Tactful Management Research Journal
ISSN: 2319-7943
Impact Factor : 2.1632(UIF)

PMJDY- NATIONAL MISSION FOR FINANCIAL INCLUSION

Ema Garg

Assistant Professor , Bachelor of Management Studies,
S.I.E.S College of Commerce and Economics.

Abstract : Financial inclusion is an essential pre-condition to build uniform economic development and ushering in greater economic and social equity. There are several government and non-government programmes aimed at reducing poverty and bringing greater equity in the country. But few have proved to be inherently productive and sustainable. Financial inclusion can transform them into productive and self-sustainable projects. It also 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.

To ensure financial inclusion, various initiatives were taken up by RBI/ Government of India Nationalization of Banks, Expansion of Banks branch network, Establishment & expansion of Cooperative and RRBs, 'No frills' accounts, Relaxed and simplified KYC norms and establishments of “Business Facilitator and Business Correspondent Model" but still desired benefits are not visible.

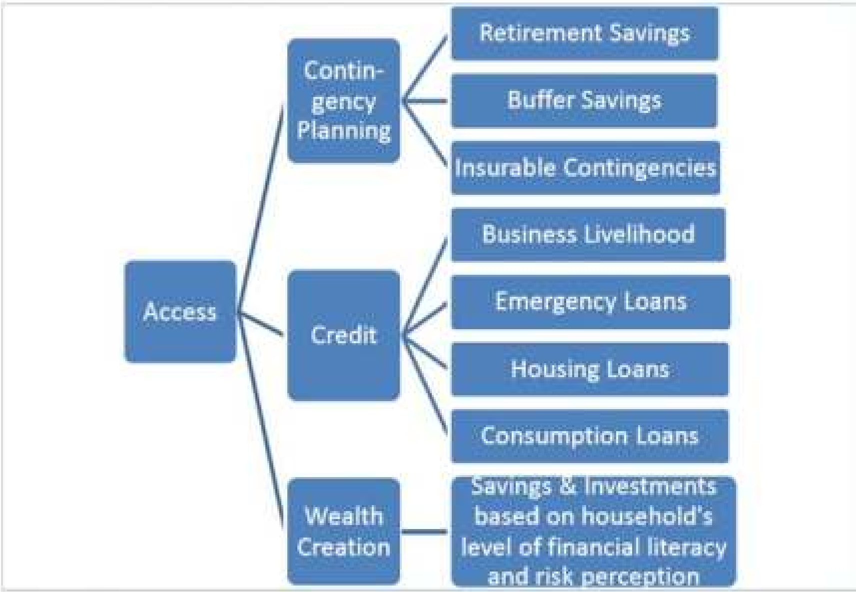
‘Pradhan Mantri Jan-Dhan Yojana' was announced by Hon'ble Prime Minister , Shri Narender Modi on 15 August, 2014. This is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. This paper emphasis on rational, key objectives, implementation, analysis and challenges of PMJDY.

Key words: Financial inclusion, Business Facilitator and Business Correspondent Model, Pradhan Mantri Jan-Dhan Yojana'

INTRODUCTION

Financial inclusion is defined as the process of ensuring access to financial services and timely and adequate credit which needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). It refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan). The essence of financial inclusion is to ensure delivery of financial services which include - bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc.

Figure I: Household Access to Financial Services



Source: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman : Dr. RaghuramRajan).

Need for financial inclusion

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. It helps to deliver the advantage of various schemes of government to needed individuals. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

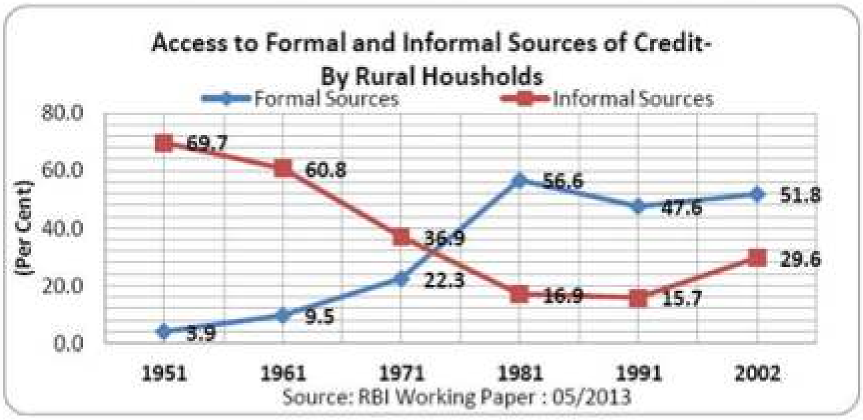
Current status of financial Inclusion

To ensure financial inclusion, various initiatives were taken up by RBI/ Government of India like Nationalization of Banks, Expansion of Banks branch network, Establishment & expansion of Cooperative and RRBs, Introduction of PS lending, Lead Bank Scheme, Formation of SHGs and State specific approach for Govt. sponsored schemes to be evolved by SLBC etc.

