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Banking the unbanked: Financial Inclusion and Role of banking

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Abstract : One of the important challenges facing the economic planners of India is to achieve inclusive growth in the country. Governments both atCentre and state level have been implementing a number of schemes in social and economic fields towards achieving inclusive growth. One such tool is Pradhan Mantri Jan DhanYojana (PMJDY) scheme launched in 1914 with an objective of achieving financial inclusion to ensure access to financial services, namely Banking Savings & Deposit Accounts, Remittance, Credit, and Insuranceand Pension in an affordable manner, especially to the deprived section of the society. The scheme since from its inception has achieved milestones, creating an example of other countries to follow. This paper will evaluate and analysis the PMJDY in reference to its contribution towards financial inclusion in the country.It will analyze the progress of Jan Dhan Yojanain the country which is regarded as amajor tool for financial inclusion.

Key words*:* *Inclusive Growth, financial Inclusion, Financial services.*

I. INTRODUCTION

Financial inclusion—providing universal access to financial services and encouraging their use—is an important means for promoting economic development. As of 2014, the World Bank estimated that there were still two billion adults without a bank account, and many others with only a feeble connection to the financial system. Financial Inclusion is a key enabler to economic, social and transaction security of a country, thereby driving inclusive growth. It is for this reason that financial inclusion has been one of the key government priorities over the years, through various initiatives like Nationalization of Banks, Expansion of Banks branch network, Lead Bank Scheme, Business Correspondent Model, Mobile banking, Aadhaar enabled banking accounts, e-KYCs etc. Despite these various measures, 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**.**

To achieve a comprehenshive financial inclusion and reaching to the unbanked areas ‘Pradhan Mantri Jan-Dhan Yojana’(PMJDY) was announced by Honorable Prime Minister,‘ Mr. Narendra Modi’, in his first Independence Day address on 15 August, 2014. This is a National Mission on Financial Inclusion includes integrated approach to bring about complete financial inclusion of all the households in the country. This scheme is launched on 28th august 2014**.**

Financial Inclusion defined as providing basic financial services to all sections of the society. It focuses on including strata of individuals who have been left out and have not been able to reap the benefits of financial services in economic growth.

The mission plan of PMJDY rest on six pillars.

1. ‘Universal Access of Banking Facilities’in this each district is divided into Sub Service Areas (SSA’s) with population of 1000 to 1500 households in and around **5**km distance so that there is easy access of distribution of banking services under PMJDY. In the current plan all 6 lakh villages are required to be mapped to service areas so as to have at least one fixed point. Coverage of J&K, North East etc. regions where the telecommunication connectivity is weak will be covered under second phase (15th August’15 to 15th August’15)
2. ‘Providing Basic Banking Accounts with overdraft facility and RuPay Debit card to all households’. It means opening a basic account for all uncovered households by August’15**.** The overdraft facility will be provided as per the operation/credit history of the previous six months.
3. ‘Financial Literacy Program’ which includes educating people about the financial services provided under this scheme.
4. ‘Creation of Credit Guarantee Fund’ to look after the defaults of overdrafts.
5. ‘Micro-Insurance’ which means providing Rupees One lakh insurance cover to the people who need it.

6. Unorganized sector Pension schemes like 'Swavalamban'

Rangarajan Committee (2008) defines financial inclusion as "the 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." (Report of the Committee on Financial Inclusion, 2008).

Financial Inclusion, broadly defined, 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).

