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Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.ror.isrj.org

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FINANCIAL INCLUSION AND JAM TRINITY

Shankar Jyoti Doley[1] , Ritesh Kumar[2] and Manas Pratim Swargiary[3]
[1]Assistant professor (adhoc),Department of Commerce, Delhi University.
[2]Assistant professor (adhoc) , Motilal Nehru College (E)
[3]Assistant professor (adhoc) , Gargi College.

ABSTRACT :

Since independence India has seen many phases in its economic and social growth graph and it is still in developing stage. In search of better welfare and inclusive growth, the Government has been constantly planning and initiating different schemes, yojanas at different level. India has seen twelve five year plans before it has given its way to recent NITI ayog. Financial inclusion is one of the most important scheme of Government of India for inclusive growth and eradication of poverty. Regional balance growth would not be possible if most of the population are outside the purview of financial system. Government of India along with RBI has been constantly trying to bring everyone into formal financial system. But the consequences have not been upto the mark. On this paper we will focus on JAM trinity's potential in financial inclusion.

KEY WORDS: *Financial exclusion, JAM trinity, Mobile banking, Direct Benefit Transfer.*

INTRODUCTION:

The growth of Indian economy has been encouraging and progressive. To sustain a growth and development of the economy and to achieve further growth, maximum possible number of population has to participate in the formal financial system. Financial exclusion is one of the main cause of poverty. Lack of opportunities and access to finance besides financial illiteracy are the main causes of financial exclusion. Development in banking technology, simplification of banking procedures, booming internet service, increased smart phone penetration and of course with Government initiative, inclusive growth by bringing every citizen within the purview of formal financial system is not something unachievable. But still the formal figure who are actually participated or into formal financial system is either too low or concentrated in few capital cities.

OBJECTIVE OF THE STUDY

This research paper following objectives:

- To understand the financial inclusion and its importance.
- To find out the approaches of banks, RBI and other regulatory bodies and government initiatives to achieve financial inclusion.
- To find out JAM trinity's impact on financial inclusion
- To find out achievement so far.

CONCEPT AND DEFINITION OF FINANCIAL INCLUSION

The financial inclusion concept was initiated by Reserve Bank of India to bring the financially excluded segments of the society into formal financial system in 2005. In 2011, the Government of India under Prime minister Manmohan Singh, gave a serious push to the programme by launching the " Swabhimaan " campaign to cover over 74,000 villages, with population more than 2,000 with banking facilities.The Rangarajan Committee 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." (2008). It includes access to banking services, credit, insurance, savings and assets, money advice and financial literacy and capability. According to the Planning Commission (2009), financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

GOI (2008) defines 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.* Financial Inclusion means everyone is given accessfinancial service at reasonable cost. Financial services means banking facilities, credit facilities, and Investment opportunitiesinsurance facilities. Banking facilitiesinclude Savings & payment through ATM, cheques, e-transfer etc. Credit facilities are loans and borrowings at affordable interest rate. Investment opportunities are access to Mutual Fund, debentures, equity, pension scheme etc.Insurance facilities include life insurance plan, general insurance, health insurance plan etc.

IMPORTANCE OF FINANCIAL INCLUSION

When people have access to financial services, they can insure their social life against any future contingency, make savings thereby creating wealth. Financial inclusion develop a culture of savings among the large section population. Savings spur investment and credit. Thus financial inclusion has its own role in growth and development of a nation. Providing access to financial services is one of the best way to reduce income inequality among the masses.Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.Financial inclusion enables improved and better sustainable economic and social development of the country. Economic well-being of the poor people ensures social harmony. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions.