In 2005-2006, RBI advised Banks to align their policies with the objective of financial inclusion. Banks were advised 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 population. Besides, it has been emphasized upon by the RBI for deepening and widening the reach of Financial Services so as to cover a large segment of the rural & poor sections of population. To ensure greater financial inclusion and increasing the outreach of the banking sector, RBI decided in public interest to enable the banks to use the services of NGOs/SHGs, MFIs and other Civil Society Organizations as intermediaries in providing financial and banking services through use of "Business Facilitator and Business Correspondent Model". Individual for profits were allowed to participate as BCs, and this category included kirana store , gas stations, PCOs etc. Relaxed and simplified KYC norms, Simplified Branch Authorization Policy, Compulsory Requirement of Opening Branches in Un-banked Villages, Opening of intermediate brick and mortar structure, Financial Literacy Centres (FLCs) are other initiatives taken by RBI/ GOI to achieve an objective of financial inclusion.

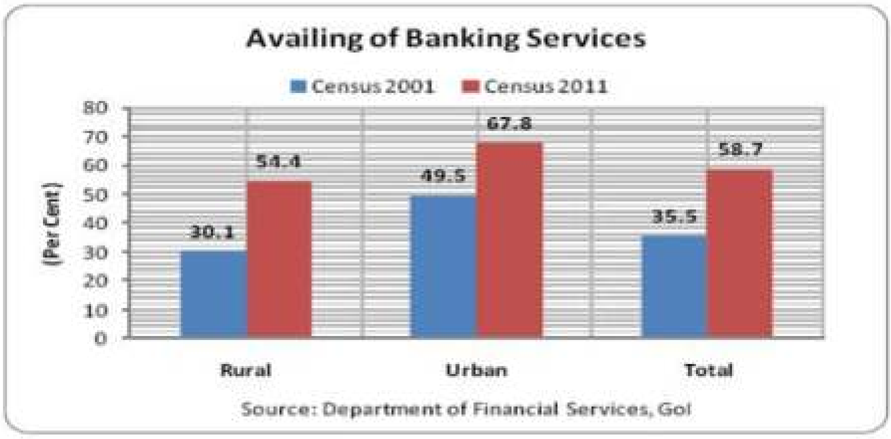
NSSO in its 59th survey found that 51.4% of farmer households are financially excluded from both formal/ informal sources. Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources. Overall, 73% of farmer households have no access to formal sources of credit. Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66%. (Chart 1)

Chart 1: Access to Formal and Informal Sources



Census 2011 estimated that out of 24.67 crore households in the country, 14.48 crore (58.7%) households had access to banking services. Of the 16.78 crore rural households, 9.14 crore (54.46%) were availing banking services. Of the 7.89 crore urban households, 5.34 crore (67.68%) households were availing banking services. (Chart 2)

Chart 2: Availing of Banking Services



In the year 2011, Banks covered 74,351 villages, with population more than 2,000 (as per 2001 census), with banking facilities under the "Swabhimaan" campaign with Business Correspondents. However the programme had a very limited reach and impact. The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 43,962 branches (38.2%) and 23,334 ATMs (14.58%) are in rural areas. Moreover, there are more than 1.4 lakh Business Correspondents (BCs) of Public Sector Banks and Regional Rural Banks in the rural areas. BCs are representatives of bank to provide basic banking services i.e. opening of basic Bank accounts, Cash deposits, Cash withdrawals, transfer of funds, balance enquiries, mini statements etc. However actual field level experience suggests that many of these BCs are not actually functional. Public Sector Banks (PSBs) including RRBs have estimated that by 31.05.2014,

out of the 13.14 crore rural households which were allocated to them for coverage, about 7.22 crore households have been covered (5.94 crore uncovered). It is estimated that 6 Crore households in rural and 1.5 Crore in urban area needs to be covered. (Source: RBI reports)

