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Pradhan Mantri Jan Dhan Yojana (Pmjdy): A Leap towards Financial Inclusion in India

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Abstract:

Financial inclusion has been a buzzword for the policymakers and governments for a long time. Despite tremendous growth of banking sector in India both horizontally and vertically, a large section of Indian population continues to remain unbanked even after attaining 67 years of our Independence. To address the issue of financial exclusion and long drawn financial sufferings, Prime Minister Narendra Modi announced a new scheme in his Independence Day speech on 15th Aug 2014, and called it as the National Mission on Financial Inclusion (NMFI) for weaker section and low income groups. While launching the Pradhan Mantri Jan Dhan Yojana on 28th Aug 2014, the Prime Minister commended the Banks, in particular, for having managed to open a record 1.5 crores new accounts on the inaugural day itself. This effort will certainly go a long way in promoting economic growth and reducing poverty, while mitigating systematic risk and maintaining financial stability. The present paper endeavours to study the recent trends in financial inclusion in India with special reference to Pradhan Mantri Jan Dhan Yojana (PMJDY), highlighting its key areas and suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas.

Keywords: Pradhan Mantri Jan Dhan Yojana, Financial Inclusion, RBI Initiatives, Financial stability, Sustainable economic growth

I. INTRODUCTION

Despite making significant improvements in the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. Attempts have been made by the policymakers and 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. Without Financial Inclusion we cannot think of economic development because a large chunk of total population remains outside the growth process. 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.

Bringing every household within the grasp of the banking system there has been an ongoing process started a decade ago. However, the present Indian government has packaged it in a mission mode and made it an achievable target. In order to reduce the degree of "financial untouchability" the new government has come up with a big bang action plan which is popularly known as "Pradhan Mantri Jan-Dhan Yojana". It"s a mega financial inclusion plan with the objective of covering all households in the country with banking facilities along with inbuilt insurance coverage. The purpose is to accelerate growth, fight poverty effectively and to empower the last man in the last row in Indian economy.

The policy makers in India have been focusing on financial inclusion of rural and semi-rural areas, primarily for three most pressing needs:

1. Creating a platform for inculcating the habit to save money – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aim at providing a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc.

2. Providing formal credit avenues – So far the unbanked population has been vulnerably dependent on informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.

3. Plug gaps and leaks in public subsidies and welfare programmes – Government therefore is pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government's subsidy bill (as it shall save that part of the subsidy that is leaked) and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all.

II. OBJECTIVES OF THE STUDY

1. To examine the progress of Financial Inclusion Initiatives in India.
2. To study the changing trends in financial inclusion with special reference to Pradhan Mantri Jan Dhan Yojana.

Sources of data Collection

The study is based on secondary data which was collected from the Govt. web sources, RBI reports, NABARD reports, IBA Bulletin websites, journals, magazines, banks web sources.

Financial Inclusion Goals

In partnership with the National Bank for Agriculture and Rural Development, the UN aims to increase financial inclusion of the poor by developing appropriate financial products for them and increasing awareness on available financial services and strengthening financial literacy, particularly amongst women. The United Nations defines the goals of financial inclusion as follows:

- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance.
- Sound and safe institutions governed by clear regulation and industry performance standards.
- Financial and institutional sustainability, to ensure continuity and certainty of investment.
- Competition to ensure choice and affordability for clients.

Initiatives for achieving Financial Inclusion by RBI and other Banks

The Reserve Bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. Some of these steps are:

i. Opening of no-frills accounts with overdraft facility: Basic banking no-frills account is with nil or very low minimum balance as well as charges, that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

ii. Relaxation on know-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

iii. Engaging business correspondents (BCs): In January2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries, for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time.

iv.Use of technology: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

v. Adoption of EBT: Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and

deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

vi. GCC: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to Rs.25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

vii. Simplified branch authorization: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi urban and urban centers without the need to take permission from RBI in each case, subject to reporting.

viii. Opening of branches in unbanked rural centers: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centers.

III. PROGRESS OF FINANCIAL INCLUSION INITIATIVES BEFORE LAUNCH OF PMJDY

- Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013.

- In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.
- Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years) of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).
- The number of Basic Savings Bank Deposit Accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013.RBI advised banks to provide small overdrafts in BSBD accounts. Accordingly up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March 2010).
- Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion.
- Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2013, banks had provided credit aggregating to Rs.76.34 billion in 3.63 million GCC accounts.

