Financial Inclusion in Rural Communities in India: With Special Reference to PMJDY

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***Abstract* - Pradhan Mantri Jan Dhan Yojana (PMJDY) is a historical step towards making India more powerful financially. It is specially empowering economically weaker section of society that has been remained financially excluded for so long, "The Rural India". The main reason of financial exclusion of rural sector was financial illiteracy, lack of knowledge & awareness, insufficient infrastructure & bank branches in rural areas, low income & improper documentation. By PMJDY, financial services through bank accounts were provided to nearly 15.86 Cr people in just one week. This study attempts to address the various government schemes like Pradhan Mantri Jan Dhan Yojana (PMJDY) and Pradhan Mantri Jeevan Jyoti Beema Yojana (PMJJBY) and RBI measures involved in the adoption of Financial Inclusion and to widen its coverage especially in rural India. This study also briefs about increase in beneficiaries of financial services since last 5 years in private sector, public sector & regional/rural sector banks with the help of various schemes run by government and RBI.**

***Index Terms* - Financial Inclusion, PMJDY, PMJJBY, Rural India.**

INTRODUCTION

India is a developing country where about 68.8% of the total population and 72.4 percent of workforce resides in rural areas (Census, 2011). Rural population mainly depends on the agricultural & allied activities. The contribution of people of rural areas is almost half of the total GDP of the country. Inspite of this fact, most of these people are economically challenged & are excluded from formal financial system of the country. Financial exclusion is a roadblock in the growth & development of this sector. The problem of financial exclusion is not only faced by the rural areas of Indian economy but about 31% of the people are still unbanked around the globe. In India, around 190 million people are devoid of getting any financial services. (source: Global Findex)

Financial exclusion can be defined as inability to access the financial services by the people or failure of the system to provide the basic financial services like savings account, various loans & insurance schemes specially to the underprivileged sector of the society.

According to the European Commission, Financial exclusion is: "A process whereby people encounter difficulties in accessing or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong".

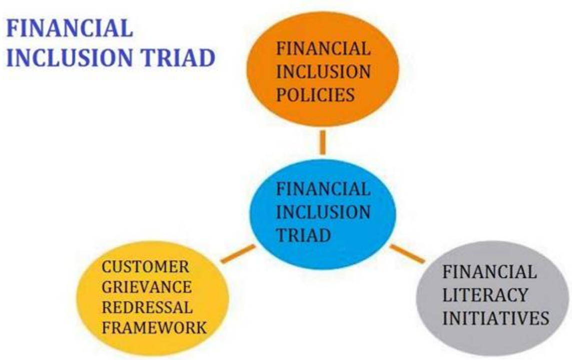
The main reason of financial exclusion of rural sector was financial illiteracy, lack of knowledge & awareness, insufficient infrastructure & bank branches in rural areas, low income & improper documentation. More importantly trust on traditional money lenders caused the degradation of the economic status of rural people in majority of cases. Out of all these, poor information & knowledge about the financial inclusions was found to be an important key of their exclusion. All these factors always pushed this economically & socially challenged people away from availing the facilities provided under financial inclusions.

For the upliftment of rural sector in India, we need to build a system that delivers basic social & economic infrastructure as well as economic empowerment in an effective manner. For this our government, RBI, banking institutions, NBFCs etc. all have come along to provide financial services to marginalized sector of our society. The financial inclusion is the key for a sustainable and developed society in any economy whether underdeveloped, developing or developed. The term 'Financial Inclusion' was introduced in India in early 2000's. In year 2005, Financial Inclusion was brought as a pilot project in Puducherry by the chairman of Indian bank Dr. KC Chakraborthy, and Mangalam village is the first village where all the households were provided with banking facilities.

Financial inclusion can be defined as, "The provision of affordable financial services such as bank accounts, savings, credit, insurance, remittance, financial counseling etc. are made available to the people with all possible efforts not only by the government or banking agencies but the large business icons of the country."

According to Dr. C Rangarajan (2008) defined 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."

In 2013, Finance Minister of India, P. Chidambaram launched the CRISIL Inclusix, an index to measure the status of financial inclusion in India. CRISIL defines financial inclusion as: "The extent of access by all sections of society to formal financial services such as credit, deposit, insurance and pension services."



This study attempts to address the various government schemes like Pradhan Mantri Jan Dhan Yojana (PMMJDY) and Pradhan Mantri Jeevan Jyoti Bima Yojana(PMJJBY) and Refinance Agencies and RBI measures involved in the adoption of Financial Inclusion and to widen its coverage specially in rural India.

