CHAPTER 1

INTRODUCTION

1.1 Introduction

Since independence, India has put more emphasis on economic development and growth and less on financial inclusion of masses in the formal financial sector of the economy. Economic planners had always talked about equality in social and economic fields so that each and every person of the country can reap the fruits of development. Although social and economic equality in different aspects is the main concern of planning process but the result are not so satisfactory. After the economic reforms in 1991 by adopting globalization, liberalization and privatization, Indian economy has witnessed high rate of economic growth but it has also widened the inequality between rich and poor section of the society. So the fruits of development is not been equally shared between different sections of the society as large number of population remain financially excluded even after so many years of independence.

Financial inclusion is very much important to uplift the social and economic condition of rural people and also the urban poor who are mainly financially excluded. Having a bank account, access to safe credit facilities and other financial services by the poor and other disadvantage groups is considered as a necessary condition of accelerating growth and reducing income inequalities in the society. Realizing the importance of empowerment of poor and weaker sections of the country, Reserve Bank of India (RBI) has undertaken various steps towards financial inclusion and issued various guidelines to the banks to provide financial services to weaker sections of India who are at present outside the preview of the banking network of the country.

1.2 Meaning of Financial Inclusion

Financial Inclusion can be considered as a situation in which individuals and households will be having access to useful and affordable financial products and services that will meet their needs. It can be defined as a situation where all have equal availability and opportunity to use the financial services. United Nations (2006) defined financial inclusion as the timely delivery of financial services to disadvantaged sections of society. It mainly focus on the socially and economically disadvantage section of the society. World Bank (2008) defines financial inclusion, as the process of removing hurdles and obstacles, weather price or non price, to the use of financial services. Financial inclusion is the process of ensuring access to financial services and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (NABARD, 2008). Rangarajan Committee (2008) defined financial inclusion as "a comprehensive and holistic 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". Thus the Rangarajan committee highlighted the fact that financial exclusion occurs at the lower level of the society. The view given by the Rangarajan committee reflects that just having a bank account can't be called as Financial Inclusion (FI). It has quite a large meaning and broad area. The process of financial inclusion consists of ensuring bank accounts to each and every household and offering their inclusion in the banking system (Reddy, 2007). Dr. K. C. Chakraborty, Deputy Governor, Reserve Bank of India (RBI) at the National Finance Conclave, 2010, has said that financial inclusion is no longer a policy choice but it is a policy compulsion today.

In partnership with the National Bank for Agriculture and Rural Development (NABARD), the United Nations (UN) aims to increase financial inclusion of the poor by developing appropriate financial products for them and increasing awareness on available financial services and strengthening financial literacy, particularly among women. The United Nations defines the goals of financial inclusion as follows:

- 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;

- Sound and safe institutions governed by clear regulation and industry performance standards;

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

- Competition to ensure choice and affordability for clients.

Raghuram R. (2013) defined financial inclusion as expanding access to financial services, such as payment services, savings products, insurance products, and inflation-protected pensions.

Household access to financial services can be described in following figure format –

