

Financial Inclusion & Implementation of Jan Dhan Yojna – Information Technology as Enabler

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Abstract

With the announcement of Pradhan Mantri Jan Dhan Yojna (PMJDY) on 28 August 2014, the current government has once again attempted to implement Financial Inclusion in the country. This scheme is based on “Sab ka sath sab ka vikas” i.e. inclusive growth. It has far reaching impact on the socio-economic lives of people, as it ensures that everyone in the society gets access to social, economic and political opportunities without any discrimination. This facet is strongly linked with the concept of inclusive growth. Technology can play an important role in not only reducing operating cost of providing banking services, particularly in the rural and unbanked areas but also increasing the reach of the financial sector to the remotest areas. There are technologies that could drive the growth in financial inclusion and with further development and innovation in Information Technology it is succeeding in its desired objective.

Introduction

Financial inclusion has been a buzzword for the policymakers and governments globally and is being perused deliberately world over. Financial Inclusion is defined as providing basic financial services to all sections of the society. It focuses on all strata of society including those who have been left out and have not been able to reap the benefits of financial services in economic growth. Attempts have been made by the policymakers and government to implement financial inclusion through financial institutions to bring large sections of the rural population within the banking system having realized that financial inclusion is the essence of sustainable economic growth and development in a country like India. Though our country's economy is growing at a one digit, still the growth is not inclusive with the economic condition of the people in rural areas worsening further. Though there are few people who are enjoying all kinds of services from savings to net banking, but still in our country around 40% of people lack access to even basic financial services like savings, credit and insurance facilities.

Introduction of financial inclusion came in to existence in India in year 2005 when its importance was understood and measures were taken by means relaxation given to banking sector to come with best strategies to involve people in banking sector by providing banking facilities at very low cost. Subsequently “Swabimaan”, a Financial inclusion plan was launched in year 2012 which was focused on opening of ‘no-frills’ accounts. However, only 20 percent of the bank accounts opened under this plan were found to operational later. Moreover out of target of nearly 6 lakhs villages having more than 2000 population only 74,000 were covered.

The latest initiative by the government concerning Financial Inclusion is the scheme announced by our current Prime Minister i.e. Pradhan Mantri Jan Dhan Yojana (PMJDY) aimed at targeting individual unbanked households in both urban and rural India. Challenges of financial inclusion are solvable on the drawing board as demonstrated by the recent Nachiket Mor Committee report, but they do not address the

last mile. While innovations have all addressed the pipe line problem of cash transfers, none have addressed delivery. Delivery can happen with interoperability, but commercial considerations backed exclusivity.

Technology is one of the most important factor as it has a major impact on efficiency and product innovation. According to the Rangarajan Committee (2008), technological advancement is a crucial step in the process of reaching the unbanked. Operating cost of providing financial inclusion and charges levied on the users plays crucial role in implementation and acceptability by the users. There are technologies that could drive the growth in financial inclusion.

Objective

The objective of the paper is to look at the aspect of Financial inclusion and ground implementation of Jan Dhan Yojana with the main emphasis to study utilization of Information Technology (IT) as an enabler.

Financial Inclusion

It is not that efforts have not been made in the past to promote financial inclusion. The Nationalization of banks, Lead Bank Scheme, incorporation of Regional Rural Banks, Service Area Approach and formation of Self-Help Groups- all these were initiatives to take banking services to the masses. Due to the efforts of the government the number of bank branches multiplied and even the private banks were introduced so as to improve coverage. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. A number of rural households are still not covered by banks. They are deprived of basic banking services like a savings account or minimal credit facilities. The proportion of rural residents who lack access to bank accounts is nearly 40 per cent, and this rises to over three-fifths in the eastern and north-eastern regions of India. Despite repeated efforts by the government, main factors which affets access to the financial services are as under :

(a) **Demand Side Barriers.** The barriers arising out of the demand side factors may be characterized by the following features.

(i) **Complexity:** The excluded sections of the society find financial services complex in nature. They see no reason to go to the banks for conducting small transactions.

(ii) **Place of living:** Commercial banks operate only in areas from business point of view and banks find it unviable to open branches in the remote villages and people living there find it very difficult to reach the nearest bank.

