Chapter – I

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Financial Inclusion has become central to Indian policy making over the past few years and various attempts have been made to expand its scope. In this regard, scope of formal financial services to the “unbanked” have a long history in independent India. The primary motive for the country to push Financial Inclusion is to free the “excluded” from the clutches of money lenders. In India, the focus of Financial Inclusion at present is confined to ensuring a bare minimum access to the savings bank account without frills to all. The committee on Financial Inclusion of Government of India has defined Financial Inclusion as “the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost” (Rangarajan’s Committee, 2008). The process of Financial Inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (Reddy, 2007).

Unrestrained access to public goods and services is the sine qua non of an open and efficient society. The Eleventh Five Year Plan has worked enough for Financial Inclusion as one of the strategies of ‘inclusive growth’. Financial Inclusion is the delivery of banking services at affordable costs to vast sections of disadvantaged and low income groups. It promotes thrift and develops habit of savings of the society and thereby strengthens the resource base of the financial institution which benefits the economy as a whole. The empirical evidence shows that countries with larger proportion of population excluded from the formal financial
system, also shows higher poverty ratios and higher inequality (Thorat Usha, 2008). As the concept of Financial Inclusion is directly related to people’s financial status, it is considered as the primary objective of many developing countries. India has gained momentum in achieving this objective especially through Pradhan Mantri Jan-Dhan Yojana (PMJDY) which was launched on 28th August 2014. The banks in this respect play an important role in serving financial needs of the common masses.

In modern times, the study of Financial Inclusion acquires significance from the perspective of inclusive economic growth. The coverage of all sectors into the financial forum is sine qua non for overall economic development. Financial Inclusion can be described as a state in which all people have access to appropriate, desired financial products and services. “Without access to appropriate banking services, affordable credit, accessible savings products, money advice or insurance, they are faced with making financial decisions that often result in greater financial hardship and over indebtedness”.

The study of Financial Inclusion would be incomplete without the study of Financial Literacy. The need for financial literacy is felt in the developed and developing countries alike. Only Financial literacy can provide individuals and Ministry of Micro, Small and Medium Enterprises (MSMEs) information about the quantity and quality of credits available to them which is very essential for the success of Financial Inclusion measures. As pointed out by Raguram Rajan, Former Reserve Bank of India Governor, Government of India, lack of credit information both upfront as they are being evaluated for credit and after lending where the lender has to monitor them is one of the difficulties faced by poor people and small businesses.
Financial Inclusion is expected to make significant changes in the economy, especially the rural economy, which is expected to witness a revolution in availability of financial instruments mainly because of PMJDY, gold monetization scheme and Micro Units Developments and Refinance Agency (MUDRA).

Financial Inclusion enables improved and better social development in an equitable manner across the country. It enables empowerment of the under-privileged and poor, including women, with the mission of making them self-sufficient and well informed to take better financial decisions. The objective of Financial Inclusion is to ensure universal access to a wide range of financial services like savings and payment account, credit insurance and pensions. Further, Financial Inclusion also aims to provide services for business opportunities, education, and savings for retirement and insurance against risks including emergency loans. The process of Financial Inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (Reddy, 2007). Access to financial services promotes social inclusion, builds self-confidence and empowerment.

As the purpose of Financial Inclusion is to provide low cost banking services and facilities to poor section and those who are financially excluded, most of the bank accounts are opened with zero balance. Debit card facility is also very helpful to poor people so that they can withdraw money at any time, at any place. According to the trusted website of PMJDY, as on 23rd December 2016, out of 26.00 crore accounts opened, 23.86% accounts have been opened with zero balance, 19.93 crore debit cards have been issued by all banks including a public, private and rural regional bank which shows that banks are achieving their targets of Financial Inclusion. According to census report of 2011, out of total population only 58% population have access to
banking services and remaining 42% do not have access to banking services, which shows that there is long road ahead to travel for Financial Inclusion.

1.1 The status of Financial Inclusion in India

India has been ranked poorly in the first-ever index of Financial Inclusion prepared by the Indian Council of Research on International Economic Relations (ICRIER). However, the usage of banking system in terms of volume of credit and deposit seems to be moderately high. Financial Inclusion, though well recognized as a means for achieving economic development is constrained by several factors in India. What is needed is that the banking technology initiatives meant for Financial Inclusion should be collaborative and innovative with an objective to reduce the transaction costs. Awareness should be created on the part of the rural farm households through mass propaganda and attempts to be made on the part of the government. Increased banking network by the Commercial banks and Regional Rural Banks particularly in unbanked blocks, effective functioning of agency banking and increased coverage under mobile banking and satellite banking are worth mentioning practices in India. As a major step towards Financial Inclusion in an effective manner, 1.5 Crore bank accounts were opened on the day of inauguration of PMJDY that is 28th August 2014.

