CHAPTER 3

PMJDY IN THE LIGHT OF OTHER INITIATIVES AND POLICIES OF FINANCIAL INCLUSION

There are various initiatives taken by RBI and different policies by earlier Governments for financial inclusion of India. In this study to fulfill the first objective that is to examine and compare PMJDY in the light of other initiatives and policies of Financial Inclusion a historical study is done on various initiatives taken earlier than PMJDY for FI by RBI, the earlier Governments or by some other organisation.

3.1 Various Initiatives and Policies Taken Towards Financial Inclusion in India

Since independence, the govt. has been committed to provide access of all the banking facilities to all the people without any discrimination on the basis of race, caste, colour, religion etc. Before nationalisation of banks commercial banks in India did not or hardly followed any policy of financial inclusion of the masses. They often channelise funds to large business houses and mainly focused in urban and metro areas for earning huge profit. Thus the overall economic activity suffered mainly because priority sectors didn’t able to get adequate funds they deserve and need. Realising the situation the Government of India passed Banking Laws Amendment Act, 1968, to equip the RBI with more powers for promoting social and economic objective of planning in the fore front. This was popularly known as social control of banks in those days. Under this bankers were asked mainly to meet the needs of small farmers, small industries and other neglected sectors. On July 19, 1969 the Government of India nationalised top 14 scheduled commercial banks. The new responsibility of these banks is branch expansion, priority sector lending targets and some other responsibilities like financial inclusion of the masses.

Thus the start of financial Inclusion in India can be traced back to the nationalisation of 14 commercial banks in July 1969. After that several steps have been taken by the RBI to bring the unbanked population and financially excluded people under its banking network. Some of the major steps towards financial inclusion are discussed below.

3.1.1 Steps Taken by the Reserve Bank of India for Financial Inclusion

Some of the major steps towards Financial Inclusion (FI) initiated by RBI are as follows-

(i) Lead Bank Scheme (LBS)

For the development of banking and credit facilities throughout the country the Reserve Bank of India had introduced Lead Bank Scheme in December, 1969. The objective of the scheme was enabling the commercial bank to assume the role of leadership. The scheme designates particular banks in each district to take the responsibility of branch expansion, assessing deposit potential, identifying credit gaps. The main objectives of lead bank scheme are as follows.

- To open new bank branches in all the important local areas of the lead district.
- To mobilise the savings of the people in the lead district.
- To extend credit facilities for various development projects in the district.
- To co-ordinate the activities of Co-operative banks, Commercial banks and other financial institution in the district.

Thus the lead bank scheme can be considered as the first major step to extend banking facilities and financial inclusion in rural areas of India and among the poor people.

(ii) Regional Rural Banks (RRBs)

Regional rural banks (RRBs) were set up in 1975 with a view to fill up the institutional credit gap of the under privileged section mainly in rural areas of India. RRBs can be considered as the joint efforts of the central governments, state governments and the commercial banks.

Objectives of RRBs:

- To improve the local involvement of banks to meet the credit needs of weaker and poor sections, mainly the small farmers, landless labour in the rural areas.
- To improve the economic status of rural poor.
- To inculcate a habit of saving and investment among the rural people.

(iii) State Level Bankers Committee (SLBC)

After the nationalisation of commercial banks in 1969 there was a huge expansion of banking network and the major role assigned to them through Lead Bank Scheme, necessitate adequate machinery for enquiring coordination at different levels of the organization which results a State Level Bankers Committee in all the states has been set up on uniform basis. Convenorship of SLBC was given to Lead Bank of the State. The RBI in its annual policy Statement 2006-07, directed the SLBC Convener Banks in all states to take necessary steps in the following ground.

- To identify a suitable district in each State/UT for the purpose of 100% financial inclusion.
- To allocate villages to the various banks running in the state for taking responsibility for ensuring 100% financial inclusion.

(iv) Self Help Group (SHG) Bank Linkage Programme

Self help group bank linkage programme was launched by NABARD in 1992. It is one of the most productive steps towards financial inclusion. This programme is not just concentrated on opening bank accounts of the people but also it is designed such a way to provide employment opportunities to all. At first, this programme was launched to extend bank credit to five hundred SHGs, which was later extended to the whole country. As on March, 2012, this programme has helped the formal banking system to reach the door steps of 103 million poor households through the vast network of 8 million SHGs.

(v) Kissan Credit Card scheme (KCC)

The Government of India introduced the Kissan Credit Scheme in 1998-99 in order to institutionalize rural credit and to protect the farmers from the clutches of rural moneylenders. The objective was to facilitate short term access to credit to small farmers from commercial banks and regional rural banks. The progress in issue of KCC and credit sanction shows that the total number of cards issued has increased from 7.85 lakh in 1998-99 to 33.79 million by the end of March 2013.

