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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

CHALLENGES TO BIGGEST STEP IN FINANCIAL INCLUSION BY INDIA

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ABSTRACT

The India's biggest financial inclusion plan by government of India finally stepped into the ground! After the nationalization of commercial banks in 1969 and subsequent developments led to financial inclusion by the banks. Despite the big expansion, the statistics on financial exclusion in India provides a very depressing picture. Out of over 600,000 rural habitations in the country, only about 30,000 or just 5% have a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts and this ratio is much lower in the north-eastern part of the country. The proportion of people having any kind of life insurance cover is as low as 10 percent, and the proportion having non-life insurance is an abysmally low 0.6 per cent. Basic objective of the notion of financial inclusion is to ensure formal banking facilities to the rural and unbanked households of the society and to see that they are self confident and empowered. Pradhana Mantri Jan Dhan Yojana (PMJDY), the government's biggest financial inclusion plan is a new hope in that regard. The paper is significant attempt to understand and emphasize the importance of the topic.

KEYWORDS

GoI, Financial inclusion, FIP, PMJDY.

INTRODUCTION

The Economic resources of the country should be utilized for the well being of the poor. The change will commence from this point.

- Sri Narendra Modi, Hon'ble Prime minister of India about Jan Dhan Yojana

Financial Inclusion is the delivery of financial services at an affordable cost to vast sections of the disadvantaged and low income groups. The purpose of financial inclusion is to provide equitable opportunities to every individual to avail the facility of formal financial channels for better life, better living and better income. It is crucial to innovate and provide means to include the financially excluded by way of ensuring access to financial services, and timely and adequate credit. World Bank reports that "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services." The term Financial Inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of Financial Inclusion differs among countries. It's been a surprising fact that India ranks second in the world in terms of financially excluded households after china .For the inclusive growth process of economy the central bank has also provided high importance to the financial inclusion.

The Indian growth story started unfolding with the IT Sector in late 90's. For the first time, global companies realized the importance of Indian IT because of the Y2K phenomenon. Since then the Indian Economy has been going from strength to strength. Today India is the second fastest growing economy in the world. The crossing of Indian GDP to over a trillion dollar mark in 2007 is considered an important milestone. Today India's economy is the 3rd largest in the world by purchasing power parity.

Census 2011 estimated that out of 24.67crore 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.

As of now, India ranks 2nd in the world in terms of financially excluded households after China. But this position is in absolute numbers. The situation is not so bad in percentage terms. In percentage terms the majority of the African countries are behind India. India's regulator started focusing on financial inclusion only in last five years. That way, the progress made is remarkable by every standard. In 2010, the regulator chalked out a detailed plan to cover every habitat with a population of at least 2000 by the end of March, 2012. But the fact is that India still needs to do a lot progress in financial inclusion. Recent data from the World Bank also suggests that India ranks lower when compared with the OECD countries with regard to financial penetration. When compared with select Asian peer group countries, the difference in financial access is less as far as access to bank branches is concerned; more prominent with regard to access to ATM's; highly prominent while comparing in terms of private credit to GDP ratio. These trends underline the need for strengthening the financial inclusion process in India in the years to come.

OBJECTIVES OF THE STUDY

1. To comprehend the present scenario of financial inclusion in India.
2. To study PMJDY and analyzing it considering different factors those are utterly in relation to the scheme.
3. To study the prime factors influencing access to financial services.
4. To anticipate the problems and challenges associated with this PMJDY and trying to suggest the best possible solutions to make financial inclusion a grand success.

RESEARCH METHODOLOGY

Paper's study is descriptive in nature. The data used for the study is secondary in nature and has been collected from RBI bulletin, annual reports of Government of India (GoI) and Ministry of Finance, Report on trend and progress of banking in India, various reputed journals, newspapers and websites of RBI, Ministry of Finance, and Brochure of PMJDY.

PRESENT POSITION OF FINANCIAL INCLUSION IN INDIA

- **World Bank Survey Report -** A Financial Inclusion survey was conducted by World Bank in India between April-June, 2011 which included face to face interviews of 3,518 respondents. The sample excluded the north-eastern states and remote islands representing approximately 10 per cent of the total adult population. The results of the survey suggest that India lags behind developing countries in opening bank accounts, but is much closer to the global

average when it comes to borrowing from formal institutions. In India, 35 per cent of people had formal accounts versus the global average of 50 per cent and the average of 41 per cent in developing economies. The survey also points to the slow growth of mobile money in India, where only 4 per cent of adults in the Global Findex sample report having used a mobile phone in the past 12 months to pay bills or sends or receive money."