An increasing body of evidence shows that appropriate financial services can help to improve individual and household welfare and spur small enterprise activity. Different types of financial products can benefit poor people in different ways.
- **Credit**: Microcredit helps to encourage investments into assets that enable business owners to start or expand small enterprises. In many countries, it has been demonstrated that access to credit can lead to larger and more profitable businesses. For example, with access to credit, farmers can invest in larger quantities or more diverse livestock; the owner of a market stall can purchase more wares to sell; an artisan can acquire more raw materials.

- **Savings**: Building savings help households manage cash flow spikes and smooth consumption, as well as build working capital.

- **Insurance**: Vulnerability to risk and the lack of instruments to cope with external shocks make it difficult for poor people to escape poverty. Micro-insurance can be an important instrument for mitigating risk. Weather-based index insurance helps farmers by giving them the confidence to try riskier cash crops, buy fertilizer, or hire labour. For instance, with index insurance, farmers are less vulnerable in the face of drought or natural disaster.

- **Payments and mobile money**: Having an efficient way of making payments reduces households’ transaction costs. Rather than travel long distances, people have the ease of doing business on their mobile phones.

  Research also shows that more inclusive financial markets are directly linked with economic growth and employment. Additionally, policymakers increasingly recognize that a financial market that reaches all citizens allows more effective execution of other social policies and development priorities.

  The National Mission on Financial Inclusion or Pradhan Mantri Jan DhanYojna was started by Ministry of Finance, Department of Financial Services, Government of India, with a wide vision to provide access to banking facilities to
those people who are not having any bank accounts or still unbanked from formal banking sector. And through this scheme, they can also be involved in banking sector which is necessary for economic development and for the welfare of poor people. Under this scheme, people will get basic bank accounts with insurance facility and an additional facility of overdraft. Thus, they will avail benefits offered by banks and facilities provided by government and will be able to develop small savings habits among them, and it will enhance capital formation which will result in increased economic development of country. The details of the schemes of Government of India to achieve maximum financial inclusion are discussed below.

**Pradhan Mantri Jan-DhanYojana (PMJDY)**

The scheme envisaged provision of banking outlets and a Basic Savings Bank Deposit (BSBD) account to every household by 26.01.2015. BSBD can be opened with zero balance. The target group under the campaign would be the household which could not open their account so far. In order to ascertain the uncovered households in villages/wards allocated to a bank, a survey was conducted and arrived at 100 per cent saturation was envisaged by 26-1-2015. These Financial Inclusion customers are also to be provided with Rupay Debit cards which have an in-built accidental insurance cover upto INR 1 lakh. It provides for overdraft facility after 6 months of satisfactory conduct of account.

**Pradhan Mantri Suraksh aBimaYojana (PMSBY)**

It is a scheme offering accident insurance cover for death and disability (both total and partial) on account of accident. The insurance scheme is for 1 year cover subject to annual renewal and for a maximum of INR 2 lakhs. The age category is 18
years and 70 years. For partial disablement the policy amount repaid is INR 1 lakh and for death INR 2 lakhs. The premium amount is INR 12/- which includes an administration cost of INR 2/-.

This scheme will be linked to the bank accounts opened under the PMJDY scheme. Most of these account had zero balance initially. The government aims to reduce the number of such zero balance accounts by using this and related schemes. Now, all Bank account holders can avail this facility through their net-banking service facility at any time of the year.

**Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**

PMJJBY is available to people between 18 and 50 years of age with bank accounts. This is a type of team insurance. It has an annual premium of INR 330 which includes an administrative cost of INR41/-. The Service tax is exempted on PMJJBY. The amount will be automatically debited from the account. In case of death due to any cause, the payment to the nominee will be INR 2 lakhs. The policy gets terminated at the age of 55 years of the policy holder.

**Atal Pension Yojana (APY)**

APY is open to all bank account holders. The central Government would also co-contribute 50 per cent of the total contribution or INR 1000 per annum, whichever is lower to each eligible subscriber, for a period of 5 years, i.e from financial year 2015-16 to 2019-2020 who join the APY before 31st December 2015 and who are not members of any statutory social security scheme and who are not income tax payers. Therefore APY will be focused on all citizens in the unorganized sector. Under APY, the monthly pension would be available to the subscriber and after him to his spouse
and after their death, the pension corpus, as accumulated at age 60 of the subscriber
would be returned to the nominee of the subscriber. Under the APY the subscribers
would receive the fixed minimum pension of INR 1000 per month, INR 2000 per
month, INR 3000 per month, INR 4000 per month, INR 5000 per month at the age of
60 years depending on their contributions which itself would be based on the age of
joining the APY. Therefore, the benefit of minimum pension would be guaranteed by
the Government. However, if higher investment returns are received on the
contributions of subscribers of APY, higher pension would be paid to the subscribers.
A subscriber joining the scheme of INR1000 monthly pension at the age of 18 years
would be required to contribute INR42 per month. However if he joins at age 40, he
has to contribute INR 91 per month. Similarly, a subscriber joining the scheme of
INR5000 monthly pension at the age of 18 years would be required to contribute
INR210 per month. However if he joins at the age of 40, he has to contribute
INR1454/ per month. Therefore, it is better to join early in the scheme. The
contribution levels, the age of entry and pension amounts are available in a table
given in frequently asked questions on APY.