REVIEW OF LITERATURE

- Dr. C. N. Kokate (2015) proposed that financial inclusion provides formal identity, access to payment system & deposit insurance and also, there is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded.
- Sonu Garg & Dr. Parul Agarwal (2014) suggested that Innovative products, out of the box service models, effective regulatory norms and leveraging technology together could change the landscape of the current progress of the much needed and wanted, Financial Inclusion Program.
- According to Raihanath MP, Dr. K.B. Pavithran (2014): Important areas of financial inclusion performed by commercial banks are: 1. Financial literacy, 2. Credit counseling, 3. BC/BF model, 4. KYC norms, 5. KCC/GCC, 6. No-frill accounts, 7. Branch expansion, 8. Mobile banking, and other measures such as micro insurance, micro-credit etc.
- C. Paramasivan & V. Ganesh kumar (2013) stated that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in an India.
- Dr. Vikas Nath, Bhawna Dhawan (2017) studied that major factors like not enough income, lack of financial education, and absence of required documents for due diligence process, convenience and trust in local money lenders over banks are few of the reasons for not being part of formal banking system.
- According to Dr. A. Tamilarasu (2014) - Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative.

OBJECTIVES

- To study the RBI strategies and measures for strengthening Financial Inclusion specially in rural areas.
- To evaluate the progress of Financial Inclusion under PMJDY

RESEARCH METHODOLOGY

This paper is based on descriptive study. The data and information for the study is gathered from secondary sources like websites, magazines, newspapers, journals and past research papers.

Strategies Adopted by RBI Strengthening Financial Inclusion

In India, RBI has initiated several measures to achieve greater financial inclusion. Some of these steps are as follows:

No-Frill accounts:

RBI directed banks to offer no-frills savings account which enables excluded people to open a savings account as these accounts require zero or negligible balance.

Business Correspondent Model:

Under this model financial Institutes appoint commission agents who provide financial Services at the doorstep of the public in remote areas where they are unable to open branches which result in large customer base at low cost. Therefore, this model is also known as the cost-efficient model.

It is an initiative by the Union Government and the Indian Banks Association to fill the economic gap between rural and urban India. It was launched in Feb 2011 that aims to bring banking services to large rural areas. Under this scheme, banks appoint business correspondents who act as intermediaries between the rural people and the banks with a vision to ensure that benefits of economic growth reach everyone at all levels.

BSBDA:

In 2012, RBI has replaced No Frills account with Basic Savings Bank Deposit Account (BSBDA). The significant feature of BSBDA is that basic banking services like money transfer and savings can be availed with a simplified KYC norm. Account can be started and maintained with nil balance. Under PMJDY also, the bank account offered is BSBDA.

Use of Regional Language:

Usage of Regional language: RBI asked banks to provide all the material related to opening accounts, disclosures etc in the regional language.

Simple KYC (Know Your Customer) norms:

In order to ensure that persons belonging to low income group do not face difficulty in opening the bank account due to procedural hassles, the KYC procedure have been simplified.

Easy credit facilities:

RBI asked banks to consider introducing General purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi urban branches. GCC is in the nature of rotating credit entitling the holder to withdraw up to the limit sanctioned. The interest rate on the facility is entirely deregulated.

Other Rural Intermediaries

Banks were permitted in January 2006, to use other rural organizations like non-governmental organizations, self-help groups, microfinance institutions etc. for furthering the cause of financial inclusion.

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 centers with a population of less than 50,000 under general permission, subject to reporting.

New Models of Banks:

On recommendations of Nachiket Mor committee, there were various measures taken on Financial Inclusion; opening of two special kinds of banks in India is one of them. These banks are:

Payment banks:

The main objective of payments bank is to widen the spread of payment and financial services to small business, low-income households, and migrant labor workforce in secured technology- driven environment. These banks will only accept deposit from public and will not lend loans. With payment banks, RBI seeks to increase the penetration level of financial services to the remote areas of the country.

Small finance banks-

Small finance banks are a type of niche banks in India. Banks with a small finance bank license can provide basic banking service of acceptance of deposits and lending. Small finance banks will provide banking products to the unserved and underserved sections of the country, which includes small and marginal farmers, micro and small industries, and other organized sector entities, at an affordable cost.

Table 1. Growth in access to Financial Services (2014-18)

	2014	2015	2016	2017	2018
Automated teller machines (ATMs) per 1,00,000 adults	17.73	19.63	21.15	21.98	21.64
Branches of commercial banks per 1,00,000 adults	12.82	13.52	14.21	14.51	14.50
Deposit accounts with commercial banks per 1,000 adults	1332.16	1535.84	1724.51	1881.57	1937.29
Loan accounts with commercial banks per 1,000 adults	150.68	153.85	170.11	177.57	199.63

Source: data.imf.org

To evaluate the progress of financial inclusion under Pradhan Mantri Jan Dhan Yojna (PMJDY) :

Pradhan Mantri Jan Dhan Yojana (PMJDY)