- In sync with the objective of inclusive growth, RBI has given priority to the agenda of financial inclusion over the past few years. Steps were taken by RBI in very recent years to expand banking services to remote areas of the country. Despite all the attempts made by the Reserve Bank, the extent of financial exclusion continued to be significant in India, when compared with some of the advanced as well as developing countries.

TABLE 1.1 KEY STATISTICS ON FINANCIAL INCLUSION IN INDIA: A SURVEY (%age)

	Share with an account at a formal institution			Adult saving in past year		Adults originating a new loan in the past year		Adults with a credit card	Adults with an outstanding mortgae	Adults paying personally for health insurance	Adults using mobile money in the past
	All adults	Poorest Income Quintile	Women	Using a formal account	Using a community based method	From a formal financial Institution	From family of friends				
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

(Source: RBI Report 2013)

TABLE 1.2: RECENT KEY STATISTICS ON FINANCIAL INCLUSION IN INDIA: A SURVEY

	Year ended Mar 2014	Added between Apr 2013 and Mar 2014
Banking Outlets in villages	3,83,804	1,15,350
Basic saving bank accounts through branches (in mln.)	126	25.2
Basic saving bank accounts through banking correspondents (in mln.)	116.9	35.7

(Source: RBI Report 2014)

- **Old Financial Inclusion Plan (FIP) of Govt. –** To strengthen the financial inclusion drive, all public and private sector banks were advised to put in place Board approved three - year financial inclusion plans (FIPs) from April 2010 onwards.

The FIP should broadly contain self-set targets with respect to:

(i) Opening rural brick and mortar branches;

(ii) Deployment of BCs; and Coverage of villages with population of more than 2000 as also other un-banked villages with population below 2,000 through branches/BCs/other modes; (iv)opening no-frills accounts including through BC-ICT;

(iii) Issuing Kisan Credit Cards (KCCs) and General Credit Cards (GCCs), and other people specific products designed by them to cater to the financially excluded segments. The progress, so far, by banks in achieving FIP during the last two years has been impressive. A brief analysis of the progress shows that penetration of banking has increased multi-fold in rural areas. As at end- March 2012.villages covered through BCs constituted more than 80 per cent of the total villages covered under the FIP. These indicators move towards the widespread acceptance of BC model of financial inclusion by banks as well as consumers in rural India.

- **Opening of New Bank Branches -** Scheduled Commercial Banks have opened 6,503 branches during 2012-13, out of which 2,051 are in rural areas, 2,479 in semi-urban areas, 1,065 in urban areas and 908 branches in metropolitan areas (Annual Report 2012-13, Ministry of Finance, GoI). In accordance with the efforts put forward by the Reserve Bank for opening new bank branches in rural areas, more than two-thirds of total new branches opened during 2011-12 were in rural or semi-urban areas. Expansion of banking network is done through the opening of new bank branches in various regions. The distribution of new branches Region-wise and Population Group-wise is shown in Table I.3.Among the regions southern region accounted for almost 30 per cent of total new bank branches opened. As at end-March 2012, 99 per cent of the identified villages have been provided with banking outlets. Four States, viz., Uttar Pradesh, Bihar, West Bengal and Andhra Pradesh accounted for more than 50 per cent of these newly opened banking outlets. On a positive note, all identified villages in the north-eastern have been provided with banking outlets. Region-wise analysis of the progress made in banking penetration indicated that significant progress has been made in eastern as well as north-eastern region on this front. The details of Progress in Roadmap for providing Banking Outlets in Villages with Population of more than 2000.
- **"Swabhimaan program"- the Financial Inclusion-** Under "Swabhimaan"- the Financial Inclusion Campaign launched in February 2011, banking facilities to over 74,000 habitations having a population of 2,000 and above have been provided by engaging over 62,000 business correspondent agents (BCAs) and opening branches. About 3.16 crore Financial Inclusion accounts have been opened till March, 2012. Further, Public Sector Banks and Regional Rural Banks (RRBs) have operationalized over 43,000 Ultra Small Branches so far. In pursuance to the announcement made by Finance Minister in Budget speech 2012-13, this campaign is being extended to about 45,000 Habitations with population of more than 1,000 in North-Eastern and hilly States and with 1600-2000 population in other states.
- **SHG-Bank Linkage Programme and Micro-Finance-**The self-help group (SHG)-bank linkage programme started in 1992 as a pilot project initiated by NABARD and involving three agencies, viz., the SHGs, banks and NGOs. Though progress under the SHG-bank linkage programme was slow during the initial years, it started expanding rapidly after 1999.As at end-March 2012; about 103 million rural households had access to regular savings through 7.96 million SHGs linked to different banks. Though the number of SHGs maintaining savings accounts with banks increased during 2011-12, compared with previous year, total amount of SHG savings outstanding in banks declined. In recent years, micro-finance institutions (MFIs) have emerged as an important means of channelling credit to the rural parts of the country due to their widespread reach in these areas as well as the ability to offer customised financial products, suited to the needs of average rural customers
- **Setting up of New ATMs.-**Off-site ATMs has more significance than on-site ATMs for banking penetration. Off-site ATMs play an important role by providing the basic banking services like cash withdrawal, transfer of funds even without the presence of full-fledged brick-and-mortar branches. During 2011-12, there was an addition of 14,365 new off-site ATMs. However, metropolitan areas accounted for the maximum number of newly Opened ATMs. Southern region had maximum number of newly opened ATMs, followed by northern region. However, the share of rural areas in the total number of ATMs continued to remain small.