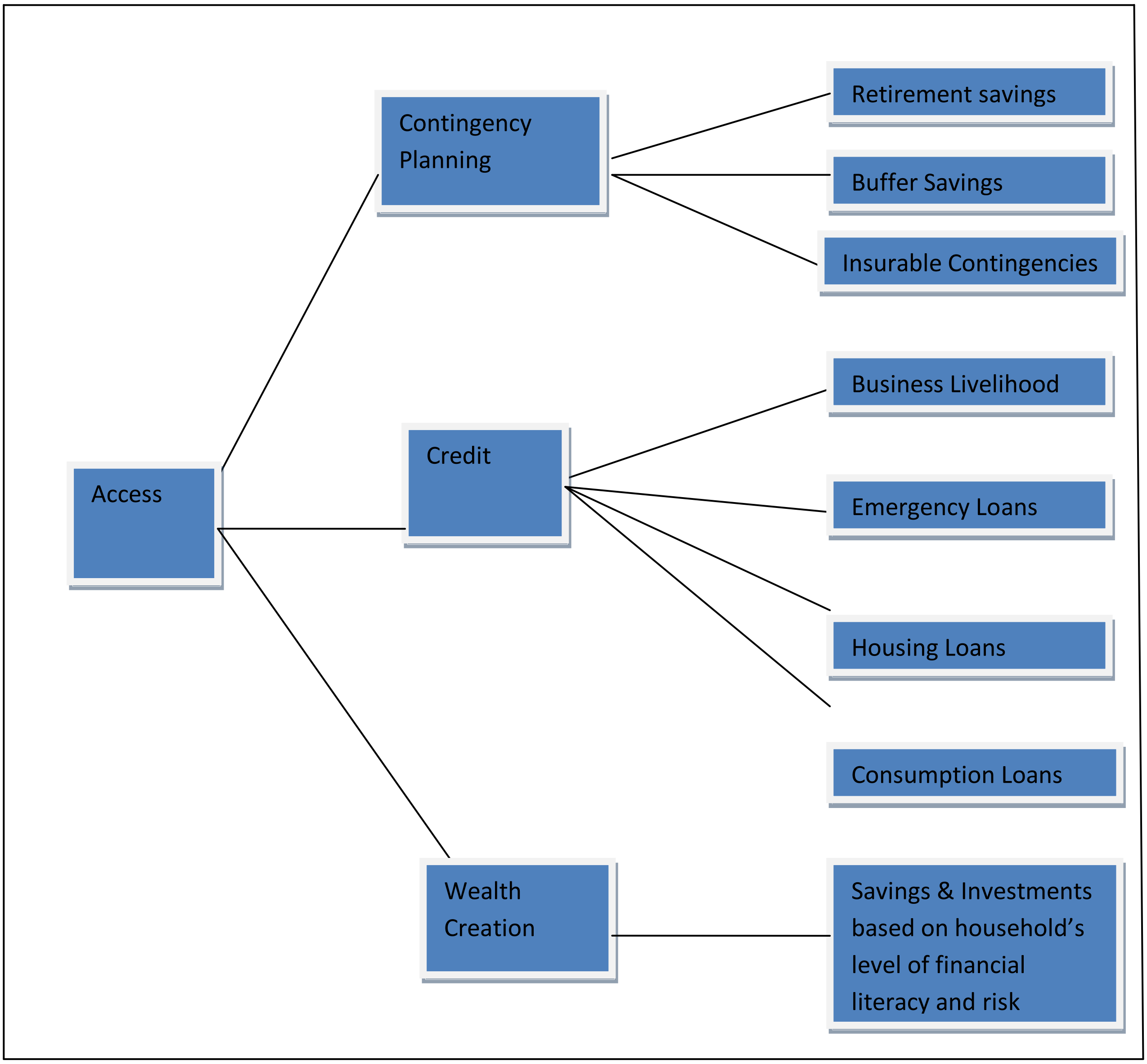

Figure 1.1: Household Access to Financial Services

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

1.2.1 Importance of Financial Inclusion

Former UN Secretary-General Kofi Annan, on 29 December 2003 had said, "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives." During the IMF-World Bank 2013 Spring Meeting on 24 April 2013, the Alliance for Financial Inclusion (AFI) Executive Director Alfred Hannig highlighted progress in financial inclusion. He said, "Financial inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership." Some of its main importance is as follows:

- Financial inclusion programmes if implemented properly, can become an effective toll of poverty eradication in the country.
- It can be offered as a suggestion to eliminate inequality among the masses because through financial inclusion poor people can have access to easy credit which will again help them to undertake different types economic activities and hence self dependent.
- Financial inclusion helps in inclusive growth refers by ensuring equal opportunity of participation of the masses irrespective of their religion, gender, caste etc, in the growth process and thereby equal distribution of growth fruits among them.
- It is beneficial in plugging gaps and leaks in various public subsidies and welfare schemes for the welfare of the poor.
- It helps people to provide a platform for inculcating the habit to save money which is very good for their economic development.
- Financial inclusion helps to minimizing the role of moneylenders by giving the option to the people to go to institutional credit with low interest.

