

Financial inclusion and people perception: A gap analysis and solutions post phase I of Pradhan Mantri Jan Dhan Yojana in selected states of India

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Abstract- This paper is an attempt to understand the status of financial inclusion in India after the phase I of Pradhan Mantri Jan Dhan Yojana by comparing the perspectives of the government publications and the citizens of the country in selected states of Jammu and Kashmir, Himachal Pradesh, Punjab, Haryana and Chandigarh. The results indicate a gap between government objectives and ground reality. The e-lobby/e-corner is identified as a cost effective solution to the problem of financial inclusion.

Keywords: Financial Inclusion, Pradhan Mantri Jan Dhan Yojana, e-lobby, e-corner

I. INTRODUCTION

Indian Prime Minister categorically declared that a bank account for each household was a "national priority" when the Pradhan Mantri Jan Dhan Yojna was launched. A study titled "Government Policy for Financial Inclusion and People Perception: A Gap Analysis and Solutions Post Phase I of Pradhan Mantri Jan Dhan Yojana in Selected States of India" to evaluate the status of this national priority.

Financial inclusion may be defined 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 (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). It is measured as the percentage of the population with access to formal financial services.

The study was undertaken with the objectives: To identify the gaps between government policy and people's perception through supply side survey of financial inclusion, demand side survey of financial inclusion and

comparative analysis of supply and demand side; To devise

a cost effective mechanism for banks to serve the remotely located rural household with an accessible banking by comparing the costs of setting up a new brick and mortar bank branch and an e-lobby.

II. RESEARCH METHODOLOGY

The study covers four states- Punjab, Haryana, Himachal Pradesh, Jammu and Kashmir and one union territory- Chandigarh. People from the economically weaker sections of the society represent the demand side of financial inclusion and the demand side survey is done through researcher administered questionnaire (dichotomous scale). The questionnaire was based on four variables-access, quality, usage and welfare. These four variables were stated as the components of financial inclusion by the Alliance for Financial Inclusion (AFI). In the questionnaire, each variable had four statements. These are used as lenses through which financial inclusion can be defined. The government policy and banks represent the supply side of financial inclusion. The secondary data is used for supply side survey. The study also compares fixed and operational costs incurred by a bank in setting up a full-fledged new branch office in a rural area vis-à-vis setting up of all purpose 'e-Lobby' at a common place in a village. Cluster sampling technique with random sample approach was used.

For the collection of data regarding the costs and benefits of setting up a new brick and mortar bank branch and an e-lobby, information was collected from different leading banks. Discussions with the managers of the leading banks about the past experience in about branch expansion and technology initiatives implementation plan were held.

The information collected by the questionnaire was entered in IBM SPSS Statistics. Data analysis was done by applying statistical tests like chi square and descriptive tests.

III. DESCRIPTIVE STATISTICS

In the survey the study of respondents’ demographic data was vital, because these data could further help to understand and study the perceptions of respondents towards the financial inclusion. The data is normally distributed and represents a comprehensive scenario.

Gender: Responses have been collected from male and female. There were 58% male and 42% female respondents.

Age: Majority of the respondents were adults. 20-60 year old respondents accounted for 77% respondents.

Educational qualification: 57% respondents had at least passed the class Xth examination, whereas 19% respondents had merely attained pre-primary or no

education.

Monthly Income: Out of total respondents, 45% of respondents had monthly income of Rs. 1,000-10,000, 28% had Rs. 10,000-20,000 income, and 12% had Rs. 20,000-50,000 income, 4% had income above Rs. 50,000, whereas 11% of respondents had income below Rs. 1000.

Occupation: 43% respondents were self employed, 19% were government employees, 13% were farmers, and rest of the respondents were private employees, retired and students. However 8% were unemployed.

State: There were 100 respondents in total, out of which 29% respondents were from Haryana, 22% respondents from Jammu and Kashmir, 19% respondents from Chandigarh, 15% respondents from Himachal Pradesh and Punjab.

infrastructure and connectivity constrains like parts of North East, Himachal Pradesh, Uttarakhand, Jammu and Kashmir and 82 Left Wing Extremism (LWE) districts are not included in the objectives of Phase I of Pradhan Mantri Jan Dhan Yojana. These exceptions of the Pradhan Mantri Jan Dhan Yojana scheme have been ignored. There is a gap between the perceptions of the policy makers, providers of formal finance sector (supply side) and the perceptions of the citizens (demand side).