WHAT IS PM JAN DHAN YOJANA? (NEW FINANCIAL INCLUSION SCHEME)

The name "Jan Dhan" was chosen through an online competition on the MyGov Platform and received more than 6000 suggestion from Indian citizens. After evaluation the jury shortlisted "Jan Dhan" which was suggested by 7 individuals. The slogan for the Pradhanmantri Jan Dhan Yojana is " Mera Khata – Bhagya Vidhaata" which when translated into English means " My Bank Account – The Creator of the Good Fortune". And the primary aim of PMJDY is to bring poor financially excluded people into the banking system by providing them bank accounts and debit cards. The scheme will cover both urban and rural areas of India and all bank accounts opened will be linked to a debit card which would be issued under the Ru-Pay scheme. (Rupay is India's own unique domestic card

network owned by National Payments Corporation of India and has been created as an alternative to Visa and Mastercard.) Every individual who opens a bank account becomes eligible to receive an accident insurance cover of up-to Rs 1 Lakh for his entire family.The Pradhan Mantri Jan Dhan Yojana has set an ambitious target of bringing in more than 7.5 crore un-banked families into India's banking system by opening more than 15 Crore bank accounts at the rate of two bank accounts per household. Once the bank account has been active for 6 months and has been linked to account holders Aadhar identity , they would become eligible for an overdraft of up to Rs 2,500 , which would further be enhanced by the bank to Rs 5000 over time. The Jan Dhan Yojana also seeks to provide incentives to business and banking correspondents who serve as link for the last mile between savings account holders and the bank by fixing a minimum monthly remuneration of Rs 5000. The long term vision of the Jan Dhan Yojana is to lay the foundation of a cashless economy and is complementary to the Digital India Scheme.

TWO PHASES OF THE SCHEME

The first phase of the mission, starting August month (2014), would end in August next year.

• Phase-1 of PMJDY begins on the August 28, 2014 and will last until August 14, 2015. The first phase will be focused on opening a bank account and providing credit facilities to those who are outside the banking system in urban and rural India.

• The second phase will start from 2015 till 2018.It will cover aspects such as micro insurance and pension schemes like 'Swavalamban'.

COMPARATIVE STATEMENT SHOWING OLD AND NEW FI PROGRAMS

Old Financial Inclusion Program	New Financial Inclusion Program
Village based approach for villages where population greater than 2000 (Limited Geography)	Households in all villages
Only Rural	Both Rural and Urban
Mobile BC	Fixed Point BC in each SSA comprising of 3 to 4 villages. This visit other villages in the SSA on fixed days.
Focus on opening of Basic Savings Bank Deposit Accounts (BSBDA)	Focus on Financial Literacy, opening of BSBDA Account, Convergence with other subsidy schemes& Micro Insurance/Pension, RuPay Debit Card, USSD Scheme, Kisan Credit Card
Monitoring by banks	Monitoring Mechanism at Centre, State, District level. Active participation of state and district emphasized.
Operation of Accounts offline; separate server.	Accounts on line 'on CBS of banks. Provision of RuPay Card to each account holder giving him freedom to operate anywhere

LIKELY CHALLENGES AHEAD!