With special focus on providing access to financial services to each household in the country, Prime Minister Narendra Modi announced a scheme known as "Pradhan Mantri Jan Dhan Yojana (PMJDY)" on Independence Day in 2014. The main objective of this National Mission for Financial Inclusion was to provide at least one bank account to each household across the country along with the facilities of remittances, Rupay debit card, an overdraft facility of upto Rs.5000 and accident and life insurance, and direct benefit transfer of government subsidies and funds. The PMJDY has been launched with the motto- " Mera Khata – Bhagya Vidhata"

The implementation of the Pradhan Mantri Jan Dhan Yojana (PMJDY) was in 2 phases:

The first phase was from 15th Aug 2014 to 14th Aug 2015, which included universal access to banking facilities providing basic bank account with Rupay debit card, accidental insurance cover of Rs.1 lakh and to introduce financial literacy programs.

The second phase was from 15th Aug 2015 to 14th Aug 2018, which covered Micro Insurance, Overdraft facility, unorganized sector pension schemes like Swavlamban yojna, Credit guarantee fund etc. It provided a boost to the financial inclusion movement in the country. The programme leverages on the existing large banking network and technological innovations to provide every household with access to basic financial services, thereby bridging the gap in the coverage of banking facilities. It also meant to become a potent tool to combat corruption of any form in Government departments and nullify the role of middlemen.

Under PMJDY, 15.86 Cr accounts were opened within an year since its threshold with deposits amounting to Rs.17,520 Cr. "The most bank accounts opened in 1 week as a part of financial inclusion campaign is 1,80,96,130 and was achieved under PMJDY from 23th to 29th Aug 2014". This achievement of opening the largest number of accounts in one week has found a place in the Guinness Book of World Records.

Under PMJDY, the benefits received by the people include:

1. Accident insurance upto 1 lakh,
2. For accounts opened before 26th Jan 2014 got additional life insurance of 30,000,
3. If account is operative for at least six months, the account holders may also be offered an overdraft facility, first for 2,500 and then for 5,000.

Table 2. Bank wise expansion of Beneficiaries of PMJDY from 2015 to 2019 (as of December 2019):

Year /Bank type		Public Sector Banks	Private Sector Banks	Regional Rural Banks	Total
2015	No. of Beneficiaries	12,39,159 04	65,29,308	2,81,77,71 8	*15,86,22,93 0*
	Total Deposits (in crores)	13,479.99	992.17	3,048.16	*17,520.32*
2016	No. of Beneficiaries	17,23,342 77	81,15421	3,88,4260 2	*21,92,92,30 0*
	Total Deposits (in crores)	29,961.28	1,415.10	6,671.26	*38,047.64*
2017	No. of Beneficiaries	23,09,88,8 56	92,06,114	4,68,65,44 6	*28,70,60,41 6*
	Total Deposits(in crores)	50,387.66	2,100.14	11,659.70	*64,147.50*
2018	No. of Beneficiaries	25,60,14,5 64	98,07,989	5,09,02,75 0	*31,67,25,30 3*
	Total Deposits (in crores)	65,297.60	2,245.17	13,565.80	*81,108.57*
2019	No. of Beneficiaries	30,07,97,8 49	1,25,26,24 0	6,43,26,58 0	*37,76,50,66 9*
	Total Deposits (in crores)	86,453.74	3,080.52	19,724.35	*1,09,258.61*

Source: pmjdy.gov.in/archived

Above table shows the data of total accounts in operation and total amount deposited in those accounts upto 25th December 2019. But as per the latest provisional data of Indian Government, there have been 39.57 Cr beneficiaries banked so far till June 2020 depositing Rs.132,827.33 Cr balance in beneficiary accounts and 1.26 lakh Bank Mitras delivering branchless banking services in Sub-Service Areas giving a boost to the financial inclusion campaign of Govt. of India specially in rural areas.

Table 3. Expansion of beneficiaries of PMJDY in Rural/Urban branches (As of June 2020):

Bank Type	Accounts opened in rural/semi urban branches (in crores)	Accounts opened in urban/metro branches (in crores)	No. of Rural/Urban Female beneficiaries (in crores)	No. of Total beneficiaries (in crores)	Total Deposits in accounts(in crores)	No. of Rupay Debit Cards issued to beneficiaries (in crores)
Public Sector Banks	18.41	12.98	17.10	31.40	103082.36	25.07
Regional Rural Banks	6.04	0.88	3.98	6.92	25695.68	3.30
Private Sector Banks	0.68	0.57	0.68	1.26	4049.29	1.14
Grand	*25.13*	*14.44*	*21.75 (55%)*	*39.57*	*132827.33*	*29.51*
Total	*(63.50%)*	*(36.50%)*				

Source-pmjdy.gov.in

The distribution of bank accounts opened under the PMJDY clearly shows that the rural areas of the country were under the prime focus where around 63 percent of the total number of accounts opened while 37 percent of the total number of accounts opened in urban areas.