(iii) **Limited literacy:** Financial illiteracy and lack of basic education are prohibiting factors leading to non-access of financial services.

(iv) **Convenience and affinity towards informal sector:** The local money lenders or informal sector become more user-friendly and accessible and thus an affinity is established between them.

(b) **Supply Side Barriers.** The supply side of barriers though not many, may be characterised by the following features:

(i) **Legal identity:** Inability to provide a legal identity such as voter id, residence proof, birth certificates, etc. often exclude women and migrants from accessing financial services.

- (ii) **Outreach Issue:** Very often, even if a person is bankable, the distances are too long for services & supporting the accounts at reasonable costs.

Pradhan Mantri Jan Dhan Yojna

The National Mission on Financial Inclusion or Pradhan Mantri Jan Dhan Yojna was started by Ministry of Finance, Department of Financial Services, Government of India, with a wide vision to provide access to banking facilities to unbanked population. The Jan Dhan Yojna is to be implemented in two phases. The first phase (15 August 2014 to 14 August 2015) was aimed to provide universal access to banking facilities through a bank branch or business correspondent; basic banking accounts with overdraft facility of Rs 5,000 based on the performance during the first six months; and RuPay debit card with inbuilt insurance cover of Rs 100,000. Bank accounts opened between 28 August 2014 and 26 January 2015 to get life insurance cover worth Rs 30,000. There will also be a financial literacy program. In the second phase (from 15 August 2015 to 14 August 2018) micro insurance and pension schemes for the unorganized workers would also be provided. Besides it some of the other special benefits under the PMJDY are- interest on deposits, no minimum balance requirement, easy transfer of money across India, direct benefit transfers in these accounts, access to insurance & pension products etc.

Challenges : PMJDY

9. Based on the past experience and various studies carried out on the subject, the challenges are:

- (a) Lack of usage of bank accounts – Most of the bank accounts opened are not operative may be due lack of financial literacy or lack of funds with account holders.
- (b) Financial Literacy – This is one of the major concerns especially in rural areas
- (c) Handling of Large number of accounts – There is a need for setting up infrastructure to address large number of accounts that are opened. Information Technology can play a vital role to service large number of new and existing customers.
- (d) Manpower Training – Banking staff and business correspondents to meet local population aspirations.
- (e) Security –No leakage of any sensitive information to the outside world.
- (f) Malpractices – Banks charging money etc.
- (g) Lack of Trust.
- (h) Low Banking Penetration in Rural Areas.
- (i) Use of Technology – There is low telecom penetration in rural areas. Moreover, increasing expenditure on IT and risk on security with respect to data theft is also a major concern.

Information Technology facilitating Implementation of PMJDY

Developments in the field of communication and IT has in great way supported the growth and inclusiveness of the banking sector, thereby facilitating inclusive economic growth. IT not only enhances the competitive efficiency of the banking sector by strengthening back-end processes, but has also improves the front-end operations and helps in bringing down the transaction costs, saving time and frauds for the benefit of customers.

Technological advancement is a crucial step in the process of reaching the unbanked. It started with making payment under NREGA and other Social Security Schemes to be done via technology based solutions. The

usage of speedy banking, ATM, internet banking and more specifically mobile based banking has been the thrust area for promotion of Financial inclusion in India. There is also the need to implement purely electronic payments and settlements system. In the past it has been recommended that Universal Electronic Bank Account (UEBA) should be implemented along with the issuance of Aadhar for customer identification and authentication. The mobile communication has reached remotest region of the country and it is expanding exponentially. The number of online transactions increased from around 164,470 to 1.37 million from 2006 to 2012 and it is still increasing at the same rate. The tele-density in India is 77.27 percent and the tele-density in rural India is around 50 percent. When in African countries like Kenya and Tanzania where mobile communication is far lesser than India, success of mobile based payment services has been great success. The same can be replicated on a larger scale in India and the same has been attempted by PMJDY.

12. Core Banking Services: The development in the field of communication has assisted in the implementation of core banking which has resulted in the automation of the banking sector and has resulted into spreading of the network of ATM and use of debit as well as credit card. The banking has expanded and reached far flung areas of the country.