1.2.2 General Causes of Financial Exclusion

Financial exclusion means when a person doesn't have the basic financial services like having a bank account. Reason for financial exclusion varies from place to place and person to person. However most of the studies revealed that there are some common factors responsible for financial exclusion in almost all areas. In general, the reasons for financial exclusion can be classified as- (i) Financial exclusion due to lack of demand. (ii) Financial exclusion due to lack of supply. Demand gap comes from the excluded section whereas supply gap is the result of insufficient banking institutions and services.

(i) Lack of Demand

Lack of demand of financial inclusion means when people are willingly or unwillingly not able or don't want to utilise the available banking services. It may arise due to one or more of the following reason-

- Low level income of financially excluded section of the society which includes of farmers, landless labours, self employed, urban slum dwellers, migrants, and senior citizens etc. It is generally observed that these people hardly earn any surplus of their income. The income of these people is too low to save and put it in a bank account.
- Lack of proper documents also causes many people not to open bank accounts. Many banks want proper documents for opening new account.
- Because of financial illiteracy many people voluntarily exclude themselves from using banking services. They find it difficult to cope up with the banking procedure and don't understand the importance of saving, financial services etc.

- Level of self confidence is very low among people specially the illiterate poor. Lack the confidence to deal with the bank officials is another reason they do not want to approach formal financial institutions.

- Many people find it difficult to pay collateral so they may not be able to demand bank finance. Thus they prefer the non institutional sources where they can get easy finance without giving any collateral.

(ii) Lack of Supply

Lack of supply of financial inclusion occurs when supply of banking service are not up to the mark in relation to their demand. This may happen due to the following reason.

- Bank branches are not evenly distributed in every part of the country so the population in remote village areas, hilly areas has very less branches but in cities and metro areas it is very much adequate.

- Commercial banks play a vital part in financial inclusion but as a profit making institution they fail to perform their social responsibility. The commercial banks are not very much interested to open new branches in rural and remote areas where their profit is very much less in comparison to urban branches.

- Banking procedure in India is very much complicated and cumbersome and full of delays. It causes many customers to opt for the non institutional sources for quick finance.

- Ever growing Non Performing Assets (NPAs) creates serious damage to the financial viability of commercial banks. So, bankers often find it hard to take the risk of giving credit to the marginal customers like small farmers as the chance of being defaulter is high in their case.

- Generally it is found that the behavior of bank employees is not cooperative towards the poor and illiterate customers. Therefore, these people very reluctant to approach towards mainstream banking and tried to avoid it.

In order to ensure financial inclusion a number of initiatives had been taken up by the Government of India and RBI like Nationalization of Banks, Expansion of Banks branches in remote areas, establishment & expansion of Cooperative Banks and Regional Rural Banks (RRB), formation of Self Help Groups (SHGs), Lead Bank Scheme and various programmes etc. Not only RBI, Government also came up with various schemes from time to time like in 2011 UPA led government launched Swabhimaan scheme for financial inclusion and the present NDA led Government launched its much anticipated scheme named Pradhan Mantri Dhan Jan Yojana (PMDJY) with the tagline of "A National Mission on Financial Inclusion".

1.3 Pradhan Mantri Jan Dhan Yojana (PMDJY)

Pradhan Mantri Jan Dhan Yojana is a scheme of financial inclusion which aims to bring the millions of financially excluded Indian masses in to the banking network of the country. Financial inclusion is a subject of national priority for the present NDA Government led by Prime Minister Narendra Modi. It's a hard fact that in India even after 71 years of Independence and 48 years of nationalization of banks, one section of the population who are rich, educated and from well to do families has access to almost all banking services from a saving bank account to net and mobile banking facilities. They enjoy all banking facilities everyday and all the time whereas another section of the population who are underprivileged and have lower income is mostly or totally deprived of even basic financial services like having a basic bank account.