IV. RESULTS

The results show that the objectives of the Phase I of the Pradhan Mantri Jan Dhan Yojna are not achieved. A considerable number of the households are unbanked and the new Pradhan Mantri Jan Dhan Yojana has not been able to offer banking facility within 5 kilometres to every household affordably. It is stated that some areas with

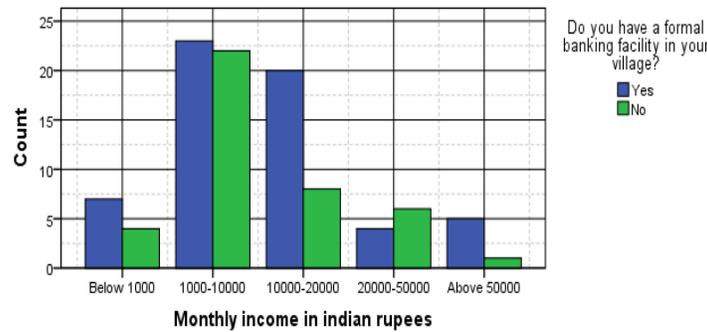


Figure 1 Monthly Income* Do you have a formal banking facility in your village?

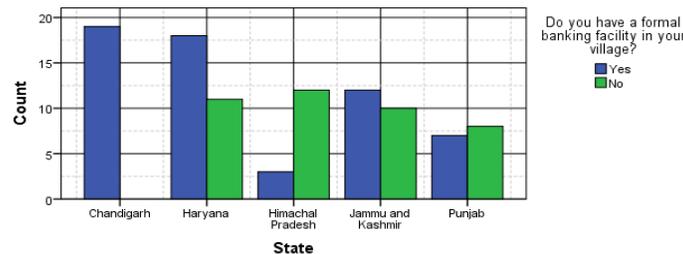


Figure 2 Monthly incomes* Do you have a formal banking facility in your village

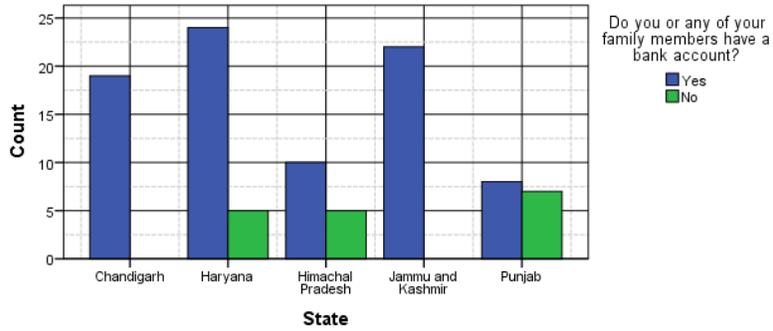


Figure 3 State* Do you or any of your family members have a bank account

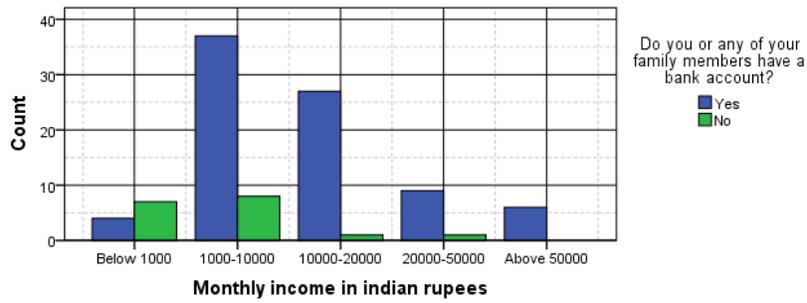


Figure 4 Monthly incomes* Do you or any of your family members have a bank account

- 67% respondents know that the Indian Government is providing zero balance bank accounts with overdraft facility and other benefits for poor people, whereas 33% respondents were not aware of such scheme.
- 59% respondents stated that they have formal banking facility in their village, whereas 41% respondents stated that they don't have formal banking facility in their village.
- Households of 83 % percent respondents had a bank account, whereas households of 17% respondents did not.
- 8% respondents had a formal banking facility in their village but they don't have a bank account.
- 2% respondents knew about the no-frills account facility and had a formal banking facility in their village still they don't have a bank account.
- 6% respondents had a banking facility in their village but they didn't know about the no-frills account facility and they don't have a bank account.
- According to the statistics of these selected states and union territory, there are 3959 rural banking centres as per Reserve Bank India-BSR 2014. As per the data collected from the respondents, there is only 59% population which is covered by these banking centres.
- If we have a look on the published statistics of all over India there is only 7.1% coverage which means only one bank branch per 14 villages.
- According to a report published by the RBI regarding Pradhan Mantri Jan DhanYojna, 99.99% households are to be financially included under the scheme. As per demand side survey there are 17% households which still don't have a bank account in the selected states.
- 8% respondents of these states don't have a bank account because they are not aware of the scheme of No-Frills accounts, though they have a banking facility in there villages.
- 66% population feels that the banking services are costly, and 58% population thinks that the products and services offered are not according to the requirements.