FINANCIAL INCLUSION THROUGH JAM TRINITY

JAM is abbreviated form of Jan Dhan Yojana, Aadhaar and Mobile phones.These three things are now often called the Trinity of reforms in India. JAM trinity is an initiative of Government of India to plug leakages of Government subsidies. By linking bank account, aadhaar and mobile number Government of India is attempting one of the biggest pieces of reform ever attempted i.e.direct subsidy transfer to beneficiary. To ensure a minimum standard of living for the poor and rural masses Government of India has been running large number of subsidiary schemes. A flagship employment guaranteed scheme MGNREGA, operated through the panchayats, which provide minimum 100 days employment and gives minimum wages to rural workers. The Centre and States supply rice, wheat, pulses, sugar and kerosene at heavily subsidised prices through the Public Distribution System. These subsidies schemes cost the exchequer quite a bit. But the very purpose of such schemes are defeated or very low effectiveness due to intermediaries, leakages, corruption.Direct Benefit Transfer (DBT) or Cash transfers can improve the living standard of India's poor, and raise economic efficiency by reducing leakages, corruption and market distortions. To transfer benefits to poor masses, Government must be able to identify the actual beneficiaries, Government must be able to transfer money to actual beneficiaries, Beneficiaries must be able to easily access theirs money. It is here that the government is confident that the three constituents of JAM could be of immense help. So Government of India has proposed The JAM trinity in the Economic Survey of 2014-15. With Aadhaar helping in direct biometric identification of actual beneficiaries and Jan Dhan bank accounts and mobile phones allowing direct transfers of funds into their accounts, it may be possible to cut out all the intermediaries. So financial inclusion is a necessity to raise the standard of living of poor population. The three constituents of JAM trinity has very strong potential to transfer benefits to intended people without leakages and corruption by intermediaries. Let's focus on the power of the trinity one by one.

JAN-DHAN YOJANA

The penetration of financial services in the rural areas of India is very low. The reasons for lower penetration of financial services in rural areas may be due to low demand for financial services. The low demand of financial services could be due to low income level, lack of financial literacy, no bank branch in the vicinity, lack of suitable products meeting the needs of the poor people, complex processes and language barriers etc.In order to ensure financial inclusion various initiatives were taken up by Reserve Bank of India and Government of India like

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Nationalization of Banks, Expansion of Banks branch network, Establishment & expansion of Cooperative and RRBs, Introduction of PS lending, Lead Bank Scheme, Formation of SHGs etc. Census 2011 estimated that out of 24.67 crore 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.The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 43,962 branches (38.2%) and 23,334 ATMs (14.58%) are in rural areas. Moreover, there are more than 1.4 lakh Business Correspondents (BCs) of PublicSector Banks and Regional Rural Banks in the rural areas. BCs are representatives of bank to provide basic banking services i.e. opening of basic Bank accounts, Cash deposits, Cash withdrawals, transfer of funds, balance enquiries, mini statementsPradhan Mantri Jan-Dhan Yojanawas launched by the Prime Minister of India Narendra Modi on 28 August 2014 to give more push for financial inclusion. Pradhan Mantri Jan-Dhan Yojana(PMJDY) is India's National Mission for Financial Inclusion to ensure access to financial services, namely Banking Savings & Deposit Accounts, Remittance, Credit, Insurance, and Pension in reasonable cost. PMJDY focuses on following- (source: https://pmjdy.gov.in)

- Focus on household, Sub Service Area (SSA) for coverage of the whole country
- Both rural and urban Fixed point Bank Mitra (Business Correspondent) in each Sub service Area comprising of 1000-1500 households
- Only online accounts in Core Banking System of the Bank
- Account opening to be integrated with DBT, credit, insurance and pension
- Inter-operability through RuPay Debit Card, Aadhaar Enable Payment System etc.
- Mobile wallet and USSD based mobile banking to be utilized
- Simplified KYC/e-KYC in place as per RBI guidelines
- Financial Inclusion campaign in Mission Mode with structured monitoring mechanism at Centre, State and District level.
- The rural branches of banks to have a dedicated Financial Literacy Cell
- State level & District level monitoring committees to be set up
- Grievance redressal at State Level Bankers Committee in respectivestate.

As on May, 2016, total number of accounts opened under PMJDY by Public Sector Banks was 17.23 crore in the entire country. Accounts opened in rural areas under Pradhan Mantri Jan-Dhan Yojana (PMJDY) by Public Sector Banks was 96345344, which was 55.91% of total number of accounts opened under PMJDY by Public Sector Banks. Total number of accounts opened under PMJDY by Private Banks was 8.2 crore as on May, 2016. Of which rural areas accounts for 61.78 percent. Regional Rural Banks has opened approximately 3.8 crore accounts under PMJDY of which 85.89 percent belong rural masses. The success of Pradhan Mantri Jan-Dhan Yojana is a huge leap for financial inclusion. Thus bringing almost every family under formal financial system.