On 15th August 2014, from the Red Fort itself, Hon’ble Prime Minister of India, Shri Narendra Modi announced the launch of India’s biggest and most intensive financial inclusion mission named as Pradhan Mantri Jan Dhan Yojana (PMJDY). He expressed his burning desire of financial inclusion there by saying, “We want to integrate the poorest of the poor with bank accounts with Pradhan Mantri Jan Dhan Yojana. Today there are crores of families which have mobile phones but no bank accounts. We have to change this. The economic development must benefit poor and it should start from here”. On the day of inauguration itself a whooping 1.5 Crore (15 million) bank accounts were opened under this scheme all over India and most of them are zero balance account. This is perhaps the largest such exercise of financial inclusion on a single day anywhere in the world. The scheme also has a Guinness World Records by its name that is the most bank accounts opened in one week under a financial inclusion campaign is 1,80,96130 which is a great feat to achieve. The scheme shows a very impressive progress from the time of launching. States like Kerala and Goa become the first states which provide one basic bank account to each and every households of the state.

Pradhan Mantri Jan Dhan Yojana is conducted by the Department of Financial Services which is under the Ministry of Finance. The main goal of the scheme is to provide access to the poor of various financial services like having a basic bank account, Rupay card, easy credit facility, over draft facility, insurance, pensions, getting government subsidies directly in bank accounts etc. A considerable feature of the scheme is that it provides accidental and life insurance cover to the account holders. If it is implemented properly it will greatly help to eradicate poverty of the unprivileged section of the society. In true sense PMJDY is a poverty eradication program. Most Economists considers financial inclusion as the main driver of economic growth that can play a vital role in removing poverty by providing financial services to poor and low income people. The scheme became helping hand for the poor and women section of the society. It will encourage people specially women section to use formal source particularly in case of savings and credit. Khan Committee on financial inclusion in 2004 recommended that financial inclusion is the need of the hour which will help to eradicate poverty and bring economic growth and development. Undoubtedly PMJDY is working in the same direction with new and innovative strategies and technological advancement within a time bound framework.

1.3.1 Six Pillars of Pradhan Mantri Jan Dhan Yojana

The programme for financial inclusion under the PMJDY is based on 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. Providing Basic Banking Accounts with overdraft facility and RuPay Debit card to all households in the country.
2. **Providing Basic Banking Accounts with Overdraft Facility and RuPay Debit Card to all households**: 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 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**: This fund would be created to cover the defaults of beneficiaries in overdraft accounts.

5. **Micro-Insurance**: Micro insurance will be provided to all willing and eligible persons by 14th August, 2018, and then on an ongoing basis.

6. **Unorganized Sector Pension Schemes like Swavalamban**: Pension facilities will be provided to weaker section of the society by 14th August, 2018.

1.3.2 Timeline for Financial Inclusion Plan under PMJDY

Comprehensive Financial Inclusion of the excluded sections is proposed to be achieved by 14th August, 2018 in two phases as under:

Phase I (15 Aug, 2014 - 14 Aug, 2015)

- Universal access to banking facilities in all areas except areas with infrastructure and connectivity constrains like parts of North East, Himachal Pradesh, Uttarakhand, J&K and 82 Left Wing Extremism (LWE) districts.
- Providing Basic Banking Accounts and RuPay Debit card which has inbuilt accident insurance cover of Rs. 1 lakh to all the households of the country.
- Aadhaar number will be seeded to make account ready for DBT payment by the government as subsidy.
- Robust Financial Literacy Programme will be carried out

Phase II (15 Aug, 2015 - 14 Aug, 2018)

- Overdraft facility up to Rs. 5000/- after six months of satisfactory operation of the bank account.
- Creation of Credit Guarantee Fund for coverage of defaults in accounts with overdraft limit up to Rs. 5,000/-.
- Micro Insurance to account holders
- Unorganized sector Pension schemes like Swavalamban will be introduced

1.3.3 Continuation of PMJDY after Second Phase

The Government of India has decided to continue National Mission for Financial Inclusion PMJDY beyond 14th August, 2018 with the following modifications:

- **a)** Existing Over Draft (OD) limit of Rs 5,000 to be raised to Rs 10,000
- **b)** There will not be any conditions attached for OD up to Rs 2,000.
- **c)** Age limit for availing OD facility to be revised from 18-60 years to 18-65 years.
- **d)** Under the expanded coverage from "Every Household to Every Adult".
- **e)** Accidental insurance cover for new RuPay card holders to be raised from Rs 1 lakh to Rs 2 lakh to new PMJDY accounts opened after 28.08.18.