The immediate challenge for the government will be to figure out the financial viability of maintaining the accounts and the linked insurance schemes. The RBI-promoted National Payments Corporation of India (NPCI) which offers the RuPay card, had already given the contract for accident insurance to HDFC Ergo for a period of three years. But this insurance was linked to the transaction history of the accountholder. The industry was led to believe there would be an insurance top-up by the government on this of Rs 1 lakh, costing NPCI Rs 1 per customer every year. NPCI plans the insurance cost from the income generated out of transaction on the RuPay platform.For every ATM transaction the issuing bank pays NPCI 40 paise. For every point of sale or ecommerce transaction NPCI gets 60 paise from the issuing bank and 30 paise from the accepting bank. All existing RuPay debit card holders would be able to avail of this facility, sources told Business Standard but not those holding saving accounts without the RuPay card. The card itself will cost about Rs 50 each roughly, though the scale could bring down costs marginally, sources said. A former banker also noted that the financial viability of running these millions of accounts would depend on the minimum balances maintained and the number of transactions carried out in a year. A source in the government said earlier assessments suggested that out of the 180 million bank accounts opened under the financial inclusion scheme so far, a vast majority sat dormant or unused once they were opened. The RBI also noted that even as the volume of accounts had increased substantially keeping the transactions flowing remained a challenge. In other words, the banking inclusion system generated empty accounts to meet set targets. Back-of-the envelope calculations suggest that for public sector banks an average monthly balance of Rs 50,000 is essential to meet the costs of operating an account. But another expert who has worked on the banking correspondent model economics said a much lower average balance of Rs 15,000-12,000 could help banks meet costs. But for millions of poor who could finally have an account number, this is likely to be only a dream.

The overdraft facility that the Jan Dhan scheme commits could be valuable for the poor but clarity has still not emerged on where the funds would be diverted from to finance it. Some news reports suggest that the overdraft facility will be guaranteed by an Rs 1,000 crore fund from NABARD. But this may not be sufficient if the overdraft facility really takes off. Assuming one account each for 75 million households, an overdraft facility of Rs 5,000 each amounts to Rs 37,500 crore. Even if one is to assume a risk proportion of 20-25 per cent, it would imply a minimum of Rs 7,000 crore loss to the banking sector.

A more fundamental question that the scheme has not yet resolved is the last-mile connectivity essential for financial inclusion. The government says it would be based on banking correspondents, which are not brick and mortar banks but private companies. It's cheaper than running branches but still requiring a substantial flow of money to and from the accounts to generate commission for the agents involved. The last government was unable to ensure that flow in the absence of the fertiliser, food and kerosene subsidy being turned into cash-based ones. The previous government had assessed in its internal discussions that a robust and competitive banking correspondent model required at least 200,000 working sub-agents. If one was to expect these individuals to earn even Rs 1,000 a month from acting as the last-mile connector, the previous government had assessed it would require moving the entire social sector subsidy bill through the banking correspondent funnel, including MNREGA, food, fertiliser and kerosene subsidies. This has not happened and while India already has 248,000 sub-agents most of them do not really work. Hiring an additional 50,000 sub-agents that get paid Rs 5,000 a month is bound to not be productive either. The costs of running this banking correspondent model will be tested even more as the financial inclusion scheme reaches deeper into rural India, sources admit. "If one wants these accounts to be functional and not remain dormant then the density of banking correspondent has to be increased. But that also increases the cost of delivery," explained an official who had worked on this scheme in the previous government. Additionally, the economics of the cash transfer schemes for the banks would be dependent on what kind of float period is allowed by the government and not just the volume of funds involved.