Pradhan Mantri Jan Dhan Yojna

The earlier campaigns were limited in its approach in terms of reach and coverage. Convergence of various aspects of comprehensive Financial Inclusion like opening of bank accounts, access to digital money, availing of micro credit, insurance and pension was lacking. The campaigns focussed only on the supply side by providing banking outlets in villages of population greater than 2000, but the entire geography could not be covered. The target was for coverage of villages and not of the households. The remuneration of the Bank Mitr (Business Correspondent) was very poor. Dependability and trust factor with a mobile BC was not high. Most of the BCs operated off-line which locked a customer with a particular BC thereby constraining the utility. Some technology issues hampered further scalability of the campaign. The deposit accounts so opened under the campaign had very limited number of or no transactions. The task of credit counselling and Financial Literacy did not go hand in hand with the campaign. Consequently the desired benefits were not visible.

In order to overcome these issues 'Pradhan Mantri Jan-Dhan Yojana' was announced by Hon'ble Prime Minister in his Independence Day address on 15 August, 2014. This is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country.

The plan envisages: Phase I (15 Aug, 2014 - 14 Aug, 2015) 1. Universal access to banking facilities 2. Providing Basic Banking Accounts for saving & remittance and RuPay Debit card with inbuilt accident insurance cover of 1 lakh and RuPay Card 3. Financial Literacy Programme. Phase II (15 Aug, 2015 - 15 Aug, 2018)

1. Overdraft facility of upto ` 5000/- after six months of satisfactory performance of saving / credit history.
2. Creation of Credit Guarantee Fund for coverage of defaults in overdraft A/Cs
3. Micro-Insurance 4. Unorganized sector Pension schemes like Swavalamban.

In addition, in this phase, coverage of households in hilly, tribal and difficult areas would be carried out. Moreover, this phase would focus on coverage of remaining adults in the households. On the basis of viability of each center around 74000 villages with population more than 2000 which were covered by Business Correspondents under Swabhimaan Campaign will be considered for conversion into full fledged Brick & Mortar branches with staff strength of 1+1 / 1+2 in the next three to five years. All the 6 lakh villages across the entire country are to be mapped according to the Service Area of each Bank to have at least one fixed point Banking outlet catering to 1000 to 1500 households, called as Sub Service Area (SSA). SSAs shall be covered through a combination of banking outlets i.e. branch banking and branch less banking. The implementation strategy of the plan is to utilize the existing banking infrastructure as well as expand the same to cover all households. While the existing banking network would be fully geared up to open bank accounts of the uncovered households in both rural and urban areas, the banking sector would also be expanding itself to set up an additional 50,000 Business Correspondents (BCs), more than 7,000 branches and more than 20,000 new ATMs in the first phase.

All Government benefits will channelized (from Centre/State/Local body) to the beneficiaries to such accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government including restarting the DBT in LPG scheme. MGNREGS sponsored by Ministry of Rural Development (MoRD, GoI) is also likely to be included in Direct Benefit Transfer scheme.

Analysis

The targets set for PMJDY are indeed very ambitious. The PMJDY increases the demand for banking and related services massively. It is evident that the current structure of the banking and finance sector, its technology levels, skill-sets and mind-set of the stakeholders in the sector, organizational capabilities, and regulatory structures are not equipped to attain the ambitious goals of the PMJDY. The wide demand-supply gap in any area of public policy (such as in Right to Education, RTE, Act) has the potential to impose high economic, social, and political costs. This creates a huge gap between the demand and supply of banking and financial services included in PMJDY.

As the PMJDY substantially increases the demand for banking and other services, it is the pace at which greater effectiveness on the supply side can be attained which should determine the targets of PMJDY. The vision of having two accounts each for 75 million households must be tempered with the supply side capacities. In this context, reasons for two (rather than at least one) bank account per household need to be reexamined.

The features of PMJDY outlined above suggest that from the society's perspective, two types of costs will need to be managed. The first type is the initial capital and related costs of opening the bank account, and costs associated with pricing (costing) of the insurance cover based on rigorous actuarial projections.

The second type of costs are those costs associated with operating bank accounts, servicing insurance claims and overdraft facilities, and maintaining records of beneficiaries to utilize the services. Unless the bank accounts are used, their full beneficial effects cannot be realized. Therefore transaction costs of access to banking services must be minimized.

An important avenue for obtaining the PMJDY initiative is to use the data-base generated and delivery systems constructed for more effectively implementing other government schemes, such as payments under various pension schemes, energy, food, fertilizer subsidies, and wage payments under employment schemes such as MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme) which currently are inefficiently delivered.