(vi) General Credit Card scheme (GCC)

GCC scheme was mainly designed for the rural and semi urban branches of commercial and regional rural banks to provide easy access to credit to the financially excluded group. Card holders are allowed to withdraw up to the limit of Rs. 25000. Under the financial inclusion plan (2010-13) by the end of March, 2013 the total no. of GCCs issued by the commercial bank and regional rural banks has increased from 1.39 million in 2010 to 3.63 million which is a very good sign.

(vii) Know Your Customer (KYC) Norms Relaxation

Lack of legal identity is one of the major causes of financial exclusion in India. A vast section of people in India can’t access to formal banking services because they don't have the legal identity paper to provide as identity and address proof. Thus, RBI has simplified the account opening procedure by relaxing the KYC norms. Accordingly for a person who wants to keep balances not more than Rs.50, 000 and who are expected to take credit not more than Rs.1 lakh in a year, can open their new bank account without any legal identity proof. However in such cases banks has the right to ask for a introducer who has successfully completed the KYC procedure and has had economic transactions with the bank for at least six month to verify such persons.

(viii) Opening No Frill Account

The chairman of Indian Bank K.C. Chakraborthy, who is famous for his about financial inclusion has brought into focus financial inclusion in India on 2005-06 to make banking services accessible to the masses and especially to the poor. Banks have been advised to create a facility to open ‘no-frills’ accounts either with ‘nil’ or very low minimum balances. This will help even the very poor people to have a bank account. Under this facility they can open their new account even with zero balance. The success of the financial inclusion programme can be measured in terms of number of “No Frill” Savings Bank accounts opened by the banks for each and every adult members belonging to poor and weaker sections of the society, who don’t have any account earlier. Banks have been advised to provide very small overdrafts in such no frill accounts for the poor. This initiative by the RBI has become very much popular and effective. As per RBI, by the end of March, 2012, the banking system has opened 139 million no frill accounts amounting to Rs.126 billion which is a huge success.

(ix) Business Facilitator (BF) and Business Correspondent (BC) Models

Establishing a new branch and to run it is very costly for banks. It is not always beneficial also for the commercial banks to set up branches in each and every corner of the country. In January 2006, RBI permitted the commercial banks to employ Business Facilitators (BF) or Business Correspondents (BC) as an intermediary of providing financial and banking services in unbanked areas. It is done in order to speed up the process of financial inclusion in remote areas of the country. The number of BC outlets has increased to 221341 by the end of March 2013 from 34174 in 2013 under the financial inclusion plan (2010-13).

(x) Simplified Branch Authorization

In order to expand banking services the Reserve Bank of India in December 2009 allowed the commercial banks to open bank branches freely in tier III to tier VI centers with population less than 50,000 under general permission consent, subject to reporting. In the states of north-east region domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centers without taking any permission from RBI in each case, subject to reporting.

(xi) Project Financial Literacy

In order to create awareness and to impart basic financial knowledge among the excluded section, Reserve Bank of India (RBI), has undertaken an initiative named 'Project Financial Literacy’ in 2009. The sole objective of the programme is to make poor people of rural and urban area, women and senior citizens aware on general banking concepts.

(xii) Financial Inclusion Plan (FIP) 2010-13

In India commercial banks are entrusted with social responsibility of branch expansion and lending to priority sectors since its nationalisation in 1969. Accordingly noticeable progress has been made in this regard, but it was not up to the mark. It was seen that in year 2010, 60% of the total population did not have bank account and nearly 90 % of the total population did not have access to bank credit. Thus, the Reserve bank of India on April 2010 launched a three year Financial inclusion plan (FIP), along with that the nationalised banks were advised to set their targets in terms of rural branches to be opened, BCs to be employed, banking services to be provided in unbanked areas, number of KCCs and GCCs to be issued and products to be exclusively designed for the financially excluded unprivileged section of the society.

(xiii) Establishment of New Branches in Unbanked Rural Areas

To improve the banking outreach and financial inclusion in rural areas of the country, the RBI in its monetary policy statement in April 2011 directed the scheduled commercial banks to allocate at least 25 percentage of the total number of branches proposed to be opened during a year in unbanked rural areas for rapid financial inclusion. This help to provide banking services in very remote areas also.

(xiv) Financial Inclusion Plan (2013-16)

The first financial inclusion plan (2010-13) has achieved a great progress in terms of expansion of banking services and opening of basic saving account. Thus in order to keep the momentum going, RBI advised the commercial banks to frame the policy for the second financial inclusion plan for the period of 2013-16. To ensure better performance by them, banks have been advised to formulate their FIPs at their respective branches differently of different areas on their priority basis and on local needs.