It has been decided to continue the flagship financial inclusion program (PMJDY), with focus on opening accounts from "every household to every adult". A pipeline has been created for the implementation of PMJDY through which Jan Dhan accounts and mobile banking have been linked to Aadhaar (JAM). This pipeline is not only facilitating savings, disbursal of credit, social security, etc, but more importantly channelizing direct benefits of various government schemes to poor people of the country through DBT.

1.4 Objectives of the Study

Following objectives are targeted to achieve under the study-

1. To examine and compare PMJDY in the light of other initiatives and policies of Financial Inclusion.
2. To study the role of Public Sector, Private Sector and Regional Rural Banks in PMJDY.
3. To examine the performance of PMJDY in Financial Inclusion of India.

1.5 Significance of the Study

The study is very much significant because it is related with the financial inclusion of the poor and unprivileged section of the society who doesn't have any bank account earlier and are financially excluded. By studying PMJDY and its impact on pan India level we can easily access its achievements in different state of India as well as its failure. This study will also help to try to find out the roles played by different types of banks, their performance and weaknesses which are very important for any financial inclusion program. This study is also going to help to identify the problems which lead to financial exclusion of people and to solve the problem.

1.6 Research Question

The study attempts to seek answers to the following specific research questions:

- Why financial inclusion of the masses is not possible even after so many years of independence?
- What are the main challenges of Pradhan Mantri Jan Dhan Yojana?

1.7 Methodology

The present study considers all the 29 states of India and almost all the major banks of India. The source of the data will be purely based on Secondary Data. The data have been analyzed based on secondary sources from the year 2015 to 2019. The secondary data pertaining to number of accounts opened by different banks, amount deposited in the accounts, Rupay card issued etc. would be collected and compiled from the official website of PMJDY, RBI, UIDAI, PIB of India, Finance Department of Govt. etc. The study will be based on pan India level and try to cover all states of India as far as possible.

For the first objective descriptive analysis is done on the basis of existing literature and government bulletins and websites. For second and third objective analysis is done using bar diagram, line diagram, pie charts, CAGR etc using MS Excel and a map of India using GIS software. Details have been given in the following chapters.

1.8 Line of Analysis

To accomplish the objectives of the study, the variables, data source and line of analysis are presented in table 1.1.

Table 1.1: Data Source and Methods of the Study

Sl. No.	Objectives	Data Source	Line of Analysis
1	To examine and compare PMJDY in the light of other initiatives and policies of Financial Inclusion.	Existing literature, PMJDY bulletin, PIB of India.	Descriptive Analysis
2	To study the role of Public Sector, Private Sector and Regional Rural Banks in PMJDY.	PMJDY official website	Bar Diagram, Line Diagram, Pie Diagram, CAGR etc.
3	To examine the performance of PMJDY in Financial Inclusion of India.	PMJDY, Finance Commission, UIDAI official websites	Bar Diagram, Maps etc.

1.9 Outline of the Study

The present study is divided into six chapters where the first that is the present chapter is the introductory one that gives a brief description of the concept of financial inclusion, importance of financial inclusion, causes of financial exclusion etc. It also describes about PMJDY, its features and at last objectives of the study, methodology and line of analysis. The second chapter deals with review of literature related to the study. Literature review is basically divided into two themes and the various studies that are being reviewed are divided based on these themes. The third chapter gives a brief description of the various financial inclusion programs by RBI and schemes of the Government and tried to make comparison between them and PMJDY. The fourth chapter is about the role of different types of banks in implementing PMJDY scheme and their role and achievements. The fifth chapter is to study about the performance of PMJDY in various states of India and to make comparison among them. States are also devided into categories on the basis of their performance in PMJDY. This chapter also deals with some other achievements of PMJDY after completion of its second phase. Sixth and the last chapter give the summary of the study making some suggestions for the better implementation of PMJDY and at last a brief conclusion.