II. REVIEW OF LITERATURE

Financial inclusion in India can be traced back to the cooperative movement of 1904, under which rural cooperatives were set up. (Singh, Kumar, 2015)However, the definite process of Financial Inclusion started with the two bank nationalization phases (fourteen banks in 1955 and six in 1980). Also, in March 1980, banks were told to provide support for the implementation of 20-point program to improve the conditions of weaker sections of the society. Other financial inclusion measures that were taken were priority sector lending and issuing Kisan Credit card (RBI, 2015). In 2000, according to many findings, exclusion from banking system results in 1 percent loss in GDP. Finance can also play a positive role in poverty reduction. A well-developed financial system accessible to all reduces information and transaction costs, influence saving rates, investment decisions, technological innovation, and long-run growth rates (Beck et al. 2009). Evidences from Binswanger and Khandker (1995) and Pande and Burgess (2003) suggest that Indian rural branch expansion program significantly lowered rural poverty, and increased non-agricultural employment (SL Shetty, 2012)Microfinance has highlighted the various virtues of microfinance. Microfinance emphasizes upon lending to women, which will ensure that both household consumption and capital needs for microenterprises are taken care of. For India, being a very well diversified economy and society, it is imperative to give adequate attention to measurement of financial inclusion. There are few scholars who have attempted to measure some aspects of financial inclusion. Sarma (2008) developed an Index for financial inclusion using aggregate banking variables like number of account, number of bank branches and total credit and deposit as proportion of GDP for 55 countries. Garg, Agarwal (2014) categorized initiatives taken by government and RBI into various approaches which includes Product based approach to financial inclusion includes no-fill accounts, Kisan credit card, general purpose credit card, saving account with overdraft facility; bank lead approach includes SHGs and Business correspondents; regulatory approach includes KYC, Bank branch authorization; Technology based approach includes mobile banking, branchless banking, kiosk, Aadhar enabled payment services and Knowledge based approach includes financial stability development council and financial literacy centers.

III. OBJECTIVE

The Objective of the report is to look at the Financial Inclusion journey covered so far, with the main focus on the ground level implementation of Jan Dhan Yojana. The analysis explores the extent of the scheme's success, challenges that people are facing and the supply as well as demand side constraints.

- To study the progress of financial inclusion in country.
- To know the extent of PMJDY in achieving financial exclusion/inclusion in India.

IV. METHODOLOGY

The project report aims at analyzing the journey of Financial Inclusion in India. The study requires the analysis of secondary research data from sources like,

- Financial Inclusion Reports published by RBI and Government of India Committees international institutions like International Monetary Fund and World Bank
- Scholarly research books, journals and articles.

The financial inclusion reports have developed a sound theoretical foundation for this report. The analysis and review has provided us with core valuable insights.

Result and Findings- With growth in the economy it becomes imperative to make it inclusive. Financial inclusion programme of RBI has been identified as a tool in the government's efforts to make the growth process more equitable and inclusive. The PMJDY programme as part of the financial inclusion policy made a significant impact towards inclusive growth. (Table-1&2(

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Progress made under financial inclusion plans – as on September 2016 (Scheduled commercial banks including RRBs)				
Sr. No.	**Particulars**	**Year ended Mar-2015**	**Year ended Mar-2016**	Half year ended **Sep-2016**
1	Banking Outlets in Rural locations – Branches	49,571	51,830	52,240
2	Banking Outlets in Rural locations – Branchless mode	504,142	534,477	537,609
3	Banking Outlets in Rural locations -Total	553,713	586,307	589,849
4	Urban Locations covered through BCs	96,847	102,552	91,039
5	BSBDA-Through branches (No. in millions)	210	238.2	247.4
6	BSBDA-Through branches (Amt. in ₹ billion)	365	474.1	537.9
7	BSBDA-Through BCs (No. in millions)	188	230.8	247.8
8	BSBDA-Through BCs (Amt. in ₹ billion)	75	164	181.1
9	BSBDA-Total (No. in millions)	398	469	495.2
10	BSBDA Total (Amt. in ₹ billion)	440	638.1	719
11	OD facility availed in BSBDAs (No. in millions)	8	9	8.4
12	OD facility availed in BSBDAs (Amt. in ₹ billion)	20	29	18.1
13	KCCs -Total (No. in millions)	43	47.3	46.4
14	KCCs -Total (Amt. in ₹ billion)	4382	5,130.70	5,543.40
15	GCC-Total (No. in millions)	9	11.3	11.5
16	GCC-Total (Amt. in ₹ billion)	1302	1,493.30	1,613.20
17	ICT-A/Cs-BC- Total number of transactions (in millions)	477	826.8	550.6
18	ICT-A/Cs-BC- Total amount of transactions (in ₹ billion)	859.8	1,686.90	1,199.20

(RBI Annual Report 2015-16)(Table-1)

(BSBDA-Basic saving bank deposit account,OD-Over draft,KCC-Kishan credit cards,GCC-General credit cards, ICT-Information&communication Technology, BC-Banking Corespondent, RRB-Regional Rural bank)

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The number of basic saving bank deposit accounts (BSBDA) by year ended march 2015 was 398 million and it risen to 495 million by sept,2016.It was a rise of 24.3%. In just one and half year, this was a significant development where 97 million accounts were opened.