3.1.2 Steps Taken Up by the Government of India for Financial Inclusion

Along with the RBI, the Government of India is also committed to take steps towards financial inclusion of the masses and to extend banking services in rural and remote areas of the country. Some of government's major schemes are-

(i) SWABHIMAAN CAMPAIGN

A campaign named "Swabhimaan" has been launched in the year 2011 by then UPA Government under the leadership of Prime Minister Dr. Manmohan Singh to expand banking services mainly in rural areas. The government has targeted to cover at least 74,000 new habitations with a population of 2,000 and above and open at least 50 million new accounts by March 2012.

"Swabhimaan" is a path-breaking initiative by the Union Government and the Indian Banks Association to bridge the economic gap between rural and urban India. This campaign is a big step towards socio-economic equality by bringing the underprivileged section of Indian population into the formal banking arena for the first time. The vision for this programme is social application of modern technology. (Press information Bureau, Govt. of India, 21 May, 2012)

OBJECTIVES OF SWABHIMAAN

This campaign ensures to provide the following services to the Rural India-

- ❖ It promises to bring basic banking services to unbanked villages with a population of 2000 and above.
- ❖ The scheme provides opening of banks accounts, provide need-based credit besides helping in promoting financial literacy in rural India.
- ❖ This campaign aims at providing branchless banking services through the use of technology.

- ❖ The programme is aimed at increasing the demand for credit among the millions of small farmers and rural artisans who will benefit by having access to banking facilities.
- ❖ The Government hopes that the benefits of micro insurance and micro pension products reach the masses through this banking linkage.
- ❖ Banks provide basic services like deposits, withdrawals services of Business Correspondents (BCs) also known as Bank Saathi.
- ❖ Banking facilities like Savings Bank, Recurring Deposits, Overdraft facility, Kissan Credit Card (KCCs) and collection of cheques will be provided.

(ii) Pradhan Mantri Jan Dhan Yojana (PMJDY)

Pradhan Mantri Jan Dhan Yojana (PMJDY) is a comprehensive scheme for financial inclusion launched by the Honourable Prime Minister of India, Narendra Modi on 28 August, 2014. He announced this scheme on his first Independence Day speech on 15 August, 2014. On the very first day, 1.5 crore bank Account were opened under this scheme. By 28 January, 2015, 12.58 crore accounts were opened with around 10590 crore (US $ 1.7 billion) were deposited. Under PMJDY a person has the option for opening new bank account with zero balance. Any Indian citizen, who is above age of 10 years and does not have a bank account, can open the account with zero balance. The main objectives of this schemes are-

OBJECTIVES OF PMJDY

- ➢ To achieve universal access to banking facilities as fast as possible to all the households
- ➢ Providing basic bank accounts with overdraft facility to each and every household of the country.

- Providing RuPay Debit cards to all the Jan Dhan account holders which will have over draft facility.
- To provide micro- insurance to all willing and eligible persons of Jan Dhan account holders.
- A robust financial literacy programme for the weaker section of the society to make them financially well known.
- Creation of a credit guarantee fund to cover the defaults on the overdraft accounts which will help to tackle NPA problem of banks.
- To provide for a way to implement unorganized sector pension schemes.

3.2 Difference Between Swabhimaan and PMJDY Scheme

PMJDY which is a very ambitious NDA led Government scheme for FI can be compared with another major Govt. scheme under UPA Government tenure named “Swabhimaan” which was launched in the year 2011 for rapid financial inclusion mainly in rural areas. The main distinctions between these two schemes are as follows:

Table 3.1: Difference Between Swabhimaan and PMJDY

SWABHIMAAN	PMJDY
Villages with population greater than 2000 covered; thus limited geographical coverage in this scheme	Focus on each and every household; Sub Service Area (SSA) for coverage of the whole country.
Only rural area give priority	Both rural and urban households
Bank Mitr (Business Correspondent) was visiting on fixed days only	Fixed point Bank Mitr in each SSA comprising of 1000-1500 households to visit other villages in the SSA on fixed days

Focus only on account opening and large number of accounts remained dormant after opening	Account opening to be integrated with DBT, credit, insurance and pension so its remain operational
Inter-operability of accounts was not there in this campaign	Inter-operability through RuPay Debit Card, AEPS etc. is there in PMJDY
No use of Mobile Banking in this scheme	Mobile wallet and USSD based mobile banking to be utilized and promoted
Cumbersome KYC formalities which is difficult for illiterate people	Simplified KYC/e-KYC in place as per RBI guidelines in this scheme
No guidelines on the remuneration of the Bank Mitr.	Minimum remuneration of the Bank Mitr to be Rs. 5000/-
Monitoring left to banks only and no other institution.	Structured monitoring mechanism at Centre, State and District level.
Financial literacy had no focus in this scheme	The rural branches of banks to have a dedicated Financial Literacy Cell
No active involvement of states and districts in this	State level and District level monitoring committees to be set up under PMJDY
Providing credit facilities was not encouraged under Swabhimaan	Over draft facility after satisfactory operation of account for 6 months
No grievance redressal mechanism was introduced	Grievance redressal at SLBC level in respective states was there.