With accessibility to the banking facilities, direct transfers of the benefits to the relevant accounts have the potential to reduce transaction costs, and minimize leakages. The resulting economic savings need to be competently estimated for a more complete social cost-benefit analysis of PMJDY.

CHALLENGES

Telecom connectivity: Telecom connectivity in tribal and hilly areas would be a challenge therefore setting up Bank Mitr (Business Correspondent) in these areas and ensuring opening of bank accounts is going to be difficult.

Keeping the accounts "Live": To face this challenge, DBT schemes especially MNREGA need to be pushed.

Brand awareness and sensitization: In order to achieve a "demand" side pull effect, it would be essential that there is Branding and awareness on Bank Mitr (Business Correspondent) model for providing basic banking services, Banking Products available at Bank Mitr (Business Correspondent) outlets and RuPay Cards. Customers to be made aware that overdraft of up to ` 5,000/- to be provided in their account is a credit facility which needs to be repaid in order to get fresh limits and is not a grant.

Commission to Bank on Direct Benefit Transfer (DBT): A task force on Aadhaar Enabled Unified Payment infrastructure headed by Sh. Nandan in his report recommended that last mile transaction cost of 3.14 % with a cap of ` 20/- per transaction be budgeted for various EBT, DTS and last mile payments through Micro-ATMs and ATMs. The commission applicable for DBT should also cover DBTL (DBT of LPG). MGNREGA may also be included in Direct Benefit Transfer.

Coverage of difficult areas: Parts of North East, Himachal Pradesh, Uttarakhand, J&K and 82 Left Wing Extremism (LWE) districts face challenges of infrastructure besides Telecom connectivity. All households in such areas may not be fully covered under the campaign.

SUGGESTIONS

1. Public-Private partnerships should encourage. 2. Establishments and expansion of Business Correspondent model. Gramin Dak Sewaks of post offices should be optimally utilized to become Bank Mitr (Business Correspondent) of the Banks. 3. Online fixed point Bank Mitr (Business Correspondent) should set up to deliver basic banking services near to the customer doorstep. 4. Technological innovations like RuPay card and mobile banking would be made use of. 5. Banks should use existing schemes like RBI's scheme for subsidy on rural ATMs and UIDAI's scheme for subsidy on micro ATMs to augment their resources at the village level. 6. Convergence with existing missions like National Rural Livelihood Mission (NRLM) in rural areas and National Urban Livelihood Mission (NULM) in urban areas should be emphasised. 7. Department of Telecom should ensure effective telecom connectivity in difficult areas for proper implementation of plans. 8. Ensure financial literacy among every section of society.

CONCLUSION

Financial Inclusion is needed for rural and downtrodden masses that are the future growth engine of the economy. The role of various tools and associated technologies in providing financial solutions to the unbanked is also substantial. In spite of various initiatives taken up by RBI/ Government of India, current position is still not at satisfactory level.

Various limitations and considerations led to the introduction of the PMJDY which have considerable merits. But achieving its goals will not be either quick or automatic. The PMJDY should not be regarded as a standalone initiative but as one of several integrated initiatives designed to realize progress in financial inclusion to expand choices and capabilities of the beneficiary households for pursing better livelihoods. The success of the PMJDY should be measured by the progressive reduction in the number of households needing the assistance from this initiative after around 2020. Accountable and transparent organizational structure for implementing PMJDY in an integrated manner suggested in this column should be regarded as essential for realizing the desired societal outcomes.

REFERENCES

1.Anand Sinha (2012), “Financial Inclusion and Urban Cooperative Banks”, edited transcript at the launch of the financial inclusion program of COSMOS Bank at Pune.
2.Sarkar A.N (2013), “Financial Inclusion: Fostering Sustainable Economic Growth in India”, The Banker, Vol. VIII, No.4, pp.44-53.
3.Sarkar A.N (2013), “Financial Inclusion Part-II: Fostering Sustainable Economic Growth in India”, The Banker, Vol. VIII, No.5, pp.32-40.
4.Status of Microfinance in India: 2010-11, NABARD
5.Narayan Chandra Pradhan (2013), “Persistence of Informal Credit in Rural India: Evidence from All-India Debt and Investment Survey and Beyond”, RBI Working Paper Series, WPS (DEPR): 5/2013
6.Report on PMJDY by Department of Financial Services, Ministry of Finance, Government of India
7.http://www.rbi.org.in/