FINANCIAL INCLUSION INITIATIVES AND ITS IMPACT UPON BENEFICIARIES

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Financial Inclusion Initiatives and its Impact upon Beneficiaries

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Abstract – The examination looks at the results of access to money related items and administrations on the financial inclusion of the recipients. The Study endeavors to investigate and dissect different instruments and methodologies took after by the keeping money and non-managing an account elements in the State to build the effort of saving money administrations and items, and especially to stretch out monetary access to the rejected areas. The budgetary advancement has been found to diminish destitution in the State. Access to fund empowers the recipients to lessen their different financial inclusion bringing about diminished neediness levels. Further, the examination uncovers a differential effect of money related access on recipients with various qualities; amass recipients have been found to profit more from budgetary access when contrasted with their individual partners. Additionally, ladies members tend to acquire from budgetary access when contrasted with their male partners. The investigation additionally uncovers a differential provincial urban nature of the effect – neighborhood impacts, all the more so in instruction; urban recipients tend to profit more than their rustic partners so far as inclusions in training offices are concerned. The investigation additionally indicates towards a conceivable mistargeting of government plans. The investigation opens up new zones of enthusiasm for money related incorporation which should be truly considered by the analysts.

Keywords: Financial Inclusion, Beneficiaries and Pradhanmantri Jan Dhanyojna.

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INTRODUCTION

The concept of financial inclusion was evolved with the initialization of Co-operative movement in India during 1904. It got momentum in 1969 when 14 major commercial banks of the country were nationalized and Lead Bank Scheme was introduced shortly thereafter in mid-1970's. Large numbers of bank branches were opened across the country even in those areas which were neglected earlier. Despite of various measures, a huge segment of the population of the country was excluded from the formal banking system (Chattopadhyay, 2011). In 2005, RBI promulgated a drive for financial inclusion whereby formal financial system promotes the participation of every household at the district level via. saving accounts for the 'unbanked' (Ramji, 2009 and Ramasubbian & Duraiswamy, 2012). Under the chairmanship of Rangarajan, 'Committee on Financial Inclusion' was formulated by the Govt. of India and it defines financial inclusion as 'the mechanism of ensuring access to financial services and timely & adequate credit whenever needed by the vulnerable groups such as the weaker sections and low income groups at an affordable cost'. Recently, in 2014 to give leverage to financial inclusion drive 'Pradhan Matri Jan Dhan Yojana' has been introduced.

SIGNIFICANCE OF FINANCIAL INCLUSION

In larger part of the creating nations, access to fund is requested more for the base up pyramid group and considered as an open decent, which is as critical also, essential as access to safe water, essential training, and so forth. The most noteworthy impact of monetary consideration is that the whole national budgetary framework is profited by more prominent consideration, particularly when advanced in the more extensive setting of monetary incorporation. India, a developing economy, has exceptional hugeness of money related incorporation as it brings expansive portion of the profitable divisions of economy under formal money related arrange and could release their inventive limits other than expanding local request on a reasonable premise driven by pay and utilization development from such segments. Monetary consideration endeavors do have multiplier impact on the economy as a entire through higher investment funds pooled from the immense fragment of the base of the pyramid (BoP) populace by giving access to formal investment funds course of action bringing about extension in credit and speculation by banks. More profound engagements of the BoP/under-managed an account populace in the economy through the formal monetary framework could prompt change of their monetary conditions and expectations for everyday comforts, easing of the destitution, empowering them to make monetary resources, produce wage and construct flexibility to meet large scale monetary and occupation stuns (Khan, 2012). It empowers bringing un-saved money clients into monetary standard. This, brings about raising the financial advancement of the nation.

Pradhan Mantri Jan Dhan Yojana, is a goal-oriented plan for thorough budgetary incorporation propelled by the Honorable Prime Minister of India, Shri Narendra Modi on 28th August, 2014. He had declared this plan on his first Independence Day discourse on fifteenth August, 2014. In a keep running up to the formal dispatch of this plan, the Prime Minister actually sent to CEOs of all banks to prepare for the monstrous assignment of enlisting more than 6 crore (75 Million) family units and to open their records. In this email he completely pronounced that a ledger for every family unit was a "national need". The plan has been begun with a focus to give all inclusive access to managing an account offices beginning with essential saving money accounts with overdraft office of Rs. 5,000 following a half year and RuPay Debit Card with inbuilt mischance protection front of Rs. 1Lakh furthermore, RuPay Kisan card. An endeavor has been made in this paper to consider the advance made under Pradhan Mantri Jan Dhan Yojana conspire. The investigation depends on optional sources gathered from distributed articles, different diaries, daily papers, reports, books, and authority sites of PMJDY. The paper uncovers that PMJDY plot is completely useful to provincial and urban region individuals in getting specifically the administration plans. The investigation infers that, PMJDY plot has made an amazing outcome in the keeping money area as to destruction of money related untouchability in the nation. Unimportant opening of financial balances may not satisfy the point of the plan, yet there ought to be persistent operation of financial balances to give the genuine achievement of the plan.

FINANCIAL INCLUSION IN INDIA

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.[8] 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.[8] 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.[9] 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).[10] Financial inclusion again featured later in 2005 when it was used by K.C. Chakraborthy, 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% 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,”[11] 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. MIX designed the FINclusion Lab India FI workbook[12] to support these actors as they craft strategies to achieve these goals.

Several Startups are working towards increasing Financial Inclusion in India by organising various large unorganised sectors where payments primarily happen in Cash, instead of a bank transaction.

