

Financial Inclusion in India

Dr. Hardeep

Assistant Professor, Department of Commerce JCD memorial PG College, Sirsa, Haryana, India

Abstract

A large segment of Indian people are still unbanked even after 69 years of independence. Census, 2011 estimates that only 58.7 percent of the households have access to banking services. Financial Inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. It aims to provide the access of financial services at a reasonable cost for all households and to provide them a full range of financial services including savings or deposit services, payment and transfer services, credit and insurance facilities by relaxing the KYC norms and waiving off the minimum balance requirements. Reserve Bank of India 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 Pradhan Mantri Jan-Dhan Yojana launched by Govt. of India is a key initiative towards attainment of the goal of RBI. The present study is undertaken to evaluate the progress of financial inclusion through PMJDY in India.

Keywords: financial inclusion, banks, PMJDY, savings

Introduction

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to the sections of disadvantaged and low-income segments of society. Financial services refers to all types of financial services, including credit, savings, payments and credit provided by all types of formal financial institutions. An estimated 2 billion working-age adults globally have no access to the types of formal financial services which are delivered by regulated financial institutions. The availability of financial services that meet the specific needs of users without discrimination is a key objective of financial inclusion. Despite various measures for financial inclusion, poverty and exclusion continue to dominate socio-economic and political discourse in India even after six decades of post economic independence era. Though economy has shown impressive growth during post liberalization era of 1991, impact is yet to percolate to all sections of the society and therefore India is still home of 1/3rd of world's poor. Census, 2011 estimates that only 58.7 percent of the households in India have access to banking services. The main aim of financial inclusion is to eradicate the poverty and to transfer the various benefits and subsidies directly into their bank account to stop the revenue leakage which relates to the weaker section of the society, to spread the financial literacy among the weaker section and to strengthen the credit delivery mechanisms so as to improvised the financial economic growth. The term "financial inclusion" has gained importance since the early 2000s, a result of finding out financial exclusion and its direct correlation to poverty. The United Nations defines the goals of financial inclusion as follows:

1. 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;
2. Sound and safe institutions governed by clear regulation and industry performance standards;

3. Financial and institutional sustainability, to ensure continuity and certainty of investment; and

4. Competition to ensure choice and affordability for clients.

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, the then 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, Puducherry 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 percent 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 percent 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. The Pradhan Mantri Jan-Dhan Yojna is main step towards the financial inclusion in India and recorded in Guinness Book of World Record. The scheme was announced by Hon’ble Prime Minister on 15th Aug, 2014 and launched on 28th Aug, 2014. Objective of "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" is ensuring access to various financial services like availability of basic savings bank account, access to need based credit,

remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups but this deep penetration at affordable cost is possible only with effective use of technology.

Objectives of the Study

1. To study the need and progress of the Financial Inclusion in India.
2. To study the progress made by the PMJDY Scheme in Financial Inclusion in India

Research Methodology

The present study is descriptive in nature. The secondary data is used for the present study. The secondary data is collected from various websites, books and journals.

Financial Inclusion- Progress of Banks

Table 1 shows the summary of progress of all banks including Regional Rural Banks (RRBs), during five year period. The table shows that the number of bank branches in rural areas has been increased from 33,378 in 2010 to 46,126 branches in 2014. Out of total 6 lac villages 3,37,678 villages have been covered by BCs. 126 million accounts have been opened with bank branches and 116.90 million accounts have been opened with BCs.