Another interesting finding was the increase in the number of BSBDA accounts opened through banking correspondents (BC). In the year march, 2015 the number of bank accounts opened through BCs were 188 million which had risen to 247.8 million by Sept, 2016. A rise of around 32 % of BSBDA accounts opened through BCs in just one and half year .If we compare it with the accounts opened through branches the growth in those corresponding years it was just 17%. The analysis is shown in Table -2

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Table-2

Particulars	**Year ended Mar-2015**	**Year ended Mar-2016**	**Half year ended Sep-2016**	**Rise in percentage**
BSBDA-Total (No. in millions)	398	469	495.2	24.3%
BSBDA-Through branches (No. in millions)	210	238.2	247.4	17%
BSBDA-Through BCs (No. in millions)	188	230.8	247.8	32%

. The attempt to expand access to the formal financial sector of which financial inclusion is a part is a continuous process. The Government as well as Reserve Bank of India (RBI) has been undertaking concerted measures to extend financial inclusion since independence. The earlier measures were not yielding the desired results. An urgent need to further push the financial inclusion agenda to ensure that people at the bottom of the pyramid join the mainstream of the formal financial system. Lack of access to basic financial services is still a major challenge in a country such as India where more than 65% of the population is classified as “Under Banked or Unbanked”. Recognizing this problem, the “Reserve Bank of India (RBI)” introduced a regulation in 2006 allowing banks to provide service at people’s doorstep through the use of third party services. This model is referred to as “Business Correspondents/Banking correspondents (BCs). They are considered as practical solutions to extend basic banking services to the nearly 600000 village habitations in the country. Business Correspondents are hence instrumental in facilitating financial inclusion in the country.

Anticipated impact of financial inclusion through PMJDY-

The impact of the financial inclusion scheme thus delivers on multi aspects of security

a) Economic b) transaction and c) social security

A comprehensive financial inclusion incorporates providing all households in the country with banking services, with particular focus to empower the weaker sections of society, including women, small and marginal farmers and labourers, both urban and rural.

1) Expanding the base of banking and financial inclusion: More and more people of the India are to be included in the mainstream of banking inclusion, and it could be done through the expansion of banking network.

2) Social security and welfare: PMJDY is equipped with the social security and welfare feature as it associate the bank account with the insurance and pension schemes.

3) Economic security: Opening and accessing bank account is the first step towards involving them into the positive economic activity which leads to the way of upgrading their economic position.

4) Better Disbursement: bank accounts opened are being used for direct transfer of beneficiary amount of various financial and social welfare schemes, thereby by passing the intermediary channels.

5)Transaction security &Better Control: The scheme is equipped with the digital money(RuPay) debit card which is being issued to every PMJDY account holder).This on one hand provide the security of transaction, on the other hand it act as better tool to control the money flow by decreasing the number of cash transactions.

V. CONCLUSION

PMJDY program strives to achieve complete penetration of banking services and microfinance facilities to the weak and poor sections of the society. Though, many financial inclusion schemes have been launched before, PMJDY commands high importance due to its magnitude, geographical reach, scale of impact and involvement of critical stakeholders **-** i.e. the Government, banks and regulators. The Pradhan Mantri Jan Dhan Yojana (PMJDY) has yielded results and nearly 98 per cent of households in India now have bank accounts. Till date, PMJDY has registered a remarkable performance and continues to be the main driving force towards the goal of absolute financial inclusion. The scheme aims at building a holistic framework by integrating the other critical elements such as Aadhar, Direct Benefit Transfer, and Direct Benefit Transfer for LPG. Cumulatively, these programmes are transforming India and altering the socio-economic landscape and achieving inclusive growth.

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