13. Business Correspondents: The PMJDY relies heavily on the BC model for expanding the banking network in both rural and urban areas. The use of Information and Communication Technology (ICT) for banking transactions is must especially because this new mission is heavily depending on huge network of BC outlets across the country. According to RBI's Annual Report 2012-13 the proportion of ICT accounts to total accounts increased from 25% to 45% during 2010-13 and as far as use of ICT for Business Correspondents (BC) outlets is concerned although it is increasing but percentage is very low when compared with the manifold increase in the number of accounts. One most important reason for low ICT transactions is poor electricity supply in remote villages. Such infrastructural gaps need to be filled for quality financial services and integrated link between bank branches and ICT based BC outlets. Now even monitoring of BCs using ICT can be implemented so that banks can closely monitor the BCs during their course of their periodical visits to the branches. An off-Site Real Time Monitoring system, a mobile-based IT initiative which uses a combination of GPS (Global Positioning System) and GPRS (General Packet Radio Services) technologies through cell phones for monitoring the same is in place and can be effectively utilised.

14. Mobile Banking : Due to vast expansion mobile communication it is now being used by almost 60% of the population and has become part of day to day life. This includes a large section of the rural population. Mobile banking has come in handy because of very little or no infrastructure cost to the bank and no additional investment from customers. Only development of certain applications and then making customer aware about how to use it and enable them gain confidence about it use. Further initiative like National Payments Corporation of India (NPCI), a company under Companies Act, incorporated in December 2008 is facilitating the Interbank Mobile Payment Service (IMPS) which is a money transfer system through which one can transfer money to other bank accounts instantly using mobile banking, only the receiver mobile number should be registered with his bank and the money is credited to receivers account instantly. Similar such application like "Bhim" is also enabling financial transactions and assisting in financial inclusion.

15. UID or AADHAAR : It has provided an identity to all the citizens and has enabled opening of bank accounts for every resident, with his consent. It is envisaged that disbursement of social security benefits like pension, scholarships, MGNREGS wages, etc. would now be through Aadhaar enabled bank account. UIDAI is actively working with states/central ministries to designate Aadhaar enabled accounts for disbursal of all social security benefits.

16. MICRO ATM and Role of UID : Micro ATM meant to be a device that is used by a million Business Correspondents to deliver basic banking services. With the government keen on expanding financial inclusion, the Indian Banks' Association (IBA) is working out a strategy to facilitate branchless banking in

villages. Remote villages with a population of just 2,000 could get micro Automatic Teller Machines (ATM) for banking transactions.

17. Contribution of Indian Postal Services: The network of Indian postal services has been the largest among all public service departments and almost covers the entire country. Post offices are already connected with lease line/broadband etc with the power backup and it is easy to enhance further capacity rather than creating a new setup. Post offices are providing remittance facility and citizen can track the status of the transaction through the branch.

18. Challenges : Adaptation of digital technologies would require a change user behavior and most importantly mindset. So, an awareness campaign needs to be run to create awareness of the digital initiatives citing their benefits. The same is being conducted through public media like television, advertisement and through personal contact by BC and other initiatives by the banks. One of the major challenges in the adaptation of digital technologies is the issue of security. Although, there are certain regulatory norms that need to be adhered to, which certainly limits the growth of electronic transactions. Also, there is a limit to the number of payment providers that can be accommodated by merchants.

Summary

19. The slow progress in implementation of financial inclusion schemes was due to slow delivery model as it lacked supporting ICT infrastructure and also due to lack of products designed to satisfy the low income families. The reach of the financial sector to the remote or far flung areas has been increased by virtue of IT and now with the provision of uncomplicated, small, affordable products are bringing the unbanked population towards formal financial sector. Banks have also initiated efforts to reach out to unbanked population as their target customer. Internet has become a trusted source of information for vast number of users. So there is a need of building an interactive internet based system by which the banks could able to understand the queries of people living in rural areas. It can also play an important role in simplifying procedures and reducing transactions costs for banks and their clients. The use of technology and using economies of scale will, however bring down the cost of transaction to the banks and it will be a win - win position for both banks and customers. Financial inclusion and the extension of financial services to every citizen of the country is a priority for the Government. The goal of financial inclusion cannot be achieved without the help of technology.

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