Table 1: Progress Report of all Banks during 2010 to 2014

Particulars	Year Ended 2010	Year Ended 2011	Year Ended 2012	Year Ended 2013	Year Ended 2014
Banking Outlets in Villages					
a) Branches	33,378	34,811	37,471	40,837	46,126
b) Villages covered by BCs	34,174	80,802	1,41,136	2,21,341	3,37,678
c) Other modes	142	595	3,146	6,276	-
d) Total	67,674	1,16,208	1,81,753	2,68,454	3,83,804
Urban Locations through BCs	447	3,771	5,891	27,143	60,730
Basic Saving Bank Deposit A/c- branches					
a) No. in Millions	60.19	73.13	81.20	100.80	126.00
b) Amt. in Billions	44.33	57.89	109.87	164.69	273.30
Basic Saving Bank Deposit A/c-BCs					
a) No. in Millions	13.27	31.63	57.30	81.27	116.90
b) Amt. in Billions	10.69	18.23	10.54	18.22	39.00
OD facility availed in BSBDA’s account					
a) No. in Millions	0.18	0.61	2.71	3.92	5.90
b) Amt. in Billions	0.10	0.26	1.08	1.55	16.00
KCCs (No. in millions)	24.31	27.11	30.24	33.79	39.90

Source: RBI annual report 2013-14

Recent important guidelines on Financial Inclusion

- 2006: In January, banks were allowed to enlist non-profit Bank Mitra as agents for delivery of financial services, acting in the capacity of ‘last-mile infrastructure’.
- 2008: In April, it was determined that BCs should be located not more than 15 kilometer from the nearest bank branch, so as to ensure their adequate supervision. This was a very restrictive rule that severely limited the expansion of this model.
- 2008: The RBI issued operative guidelines for mobile banking.
- 2009: Banks were allowed to apply ‘reasonable’ service charges from customers to ensure viability of the BC model.
- 2011: RBI issued guidelines for opening Aadhaar Enabled Bank Accounts to facilitate routing of MGNREGA wages

and other social benefits in to the accounts using EBT.

- 2012: Government of India introduced Sub Service Area (SSA) approach for opening of banking outlet and for Direct Cash Transfer.
- 2013: To ease the account opening process RBI permitted to use e-KYC.
- 2014: RBI issued guidelines for scaling up of Business Correspondent model.

Pradhan Mantri Jan-Dhan Yojna

Pradhan Mantri Jan-Dhan Yojana (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. Account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet. PMJDY accounts

are being opened with Zero balance. However, if the account-holder wishes to get cheque book, he/she will have to fulfill minimum balance criteria.

Special Benefits under PMJDY Scheme

1. Interest on deposit
2. Accidental insurance cover of Rs.1.00 lac
3. No minimum balance required
4. Life insurance cover of Rs.30,000/-
5. Easy Transfer of money across India
6. Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.
7. After satisfactory operation of the account for 6 months, an overdraft facility will be permitted
8. Access to Pension, insurance products and Accidental Insurance cover
9. RuPay Debit Card must be used at least once in 45 days
10. Overdraft facility upto Rs.5000/- is available in only one account per household, preferably woman of the household.

The efforts to include the financially excluded segments of the society into formal financial system in India are not new. The concept was first mooted by the RBI in 2005 and Branchless Banking through Banking Agents called Bank Mitra (Business Correspondent) was started in the year 2006. In the year 2011, the GoI gave a serious push to the programme by undertaking the “Swabhimaan” campaign to cover over 74,000 villages, with population more than 2,000 (as per 2001 census), with banking facilities.

Mission Mode Objectives (6 Pillars):

PMJDY to be executed in the Mission Mode, envisages provision of affordable financial services to all citizens within a reasonable distance. It comprises of the following six pillars

1. **Universal access to banking facilities:** Mapping of each district into Sub Service Area (SSA) catering to 1000-1500 households in a manner that every habitation has access to banking services within a reasonable distance say 5 Km by 14th August, 2015. Coverage of parts of J&K, Himachal Pradesh, Uttarakhand, North East and the Left Wing

Extremism affected districts which have telecom connectivity and infrastructure constraints would spill over to the phase II of the program (15th August, 2015 to 15th August, 2018).

2. **Providing Basic Banking Accounts with overdraft facility and RuPay Debit Card to all households:** The effort would be to first cover all uncovered households with banking facilities by August, 2015, by opening basic bank accounts. Account holder would be provided a RuPay Debit Card. Facility of an overdraft to every basic banking account holder would be considered after satisfactory operation/credit history of six months.
3. **Financial Literacy Programme:** Financial literacy would be an integral part of the Mission in order to let the beneficiaries make best use of the financial services being made available to them.
4. **Creation of Credit Guarantee Fund:** Creation of a Credit Guarantee Fund would be to cover the defaults in overdraft accounts.
5. **Micro-Insurance:** to provide micro-insurance to all willing and eligible persons by 14th August, 2018, and then on an ongoing basis.
6. **Unorganised sector Pension schemes like Swavalamban:** By 14th August, 2018 and then on an ongoing basis.