TABLE 1 SUMMARY OF THE NOTE-WORTHY RESPONSES

Questions	Frequency	
	Yes	No
Is the physical distance between your dwelling place and the nearest banking point more than 5 km?	34	55
Are banking services and products costly?	66	20
Do the existing banking products and services fulfill your needs?	34	51
Is it difficult to avail formal banking facility?	62	23
Are the currently available financial services or products relevant to your lifestyle needs?	25	58
Are the products developed/ designed according to your requirements?	27	57
Do you prefer using an ATM than a brick and mortar bank branch?	66	18
Do you transact with the bank more than once every month on an average?	65	19
Do you use the banking facility only at a particular season of the year?	15	68
Have you had a bank account for more than 6 months?	80	4
Have you developed a habit of saving after opening a bank account?	62	21
Do you think you are financially more able after having a bank account?	70	14
Have you benefitted from formal banking facility in any way?	75	9
Do you prefer banking because it offers security of money?	77	6

TABLE 2: SUMMARY OF THE SIGNIFICANT ASSOCIATIONS OF DEPENDENT VARIABLES AND INDEPENDENT VARIABLES

Dependent variable	Independent variable	Likelihood ratio chi-square test (LR)			Cramer's V : measure of strength of dependence/association		
		LR	Df	p	Value	p	Comment
Having a bank account	Monthly Income	19.506	4	0.001	.470	.000	Extremely good association
	State/Region	24.692	4	.000	.454	.000	Extremely good association
	Occupation	22.185	6	.001	.510	.000	Extremely good association
Welfare	Monthly Income	35.404	16	0.003	0.378	.000	Very strong association
Preference for an ATM over a brick and mortar bank branch	Gender	8.134	1	0.004	-0.29 ^a	0.008 ^a	A significant weak negative association
	Educational Qualification	29.079	6	0	0.553	.000	Extremely good association
	Occupation	21.219	6	0.002	0.49	0.003	Extremely good association
	State	25.009	4	0	0.523	0	Extremely good association
Financial Access	Monthly Income	35.955	20	0.016	0.325	0.003	Strong association
	State	59.643	20	0	0.38	0	Very strong association
Quality of financial services	State	29.666	16	0.02	0.262	0.097	Moderately strong association
Usage of Financial services by the respondents	Gender	11.728	4	0.019	0.32	0.072	Strong association
	Educational Qualification	39.36	24	0.025	0.337	0.033	
	Monthly Income	33.801	16	0.006	0.32	0.005	
	State	34.668	16	0.004	0.331	0.002	

a. Cramer's Phi

- Although the Indian Government has come up with the new policy, but a lot needs to be done to attract the financially non-included citizens. The presence of people who choose not to avail the available facility of formal banking proves loopholes that need contemplation on the part of the policy making authorities.
- The question now arises that how to provide Banking services to this hitherto unbanked population of the country? The Business Correspondent (BC) channel is not fruitful to the extent it was envisaged, as majority of them are not effective due to low volume -less remuneration.
- To make the people opt formal banking facility, the distance between their dwelling place and banking centre has to be minimized at affordable costs. Financial literacy needs to play the major role in increasing the peoples' confidence in formal banking structure.
- It was observed in the structured interviews that the respondents in Himachal are ignorant about the overdraft facility of the zero balance bank accounts under Pradhan Mantri Jan Dhan Yojana but the respondents in Haryana had better knowledge about it. The respondents also expressed the inconvenience caused as they have to take an off from the jobs

at the loss of one day's salary in order to visit the nearest bank branch situated far away.

- The poorest live merely from hand to mouth. They do not have spare money to deposit in the banks. The overdraft facility cannot be availed by such population without depositing money regularly under Pradhan Mantri Jan Dhan Yojana. On the other hand, this facility is irrelevant for the well to do population as the maximum amount of overdraft (₹5,000) is too less for them. The respondents seemed to increase the usage of banking facility after the introduction of nearby recyclers.

V. SUGGESTIONS

New E-lobbies are less expensive than new brick and mortar bank branches and offer the basic services and will play an important role in increasing the financial inclusion. It is a gift of modern technology which is a boon to the banks. The use of biometric authentication enabled E-lobbies is recommended as a cost effective solution to the problem of financial inclusion. Retina scan is more secure and recommended for Unique Identification enabled bank accounts than fingerprints/thumbprints.

VI. LIMITATIONS OF THE STUDY

The study was based in the northern part of country. The sample size of 100 respondents represents a margin of error of 9.8 at 95% confidence level. The Pradhan Mantri Jan Dhan Yojana must be studied after regular intervals to keep a check on the progress and effectiveness of the scheme. A more comprehensive study can be conducted including all the states of India having a larger sample size that represents a more comprehensive picture of the population.

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