To study the progress of PMJJBY and PMSBY & the cost comparison of PMJJBY with other insurance schemes available

Pradhan Mantri Suraksha Beema Yojna (PMSBY)

Launched on 9th May 2015, PMSBY offers a renewable one-year accidental death cum disability cover of Rs. 2 Lakhs to all subscribing bank account holders in the age group of 18-70 years for a premium of Rs.12/annum per subscriber. A special campaign Gram Swaraj Abhiyan was organized from 14th April 2018 to 5th May 2018 further extended to 15th August 2018, targeting poor households for providing universal coverage under PMSBY.

The benefits under PMSBY includes:

	Table of Benefits	*Sum Insured*
a.	Death	Rs. 2 Lakh
b.	Total and irrecoverable loss of both eyes or loss of use of both hands or feet or loss of sight of one eye and loss of use of hand or foot	Rs. 2 Lakh
c.	Total and irrecoverable loss of sight of one eye or loss of use of one hand or foot	Rs. 1 Lakh

source- jansuraksha.gov.in

Below table shows the total no. of persons enrolled in PMSBY upto March 2020 and no. of claims received by the government and the total amount disbursed against those claims:

Table 4. Progress of the scheme as of March 2020:

Financial year	Total no. of persons enrolled	Total no. of claims received	Total no. of claims disbursed
2015-16	9.95 Cr	12,534	9,403
2016-17	13.48 Cr	21,137	16,403
2017-18	15.47 Cr	40,749	32,176
2018-19	18.22 Cr	50,003	39,625

source- jansuraksha.gov.in

Pradhan Mantri Jeevan Jyoti Bima Yojna (PMJJBY)

PMJJBY, launched 9th May 2015, offers a renewable one-year term life cover of Rs. 2 Lakh to all subscribing bank account holders in the age group of 18-50 years, covering death due to any reason (including suicide and murder) for a premium of Rs.330/- per annum per subscriber. The scheme is offered through LIC and other Life Insurance companies as well. There is no maturity benefit or surrender benefit payable under this scheme though the maturity age is 55 years maximum.

Important features of PMJJBY are as follows:

Protection at very low cost. Immediate processing.

No medical examination required. Need a bank account for processing.

Below table shows the total no. of persons enrolled in PMJJBY upto March 2020 and no. of claims received by the government and the total amount disbursed through it.

Table 5. Progress of the scheme as of March 2020:

Financial year	Total no. of persons enrolled (in crores)	Total no. of claims received	Total no. of claims disbursed
2016-17	3.10	62,166	59,118
2017-18	5.33	98,163	89,708

2018-19	5.92	1,45,763	1,35,212
2019-20	6.85	1,89,257	1,77,276

Analysis of Sum assured under PMJJBY:
The maximum sum assured under PMJJBY is capped to only Rs.2 lakh, while there is no capping with other products available in the market. But it is good for those who want small term insurance as normally companies provide term insurance starting from Rs.5 lakhs and there are none or very few options which provide term insurance of Rs.2 lakhs.

Analysis on Premium and Age:
Below table represents the comparison of some available term insurances of four different companies in the Indian market showing respective premium at different ages.

Table 6. Comparison of different company's term insurances with PMJJBY (All values in Rs):

Age group (years)	SBI	LIC	HDFC	Max Life	PMJJBY	Mean
18	262	205	174	265	330	226.5
25	326	274	186	276	330	265.5
30	379	369	203	290	330	310.25
35	456	381	245	335	330	354.25
40	565	463	331	420	330	444.75
45	723	578	449	565	330	578.75
50	1108	754	665	816	330	835.75

CONCLUSION

Financial inclusion is a real challenge that has been prevailing since long in Indian population especially in Rural communities. PMJDY proved to be a boon in this fraternity. Under two phases, PMJDY provided various services like universal access to banking facilities, providing basic bank account with Rupay debit card, accidental insurance cover of Rs.1 lakh, to introduce financial literacy programs, MicroInsurance, Overdraft facility, unorganized sector pension schemes like Swavlamban yojna, Credit guarantee fund etc. It provided a boost to the financial inclusion movement in the country. The program leverages on the existing large banking network and technological innovations to provide every household with access to basic financial services, thereby bridging the gap in the coverage of banking facilities. There is a double hike of beneficiaries in having bank accounts from 2015 to 2019. The insurance provided under PMJJBY is cheaper than the one provided by public sector banks like SBI, LIC etc. specially of the age group above 30 years when there is actual risk of health and high need of insurance. The total persons insured under PMJJBY became double in around 3 years from a figure of about 3.10 crores to 6.85 crores. Hence, the problem of financial exclusion has been eradicated upto a remarkable extent by these schemes of government like PMJDY & PMJJBY.

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