Under the mission, the first three pillars would be given thrust in the first year.

Status of Pradhan Mantri Jan-Dhan Yojna

Table 2 shows the status of accounts opened under PMJDY as on 31.01.2015 which shows that total 1254.73 Lacs accounts have been opened upto 31st Jan, 2015 out of which 750.15 Lac account were opened in rural areas and 504.57 lac accounts were opened in urban areas. Out of these account holders 1107.93 lacs account holders were provided the Rupay Debit Card. Out of these accounts 841.39 Lacs (67.44 percent) accounts have Zero Balance and Rs. 10,416 Crores have been deposited into these accounts.

Table 2: Pradhan Mantri Jan-Dhan Yojna (Accounts Opened as on 31.01.2015)

Sr. No.	Nature of Banks	No. of Accounts (In Lacs)			No. of Rupy Debit Cards (In Lacs)	Balance in Accounts (In Lacs)	No. of Accounts with Zero Balance (In Lacs)
		Rural	Urban	Total			
1	Public Sector Banks	533	451.47	984.48	912.32	817463.04	655.41
2	Regional Rural Banks	184.89	32.98	217.87	149.68	159948.08	159.35
3	Private Banks	32.26	20.12	52.38	45.93	72551.5	29.97
	Total	750.15	504.57	1254.73	1107.93	1049962.62	844.73

Source: Website of PMJDY

Table 3 shows that the maximum numbers of accounts in absolute terms have been opened in Uttar Pradesh followed by

Madhya Pradesh and West Bengal. In Terms of percentage

Table 3: State wise progress of accounts opened under PMJDY and seeding of Aadhaar Card (as on 28.01.2015)

S. No	State/Union Territory	Population Census-11	Aadhaar Issued-%	Accounts Rural	Accounts Urban	Total Accounts	Aadhaar Seeded-%	% of Total Accounts to Population
1	Andaman and Nicobar Islands	379944	43.71%	29284	11815	41099	26.51%	10.8
2	Andhra Pradesh	49378776	96.61%	2831833	2114718	4946551	73.52%	10
3	Arunachal Pradesh	1382611	5.77%	65312	13706	79018	10.04%	5.7
4	Assam	31169272	0.60%	2743286	970552	3713838	5.00%	11.9
5	Bihar	103804637	26.39%	5745019	2324278	8069297	10.41%	7.8
6	Chandigarh	1054686	91.77%	25071	138698	163769	63.53%	15.5
7	Chattisgarh	25540196	47.32%	3285343	1747417	5032760	11.99%	19.7