SOME OF THE CHALLENGES THAT ARE IDENTIFIED BY THE GOVERNMENT IN ITS PMJDY BROCHURE

Right now, most Indian households rely on usurious money-lenders for credit and on the Saradhas and Saharas for their savings needs. Bank accounts for all may solve this problem. If bank accounts become the norm, it will also be easier for the Government to directly pay all subsidies into the accounts of the poor, instead of dispensing them through the vast, leaky network of government agencies. But who's going to foot the bill, sceptics ask. The premium on accident insurance will be borne by the National Payments Corporation of India. But it cannot also pay the life insurance benefit tacked on at the last minute. In that case, the government's go-to pawn, the Life Insurance Corporation, may be roped in. There is also the question of how banks will service these accounts once they're operational. Will banks be interested in providing good service if the account is zero-balance? While the Centre has promised to 'reimburse' the costs, the quantum and mechanics of compensation are unclear at the moment. Lenders were asked to design self-set targets in respect of opening rural brick-and-mortar branches, hiring business correspondents, covering un-banked villages and offering financial products such as basic savings bank deposit accounts, kisan credit cards and general credit cards. Yet, more than 40 per cent of the country's 1.2 billion people continue to remain financially excluded. A senior banker with a

public sector bank, said, requesting anonymity: "It is not that banks have not made any progress in financial inclusion. "But due to lack of awareness, low financial education and procedural hassles, many still prefer to borrow money from informal sources like money lenders. "Also, despite the rapid expansion, the number of bank branches in the country is still inadequate." He added that creating a bank account will not necessarily ensure financial inclusion as many of these accounts turn dormant within months after being opened. A survey on financial access in 2011 revealed that India had 10.6 branches and 8.9 automated teller machines per 0.1 million population. Compared to this, China had 23.8 branches and 49.6 ATMs, while Brazil had 46.2 branches and 119.6 ATMs per 0.1 million people. To address the proverbial last-mile problem, banks have turned to information and communication technologies and engaging business correspondents to expand their reach. But it has not been smooth sailing so far, with reports surfacing of devices like hand-held machines -- crucial to the success of this model -- not properly functioning in many areas of the country.

PROBLEM OF TELECOM CONNECTIVITY

The feedback from the Banks is that in tribal and hilly areas of the country, the telecom network is not reliable and therefore setting up Bank Mitr (Business Correspondent) in these areas and ensuring opening of bank accounts is going to be difficult. A meeting was held with representatives of the Department of Telecom (DoT) and BSNL in this regard and it was assured that the ongoing telecom connectivity problems would be resolved by mutual consultation. It was also informed that DoT is separately seeking the Government approval to cover all villages in the North East and difficult areas with telecom connectivity. Banks would also work to utilize the National Optical Fibre Network (NOFN) when it reaches the Panchayat level.

PROBLEM OF KEEPING THE ACCOUNTS "LIVE"

It is essential that all Government benefits - Central, State or local should flow to these accounts as it has been observed that a lot of duplicacy exists in this area and sometimes States have not followed the service area approach and allocated areas to some banks other than service area banks creating avoidable confusion. The DBT schemes especially MNREGA need to be pushed and DBT in LPG needs to be restarted.

PROBLEM OF 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 Shri. Nandan Nilekani in its report Feb, 2012 recommended that last mile transaction cost of 3.14 % with a cap of Rs.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. Coverage of some of the areas might, therefore, spill over to Phase-II.

TOO MANY BANK JAN DHAN ACCOUNTS OF SAME PERSON

As there is a clumsiness in case of no. of accounts one could open and who is eligible to open Jan Dhan account ,people are blindly opening the bank accounts without understanding the intention of the government. And on the other hand there is no proper guidelines on part of govt. towards banks and they are just informed to open Jan Dhan accounts with least KYC norms. So proper steps need to be taken in that regard by the government and need to provide clear picture about the program.

CONCLUSION

Though it is difficult to decide over the success or failure of the scheme because it is still under progress and that too in an elementary stage yet considering many factors like the initiation taken by the banks, the Government's interest towards the scheme, the response of the general public, the new features and benefits added by the Government to present financial scheme we may predict that yes there is a hope for considering the Pradhan Mantri Jan Dhan Yojana (PMJDY) as a successful one and may result into fulfillment of objectives set by the Government behind PMJDY subject to same level of interest towards the scheme and the proper measures in overcoming drawbacks and confusions about the scheme.

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