efforts towards reaching its goal of achieving sustainable financial inclusion through a variety of strategies, products, supportive policies and changes in regulatory guidelines. In January 2006, RBI allowed the commercial banks to take the help of various outsourcers and non government organisations and act as the intermediaries for providing various facilities included under financial inclusion.

RBI also directed the commercial banks to start a campaign in covering almost all the regions of the country. The following table1 shows the different coverage of banking services:
### Table 1: Coverage of Banking Services in India

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Region</th>
<th>Current Account</th>
<th>Saving Account</th>
<th>Total Population</th>
<th>Total No. of Account</th>
<th>Total No. of Account (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>North</td>
<td>4215701</td>
<td>52416125</td>
<td>32676462</td>
<td>56631826</td>
<td>17.65</td>
</tr>
<tr>
<td>2</td>
<td>North East</td>
<td>476603</td>
<td>6891081</td>
<td>38495089</td>
<td>7367684</td>
<td>2.3</td>
</tr>
<tr>
<td>3</td>
<td>East</td>
<td>1814219</td>
<td>47876140</td>
<td>227613073</td>
<td>49690359</td>
<td>15.48</td>
</tr>
<tr>
<td>4</td>
<td>Central</td>
<td>2202217</td>
<td>64254189</td>
<td>255713495</td>
<td>66456406</td>
<td>20.71</td>
</tr>
<tr>
<td>5</td>
<td>West</td>
<td>3178102</td>
<td>49525101</td>
<td>149071747</td>
<td>52703203</td>
<td>16.42</td>
</tr>
<tr>
<td>6</td>
<td>South</td>
<td>4666014</td>
<td>83386898</td>
<td>223445381</td>
<td>88052912</td>
<td>27.44</td>
</tr>
<tr>
<td>All India</td>
<td>16552856</td>
<td>304349534</td>
<td>1027015247</td>
<td>320902390</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>


Table 1 indicates that, out of 32902390 total current account and savings account of banking services in All India. 27.44 per cent of total account in South India, 20.71 per cent of total account in Central India, 17.65 per cent of total account in North India, 16.42 per cent of total account in West India, 15.48 per cent of total account East India, 2.3 per cent of total account in North East India. So, it is concluded that, the maximum number of 27.44 per cent of total account in South India.

### Need of Financial Inclusion in Indian Economy

Even after more than 65 years of independence, a large section of Indian population still remains unbanked. This position of the country has given rise to financial instability and inequality among the non prioritised sector who are not able to access to financial products and services. This has lead to the initiation of various steps by the government from which financial inclusion holds the prime importance. Financial inclusion is being focused upon targeting the semi urban and rural areas of the countries. RBI is continuously making efforts to make the unprivileged population aware about the banking products and services and inculcate the habit of savings and investment. The government is making efforts primarily on the following points:

1. **Creating a platform for developing a habit to save money** - Today also a majority of Indian population is living under a great financial pressure because they are financial illiterate and does not possess the habit to save money. They are not aware of the financial products and services being catered by the banks in urban as well as rural areas. Government is making an effort through the route of financial inclusion where
in they have instructed the banks to open branches in rural areas and assist the unprivileged and under privileged residents of India to open a bank account and inculcate the habit off saving. The habit of banking and saving money will lead to capital formation in the country and people will be aware of investing in financial instruments in spite of traditional investment avenues like real estate or real assets.

2. **Providing a simple method of credit creation**- In the absence of bank accounts and banking habits, lower income groups are dependent on unorganised markets for credit. Due to the unaffordable financial burden created by the unauthorised money lenders, they get deprived of their land and other valuables. Availability of a transparent credit system through proper channel will develop their entrepreneurial habit and improve their living conditions which in turn will increase the country’s prosperity.

3. **Fill the gap between and subsidies and beneficiaries**- Indian Government is making continuous efforts for the development of priority sectors. The prime objective of the Government is to uplift the living conditions of the unprivileged and under privileged sectors of the society. For this the government is announcing various schemes and subsidies in the budget every year. With an aim to make the payment to the actual beneficiary, government is pushing the amount to be transferred in the bank account of the beneficiaries in spite of making cash payments. In absence of the bank accounts the subsidy amount is not able to reach the target beneficiary. Therefore, financial inclusion is the urgent need of the hour.

**Various Services Provided Through Financial Inclusion to the Beneficiaries**

Various steps\(^2\) have been taken by RBI to accelerate the momentum of financial inclusion.

The steps include:

1. **Opening of no-frills accounts**: RBI has designed a major route to reach the rural by instructing the commercial banks to open no-frills account with nil or minimum balance. The banking charges were also made nil so that, such accounts may be accessible to vast sections of the rural population. RRBs are also providing small overdrafts in such accounts.

2. **Relaxation on know-your-customer (KYC) norms**: RBI took another step in August 2005, when the KYC norms for opening small bank accounts were relaxed. To fulfill the banks requirement regional rural banks take only the customer identity card and address proof. 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.

3. **General credit cards (GCCs)**: RBI has also introduced a special scheme through which the banks are providing credit card facility upto Rs. 15,000 in the rural and semi urban areas. The scheme is aimed to help the poor of rural as well as semi
urban areas by providing them a hassle-free credit based on the assessment of cash flow without considering security, purpose or end use of the credit.

4. **Engaging business correspondents (BCs):** RBI took another step to reach the target group by permitting scheduled commercial banks to engage business facilitators (BFs) and business correspondents (BCs) as intermediaries for providing financial and banking services in January 2006.

5. **Adoption of EBT:** Initiation of Electronic Banking Transactions was another major step adopted by RBI to transfer the social benefits and also delivering the various benefits provided by the government to the target electronically in their account. This led to reduction in the dependence on cash. This step aimed at lowering of transaction costs involved in transactions.