8	Dadra and Nagar Haveli	342853	69.61%	27164	6558	33722	36.23%	9.8
9	Daman and Diu	242911	70.37%	11286	4594	15880	33.17%	6.5
10	Goa	1457723	92.11%	74072	24316	98388	56.55%	6.7
11	Gujarat	60383628	62.43%	2495078	2211369	4706447	26.53%	7.8
12	Haryana	25353081	81.21%	1900199	1538380	3438579	54.07%	13.6
13	Himachal Pradesh	6856509	95.57%	546071	78064	624135	68.01%	9.1
14	Jammu & Kashmir	12548926	34.57%	891405	179283	1070688	6.74%	8.5
15	Jharkhand	32966238	82.13%	1654184	809452	2463636	59.46%	7.5
16	Karnataka	61130704	76.64%	3926012	2379520	6305532	54.72%	10.3
17	Kerala	33387677	92.67%	914303	739435	1653738	56.57%	5
18	Lakshadweep	64429	87.19%	4041	217	4258	62.54%	6.6
19	Madhya Pradesh	72597565	66.47%	4615147	4673724	9288871	35.07%	12.8
20	Maharashtra	112372972	79.49%	3863773	4134001	7997774	56.34%	7.1
21	Manipur	2721756	38.67%	166097	185002	351099	21.80%	12.9
22	Meghalaya	2964007	0.65%	90402	43971	134373	3.22%	4.5
23	Mizoram	1091014	22.90%	22964	42622	65586	4.67%	6
24	Nagaland	1980602	42.75%	61715	45869	107584	17.87%	5.4
25	National Capital Territory of Delhi	16753235	104.81%	232249	1886623	2118872	63.06%	12.6
26	Odisha(Orissa)	41947358	58.93%	2925303	1129621	4054924	28.75%	9.7
27	Puducherry (Pondicherry)	1244464	93.17%	41923	41142	83065	60.22%	6.7
28	Punjab	27704236	90.34%	2103271	1447655	3550926	68.22%	12.8
29	Rajasthan	68621012	65.21%	5122195	3420295	8542490	42.08%	12.4
30	Sikkim	607688	92.23%	47040	8274	55314	74.75%	9.1
31	Tamil Nadu	72138958	66.45%	3058272	2440368	5498640	26.98%	7.6
32	Telangana	35220187	101.93%	2844183	2144023	4988206	67.00%	14.2
33	Tripura	3671032	89.68%	236189	97032	333221	61.91%	9.1
34	Uttar Pradesh	199581477	37.41%	11223500	7172323	18395823	15.22%	9.2
35	Uttarakhand	10116752	43.26%	844822	407351	1252173	17.14%	12.4
36	West Bengal	91347736	62.30%	5639866	3017741	8657607	21.29%	9.5
	Total	1210126852	61.24%	70307874	47630009	117937883	35.01%	

Source: Website of PMJDY

(Accounts opened to total population), the State of Chattisgarh is toper among States with 19.7 percent followed by newly created State of Telengana with 14.2 percent. In Union Territories, the first place goes to Chandigarh (15.5 Percent) followed by Delhi (12.6 Percent). The table shows that 61.24 percent population has been provided by Aadhaar Card and 35.01 percent Aadhaar Cards have been seeded with bank accounts.

Word of Caution

Although financial inclusion is a must for the country's progress, banks need to exercise caution. Overzealousness on their part might give rise to a subprime crisis-like situation. They ought to draw a clear line between sound and unsound practices and chalk out a financial inclusion strategy, which while enabling the poor to get out of their impoverished condition will also enhance their own profitability.

Conclusion

From the above discussion it is clear that financial inclusion is at the top agenda of the Government of India to bring the disadvantaged section of society under the ambit of PMJDY and PMJDY is seems to be successful in its target to provide atleast one bank account to the households. PMJDY utilize the modern technology to overcome the shortcomings of earlier Swabhimaan scheme. The scheme is launched with proper advertisement and banks itself reached to the beneficiaries after conducting the household survey in entire nation that's why the success of the scheme is recorded in Guinness Book of World Record. Now Government of India is linking these bank accounts with Aadhaar card and using these bank accounts to

transfer various subsidies and social assistance directly into their bank account to avoid the mid-way leakage of revenue. Hence, the scheme significantly contributed in the target of financial inclusion of disadvantaged section of society but proper monitoring by banks is of utmost importance to avoid any situation like sub-prime crisis.

References

1. Asli D, Kunt, Klapper L. Measuring Financial Inclusion, Policy Research Working Paper, 6025, World Bank, 2012.
2. Bihari SC. Growth through financial inclusion in India, journal of international business ethics, 2011, 4.
3. Leeladhar V. Taking Banking Services to the Common Man- Financial Inclusion, RBI Bulletin, 2006.
4. Rangarajan C. Report of the Committee on Financial Inclusion, Ministry of Finance, Government of India, 2008.
5. Reserve Bank of India (2006a), Financial Inclusion and Millennium Development Goals, Address by Usha Tgorat, Deputy Governor of the RBI, Jan 16 available at <http://www.rbi.org.in>.
6. PMJDY brochure
7. Website <http://www.pmjdy.gov.in>.