1.2 Statement of the Problem

In recent years, financial literacy has gained the attention of wide range of
bankers, academicians, public, government agencies and community interest groups.
Banks have increased their branches manifold with more emphasis on metro and
urban centres. India being a rural economy, it is apparent that the proportion of
unbanked remains large. In this context, government has been attempting to expand
the reach of the formal banking sectors to the under privileged and unbanked sections
of the society with series of measures.
Financial Inclusion, no doubt ensures the availability of the banking services to those who are not having formal financial institutional support and saving them from the clutches of the money lenders. The government started Regional Rural Banks as the first step in the Financial Inclusion policy. Reserve Bank of India allows opening of accounts with nil balance or minimum balance. Reserve Bank of India has further relaxed KYC norms. NABARD’s contribution towards the Financial Inclusion policy is SHG-Bank linkage programme, KisanCredit Card, Micro Insurance Scheme, Micro Credit Scheme and Micro Pension Scheme. As a corollary, Government of India introduced PMJDY, a land mark scheme to strengthen Financial Inclusion policy. Against this backdrop, the researcher attempts to study Financial Inclusion through PMJDY in the study area.

1.3 Objectives of the study

The objectives of the study are as follows:

i. To study the respondents’ awareness and opinion about PMJDY in the study area.

ii. To analyze the factors determining Financial Inclusion.

iii. To understand the existing alternate channels of State Bank of India available to respondents to promote PMJDY.

iv. To list out the problems faced by the respondents and offer suggestions for improvement.

1.4 Hypotheses

The hypotheses of the present study are as follows:

1. There is no relationship between the awareness of the scheme and education of the respondents.
2. There is no significant relationship between socio-economic factors and level of satisfaction towards Business Correspondents (BCs).

3. There is no significant relationship between financial factors and encouragement by bank in opening accounts.

4. There is no significant relationship between socio-economic factors and level of satisfaction of dealing with bank.

1.5 Methodology

The study is based on both primary and secondary data. Simple random sampling method has been employed by the researcher to identify the potential respondents. The relevant data has been collected through interview schedule from the respondents. The secondary data relating to present study has been collected from sources such as specific banking journals and reports along with web surveys.

As far as Tiruchirappalli module of State Bank of India is concerned, there are four regions, of which, Region-I is purely urban covering Tiruchirappalli, Region-II covers areas such as Pudukottai and Sivaganga, Region-III includes areas such as Thanjavur and Nagapattinam and Region-IV which covers Karur, Perambalur and Ariyalur. Among the four regions of State Bank of India Tiruchirappalli module, Region IV was purposively chosen as PMJDY is effectively implemented with sizeable number of Business Correspondents (BCs) in the study area and State Bank of India Kulithalai in Karur District is designated as “Financial Inclusion Centre (FIC)”.

The sample respondents hail from Kulithalai, Karur District. Kumaramangalam, Rajendram, Sathiyamangalam and Panikkampatti come under the operational area of Kulithalai having sample size of 593, 411, 672 and 331
respectively and proportionate random sampling of 59, 41, 67 and 33 respectively has been done. Based on households coming under low income groups, samples were taken for present study. It was found from the available records that as many as 2007 accounts were opened under PMJDY by the public of which 200 respondents which is 10% of total population were taken as sample by employing Random Sampling Method.

1.6 Reference Period

The present study pertains to the various aspects of the study on PMJDY with reference to SBI, Kulithalai. The data relating to Financial Inclusion is with reference to Phase II of PMJDY. covering the period ranging from 15.08.2015 to 14.08.2018.

1.7 Statistical Techniques

In order to find out the relationship between the factors affecting Financial Inclusion in study area, simple and multiple Correlation and Regression technique has been employed. Garret ranking technique has been applied to rank the order of severity of constraints and appropriate suggestions. ANOVA has been used to test the hypothesis regarding opinions polled by respondents. Fuzzy Multi decision model has been used to determine the ranking of various factors affecting the present study.

1.8 Limitations of the Study

The present study confronted with some limitations that are inevitable. These are as follows:

- The primary data were collected from the respondents during their very limited leisure hours.
• The researcher was constrained by the time and cost factors.

• The study on financial inclusion through PMJDY depends on numerous factors and wide range activities performed. It is a daunting task to quantitatively estimate the behavioural aspects.

• Regarding financial information and other sources, most respondents prefer to maintain the secrecy. This has led difficulties for the researcher to collect primary data.

• Their expressed beliefs over stated preferences from surveys have been designed carefully to avoid systemic biases and misunderstandings on their notions on behaviour.

• The bias and prejudices on the part of the respondents were also form part of the limitations of the study.

1.9 Chapter Scheme

The chapters in the thesis have been arranged in the following manner.

1. Introduction.


4. Profile of the study area.

5. Data Analysis and Interpretation.

6. Summary of findings, policy implications and conclusion.