AADHAAR

The Unique Identification project was initially conceived by then Planning Commission as an initiative that would provide a clear and unique identity number for each resident across the country. The unique identity number would be used primarily as the basis for efficient delivery of government welfare services. Aadhaar is a 12-digit unique identification number issued by the Indian government to every individual resident of India. The Unique Identification Authority of India (UDAI) which is Government of India agency, is responsible for managing Aadhaar numbers and Aadhaar identification cards. The unique identification number capture all the details, including demographic and biometric information of every Indian citizen.UIDAI have issued first Aadhaar number on September 29 2010. Till October, 2015, it has till date generated more than 92.68 crore Aadhaar. With the unique aadhaar number now identification of legitimate beneficiaries is simpler. The Ghost and duplicate names of beneficiaries are eliminated.

MOBILE PHONES

Mobile is no longer just a mode of communication. .With the advent of new technologies, telecom is now enabling healthcare, education, financial inclusion and much more. It has the capacity to be a connecting platform between the government and citizens as well. There are almost 900 million mobile phone users in India. According to report from Cisco titled "VNI Mobile Forecast 2015 -2020", suggests that the number of Smartphone users in India grew to 239 million by the end of 2015 surpassing the USA for the first time ever. Nearly, 60% of the of total internet users in India have an access to the internet on their mobile phones. The rapid growth of mobile phones penetration can be attributed to falling cost of handsets, coupled with improved usability and increasing network coverage. Almost all Indian banks have adopted mobile phone as a media for banking services. Mobile phone would be one of the most important technology to provide banking services to large unbanked area.Use of Mobile phones will help banks penetrate into the hinterland with a negligible investment and be a win-win situation for both banks and customers. To promote branchless banking mobile phone will be one of the greatest tool.Mobile Banking is one of the most remarkable developments in terms of innovation in order to harness the full power of technology, the banks have tied up with mobile operators to provide financial services like bill and utility payment, fund transfer, ticket booking, shopping etc. Some examples of this model are m-Pesa by Vodafone and Airtel Money. Banking through mobile phones will be the fastest road to bring every citizen under formal financial system.

CONCLUSION

The combination of bank accounts, aadhaar and mobile phones or JAM trinity can work wonder towards financial inclusion if proactive steps are taken. JAM Trinity is one of the key reforms undertaken to deliver the Direct Benefit Transfer (DBT) scheme, including subsidies, minimum wage payments for various government schemes i.e. MGNREGA and other payments.Direct Benefit Transfer was initiated by Government of India in 2013 aiming to transfer subsidies directly to the people through their bank accounts. It is hoped that crediting subsidies into bank accounts will reduce leakages, delays, etc. But there were still gapswhich led to leakages and an inefficient payment system that hindered the wide-spread implementation of the scheme. The combination of Jan Dhan account, aadhaar and mobile phone (JAM) makes it easier to identify the actual poor beneficiaries and effectively deliver DBT. The impact of JAM trinity is huge. Magnitude of JAM can be gauge from economic survey of India. According to the Economic Survey, about 4.2 per cent of the GDP, which works out to approximately ₹ 3.78 lakh crore is spent on different key subsidies. As of March 2015, there were more than 227 million beneficiaries under 36 different schemes, who were a part of the DBT programme. But due to number of inefficiencies in the system, the DBT could never attain a national scheme status. Several measures are taken to plug these gaps under JAM Trinity to build an effective and robust delivery mechanism for DBT benefits. The objectives of Government to Implement DirectBenefit Transfers (DBT) at large- scale and inreal-time to raise economic efficiency by reducing leakages and market distortions, can be achieved through JAM trinity. Aadhaar is answer to Government question/difficulties to identify real beneficiaries. Government intention to transfer money to beneficiaries can be achieved through aadhaar link bank account Jan-Dhan). Lastly nut not least, through mobile technology or mobile banking beneficiaries can easily access the transferred money.

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Shankar Jyoti Doley
Assistant professor (adhoc),Department of Commerce, Delhi University.