6. **Opening of branches in unbanked rural centers:** Targeting at deeper penetration in unbanked rural areas, RBI mandated to allocate at least 25% of the total number of branches in those areas. This led to a greater momentum in financial inclusion.

Pradhan Mantri Jai-Dhan Yojana (PMJDY) – An Edge over Financial Inclusion

To include more financial beneficiaries that Pradhan Mantri Jan-Dhan Yojana is introduced on 28 August, 2014 by Government of India. 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. The various issues are considered in this plan:

1. Focus on household; Sub Service Area (SSA) for coverage of the whole country.
2. Coverage of both rural and urban people.
3. Fixed Point Bank Mitr (Business Correspondent) in each SSA comprising of 1000-1500 households (3 to 4 villages on an average) to visit other villages in the SSA on fixed days.
4. Only online accounts in CBS of the Bank.
5. Account opening to be integrated with DBT, credit, insurance and pension.
6. Inter-operability through RuPay Debit Card, AEPS etc.
7. Mobile wallet and USSD based mobile banking to be utilised.
8. Simplified KYC/e-KYC in place as per RBI guidelines.
9. The rural branches of banks to have a dedicated Financial Literacy Cell.
10. Grievance redressal at SLBC level in respective States.

Even after the large efforts made by RBI for gaining sustainable development through financial inclusion, a large group of beneficiaries is still deprived of opening their bank accounts and getting financial aids. In order to tap more of the uncovered sectors under financial
inclusion PMJDY mainly emphasizes on opening of zero balance account, RuPay Debit Card, overdraft facility of Rs. 5,000, accidental insurance of Rs 1,00,000 and life cover of Rs.30,000.4

RBI asked the commercial banks in different regions to start a 100% Financial Inclusion campaign on a pilot basis. As a result of this, the financial inclusion plans is progressed. The following table predicts the progress of FI Plan:

**Table 2: Progress of Financial Inclusion Plan**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Year ended March 2010</th>
<th>Year ended March 2013</th>
<th>Year ended March 2014</th>
<th>Progress April 2013–March 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Outlets in Villages – Branches</td>
<td>33,378</td>
<td>40,837</td>
<td>46,126</td>
<td>5,289</td>
</tr>
<tr>
<td>Banking Outlets in Villages – Branchless Mode</td>
<td>34,316</td>
<td>2,27,617</td>
<td>3,37,678</td>
<td>1,10,061</td>
</tr>
<tr>
<td>Banking Outlets in Villages – Total</td>
<td>67,694</td>
<td>2,68,454</td>
<td>3,83,804</td>
<td>1,15,350</td>
</tr>
<tr>
<td>Urban Locations covered through BCs</td>
<td>447</td>
<td>27,143</td>
<td>60,730</td>
<td>33,587</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through branches (No. in million)</td>
<td>60.2</td>
<td>100.8</td>
<td>126.0</td>
<td>25.2</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through branches (Amt. in billion)</td>
<td>44.3</td>
<td>164.7</td>
<td>273.3</td>
<td>108.6</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through BCs (No. in million)</td>
<td>13.3</td>
<td>81.3</td>
<td>116.9</td>
<td>35.7</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through BCs (Amt. in billion)</td>
<td>10.7</td>
<td>18.2</td>
<td>39.0</td>
<td>20.7</td>
</tr>
<tr>
<td>BSBDAs Total (No. in million)</td>
<td>73.5</td>
<td>182.1</td>
<td>243.0</td>
<td>60.9</td>
</tr>
<tr>
<td>BSBDAs Total (Amt. in billion)</td>
<td>55.0</td>
<td>182.9</td>
<td>312.3</td>
<td>129.3</td>
</tr>
<tr>
<td>OD facility availed in BSBDAs (No. in million)</td>
<td>0.2</td>
<td>4.0</td>
<td>5.9</td>
<td>2.0</td>
</tr>
</tbody>
</table>
From the above table, it can be easily drawn that there is an approximate 43% growth in banking outlets in rural region. There is an increase of 33587 locations that are covered through business correspondence from 2013 to 2014 which is an excellent outcome. The number of savings bank account has increased by approx 25% and the amount of savings bank deposits have increased by approx 108%. There is also a sharp increase in credit taken through kisan credit card and general credit card that shows that the credit created by banks is used by the beneficiaries. This progress has accelerated many times after implementation of PMJDY. As per the data provided by PMJDY it is found that the target of opening 75.16 million bank accounts for the un-banked has been met in only three months after financial inclusion mission in PMJDY. This is a appreciable achievement made through implementation of PMJDY.

Conclusion
Financial Inclusion is significant for the sustainable growth of the country. India as a developing country recognises the strength of this financial inclusion by developing the financial system more inclusive. India has strengthened and progressed through various promotional programs like financial awareness and by low interest rate banking through micro finance institutions, business facilitators and business correspondents. Opening of accounts are not only the solution of financial inclusion but also provide the financial security like insurance, pension and others. Pradhan Mantri Jan-Dhan Yojana is key drive to go ahead for the economic development of the country. So, the main focus of financial inclusion through this plan is to promote sustainable development and generating employability for a vast majority of the population especially in the rural areas. To achieve this objective many commercial banks
and cooperative banks like NABARD as well as RRBs are serving them. Various accounts have been opened from weaker section groups, rural as well as urban people, petty shopkeepers, small traders, village entrepreneurs, people engaged in service sector, physically handicapped and widows as well. Many banks are playing a major role in ensuring sustainable development through financial inclusion. However, there is long way to go for the financial inclusion to reach the core poor and it can be possible by financial literacy and independent decision making regarding financial services and also by more awareness program provided by government.

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