Source: https://www.pmjdy.gov.in/files/financial-Literacy/Mission-Document/PDF/English.pdf

From the above discussion it is quite clear that many of the features of PMJDY were earlier also there in other initiatives of RBI, like the opening of zero or no frill accounts, giving beneficiary's cards and small credit facilities, opening of accounts without documents etc. But some the features of it are new and very helpful like giving direct benefit transfer from the govt. directly in Jan Dhan accounts, accidental insurance, overdraft facilities etc. Thus, it can be said that PMJDY was a blend of old schemes with some new ideas and features for financial inclusion of masses.

3.3 Special Features that Make PMJDY More Attractive than Other Schemes of Financial Inclusion

- The scheme covers both urban as well as rural areas of India with particular focus to empower the weaker and unprivileged sections of society, including women, elders, small and marginal farmers and labourers.
- Jan Dhan account holders with zero-balance account also will be provided with any bank, with RuPay debit card, in addition to insurance cover of Rs 1 lac for accidental death or permanent total disablement.
- Insurance benefits are given to the card holders who perform at least one successful financial within 45 days prior to date of accident including accident date.
- After Six months of keeping the bank account active, account holders can avail Rs 5,000 loan from the bank.
- Jan Dhan accounts will be linked with Aadhaar for Direct Benefit Transfers from all government sponsored subsidies and payments directly to the account of the beneficiaries.
- Accounts opened on or before January 31, 2015 in addition to accidental insurance, they will be given life insurance cover of Rs 30,000.

- Person must have a RuPay Card and Aadhaar linked to bank account or in process of being linked to bank account if not already there. However, no Claim should be denied due to this condition.
- National Payments Corporation of India (NPCI) makes it easy even for a common man to transfer funds, check balance using a normal phone which was earlier possible only to smart phones.
- Expansion of bank branches and ATM network according to SSA identification programme and coverage of population through Business Correspondent (Bank Mitr) has brought banking facility within the reach of people excluded from main financial stream.
- Special camps are being organized covering 6000 villages of India where an individual can go and get a new bank account registered. These camps will be run from 8 AM to 8 PM.
- National Unified USSD Platform (NUUP) has made availability of mobile banking even for weaker section of the society for which all banks and mobile companies have come together.
- It has provision of Credit Guarantee Fund for coverage of defaults in accounts with overdraft up to Rs. 5000. It is proposed to be housed in National Credit Guarantee Corporation (NCGC).
- Unorganized sector pension scheme and micro-insurance are other social security provisions of the plan has been declared for encouraging informal sector workers to save small amounts during their working years to enable them to draw a pension in their old age.

3.4 Main Challenges of PMJDY

- In many cases it is found that an individual has opened more than one account in various banks.
- It created a huge pressure on banks and its work and performance which to be sorted out soon.
- KYC norms are relaxed too much in this programme which may cause duplication and fraud.
- Budgetary provisions has not been made by the government to provide incentives to banks, otherwise their financial status may be ruined.
- Network and communication problem in remote areas is another hurdle in the way of PMJDY.
- Overdraft facility needs to be properly regulated or else it may create huge NPA problem to already over burden banks.
- Business correspondents may misuse the authority by cheating the poor illiterate people of hard earned money.
- Lack of proper IT infrastructure in rural areas is another major hurdle for the effective implementation of PMJDY program.
- RBI must have to give its approval in opening new banks and also new branches of existing banks which can match the rapidly increasing population.
- Salary of BCs must be increased from time to time or they may misuse their authority to earn more money.
- Lack of proper infrastructure in rural areas is another major hurdle for the effective implementation of PMJDY program in hinders BCs movement.
- Bank mitr should be properly trained with accurate knowledge, skill and attitude to accomplishing the desired objectives.

From the above discussion it is quite clear that PMJDY is one of the most important schemes ever launched in India for financial inclusion of the masses. If it is properly implemented it may change the financial landscape of India and may bring millions of people out of poverty by its direct benefit transfer program. It is going to plug the leakages of government subsidies which earlier doesn’t able to reach the poor properly and thus their living condition remained the same and doesn’t improve. Inclusive growth and development of India depends on how lower income section of society use the basic financial services and join the main economic stream of the country. PMJDY may prove a milestone for this and for financial inclusion of masses if properly implemented.