Recently, the government of India came up with a policy under the name "rupee exchange" to exchange higher notes with the intent of: clamping down on tax defaulters, track down corrupt officers (by rendering valueless heavy cash stashed away secretly) and generally restoring sanity to the economic system. First off it is alarming that despite the fact that India's CRSISIL index is in excess of 40% and it is reputed to be heavy on technology, over 85% of its financial transactions are cash based. While income and inequality gaps will widen anyways, it is recommended that India embraces - proposed - as a matter of policy financial inclusion[13]

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 known-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.[14] 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.[15]

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.

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 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".

CONCEPT OF PRADHAN MANTRI JAN DHAN YOJANA

The Pradhan Mantri Jan Dhan Yojana, a major socio - economic initiative of the National Democratic Alliance government, was announced by the Prime Minister in his Independence Day speech. Jan Dhan Yojana in English it is nothing but “People’s Wealth Scheme”. India’s Prime Minister Narendra Modi announced the launch of this scheme at the historic Red Fort. The slogan for the Pradhan Mantri Jan Dhan Yojana is “Mera Khata Bhagya Vidhaata” it is nothing but “My Bank Account -The creator of the Good Fortune.

Now the government of India and RBI working are aggressive to bring larger section of Indian population within the banking system. Khan commission (2004) recommended for financial inclusion was by providing financial service to the economically poor section of Indian population at a sustainable cost and to create a platform to inculcate the habit of saving money and to provide formal footpaths for credit. In this regard government of India launched Pradhan Mantri Jan Dhan Yojana (PMJDY) on 28th August, 2014 with the intension to reach weaker section and lower income groups have no access to financial service like savings, credits and insurance as well as to increase financial inflow to the bank. PMJDY aims at providing bank account to single household above the age of 10 years who do not have bank account and will be opened with zero balance. The household opening the account will be benefited with 1 lakh accident cover and 30,000 life cover without premium. People opening account under this scheme will also avail overdraft facility up to Rs. 5,000 from the bank after satisfactory conduct of the account for 6 months. Pension and insurance product can be accessed by account holder under this scheme. Rupee credit card will be issued to the account holder which is acceptable. PMJDY was introduced by government of India on 28th August, 2014 to ensure comprehensive financial inclusion of all the households in the country.

PMJDY envisions universal access to banking services and products with at least one banking account for every households in the country. This scheme came into picture with a view to provide comprehensive and inclusive growth. PMJDY is a scheme which came with additional features compare to earlier financial inclusion schemes like minor above 10 years can open the account, RuPay debit card issued for the account holder to withdrawal, deposits and payment purpose, accidental insurance of Rs. 1,00,000 and life insurance of Rs. 30,000 provided without premium, after 6 month of satisfactory transaction of the account household can avail Rs. 5,000 overdraft facility and interest will be charged base plus 2% or 12% whichever is lower, account can be transferred in case customer relocates.

IMPACT ON BENEFICIARIES

Exclusiveness of PMJDY

Account Customer account duplication, i.e., customers who hold another bank account in addition to PMJDY account, stands at 33%. This is a significant increase from last two rounds of PMJDY survey and can be attributed to target-based account opening approach taken by banks. BMs’ incentives were linked to the number of accounts opened and, as a result, BMs made efforts to maximise incentives and opened accounts for customers irrespective of whether they had an account or not. A part of this high customer duplication can also be attributed to miscommunication about PMJDY schemes among customers. Customers have opened another PMJDY account under misconception of receiving additional government benefits and overdraft facility.

Readiness of Demand-side Infrastructure

Since the launch of PMJDY scheme, customers have increasingly preferred BM as a channel to open PMJDY account. This substantiates the point that, over the last one year, customers have established their trust in widely present BM channels, set up in far-flung corners of the country, by orchestrated efforts of banks and BCNMs. The rate of RuPay card distribution (47%) and Aadhaar seeding (62%) is positive, but is extremely slow. Where low distribution of RuPay cards limits degree of transactional freedom of customer (customer is bound to transact only from BM point), inadequate Aadhaar seeding deprives customer to hatch on to Aadhaar-enabled payment system — a base for efficient and leakage-free government to people (G2P) payment system.

Customers’ Financial Behaviour

There is significant shift in savings behaviour of PMJDY customers. There is decrease in number of customers who either don’t save or save at home. These customers have started to use their own savings account to save. Additionally, there is a small increment in number of customer transactions per month from last wave of PMJDY survey. A total of 65% of customers transact at least once in a month at BM location, compared to 58% in Wave II. On an average, a typical PMJDY customer household constitutes four adults (over 18 years) and one child (aged between 10 and 18 years). 84% of the customers reported that two or more than two members of the household have an individual bank account.

CONCLUSION

PMJDY is an effective tool for achieving financial inclusion in India. However, many issues have to be addressed. Further, other products and features to the existing benefits should be included, to achieve the mission of this project. The Pradhan Mantri Jan Dhan Yojana scheme has substantial growth in number of accounts opened. In globalized scenario, it is important to financially include all sections of the society in this scheme to achieve the goal of inclusive growth of the nation. PMJDY is a national mission on financial inclusion which is concentrated on individual household with an aim to provide formal financial support through the organized financial system. Success of the PMJDY scheme depends on the effective regulatory system as in the stakeholders have to build a sustainable ecosystem to keep the accounts active and successful implementation of the programme. The challenge is the conversion of the non-operative accounts with zero balance into operative and for this it's important to focus on financial literacy programme. Inclusive growth "Sab Ka Sath Sub Ka Vikas" is central to our development philosophy.

Financial inclusion is expected to make significant changes in the economy, especially the rural economy, which is expected to witness a revolution in availability of financial instruments mainly because of– PMJDY, gold monetization scheme and MUDRA. The DBT which will operate through the banking system will also ensure regularity of flow of liquidity in households and therefore opportunities for investment. The key player in the market would be banks, micro-finance institutions, self-help groups, post offices and MUDRA bank.

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