IV. ACTION PLAN OF PRADHAN MANTRI JAN DHAN YOJANA

The newly elected NDA govt. come with an innovative idea of connecting people especially from rural and remote areas with banking industry by launching Pradhan Mantri Jan-Dhan Yojana the vision of govt. is economic liberalization and opportunities of development and growth of India with the help of micro financing.The National Mission on Financial Inclusion (NMFI) is proposed to be implemented as a Mission Mode Project which has an integrated approach for providing banking, insurance and pension products together to the beneficiary. It also envisages a comprehensive coverage of all excluded households in the country in two phases:

Phase One (from 15 Aug 2014 -14 Aug 2015) proposes the following:
1. Universal access to banking facilities.
2. Providing Basic Banking Accounts with overdraft facility of up to Rs. 5000/-.
3. RuPay Debit Card with inbuilt accident insurance cover of Rs. 1 lakh.
4. Financial Literacy Programme.

Phase Two (from 15 Aug 2015 -14 Aug 2018) proposes the following:
1. Creation of Credit Guarantee Fund for coverage of defaults in overdraft accounts.
2. Micro Insurance.
3. Unorganised sector Pension schemes, like Swavlamban.
4. Coverage of households in hilly, tribal and difficult areas, and coverage of remaining adults in the households and students.
5. Perhaps, financial inclusion through PMJDY will commence the next revolution of growth and prosperity.

Progress of Pradhan Mantri Jan-Dhan Yojana

PMJDY 2014 is a comprehensive financial inclusion programme, targeting opening of 7.5 crore new accounts within five months with insurance and pension facilities. BCs are employed in places where banks do not have branches. Following Table shows the progress of PMJDY:-

Number of Accounts opened in Pradhan Mantri jan dhan Yojana (As on 31.12.2014)

Table-1

Sr.No.	Type of Banks	No Of Accounts (In Lacs)			No Of Rupay Debit Cards (In Lacs)	Balance In Accounts (In Lacs)	No of Accounts With Zero Balance (In Lacs)
		Rural	Urban	Total			
1	Public Sector Banks	357.87	300.07	657.94	474.66	514970.65	489.96
2	Regional Rural Banks	118.39	21.03	139.42	19.97	90226.52	107.13
3	Private Banks	10.71	11.03	21.73	12.12	36176.88	14.64
	Total	**486.97**	**332.13**	**819.09**	**506.75**	**641374.05**	**611.73**

(Source: www.pmjdy.gov.in)

The target under PMJDY is for banks to have an additional 50,000 BCs, in addition to 7,000 more branches and 20,000 new ATMs. Also to make the dormant accounts (estimated at around 5 crore) active, the government may soon announce that dormant account holders, if found eligible, will get subsidies and other payments related to DBT as well as the National Rural Employment Guarantee Scheme directly into their accounts if these accounts are activated. Such account holders will also get accidental insurance worth Rs. 1 lakh, overdraft of upto Rs. 5,000 and life insurance of Rs 30,000. The RuPay debit card being given to the beneficiaries will have an inbuilt accident insurance cover of Rs. 1 lakh and an overdraft facility upto
Rs 5,000. The use of debit cards will allow the unbanked to start building a transaction history, which can be a decisive step in initiating them towards financial inclusion. This step will also help the Banks in better product designing and targeting. All those who open an account by Republic Day 2015, will also get a life insurance cover of Rs. 30,000. The PMJDY also aims at eliminating corruption as it would facilitate routing of subsidies directly into the accounts of intended beneficiaries. On the accident insurance cover of Rs.1 lakh being offered to new account holders, it comes with the condition that before making the claim, the holder should have used his/her account during 45 days prior to the claim date. To cover defaults of overdraft facility of upto Rs. 5000, the Govt. is likely to set up a Credit Guarantee Fund of Rs. 1,000 crore, which is likely to be set up after August 2015. The overdraft facility is only for Aadhar enabled accounts after they have operated satisfactorily for six months. Banks have been asked by the Govt. to assess the creditworthiness of people before opening accounts so that they do not misuse the overdraft facility. Banks have also been asked to link new accounts to the Aadhaar Card number, take self-declaration on creditworthiness and other details, and make sure that accounts are active. Wrong self-declaration can lead to legal action.

V. SUGGESTIONS FOR IMPROVING FINANCIAL INCLUSION IN INDIA

Private Banks Participation: The government should consider tying up with private banks to deliver financial solutions to the un-banked, using its extensive postal network. The synergistic overlay of the existing postal system with banking functions is the answer to innovative channel required to penetrate the rural markets.

Customized products: The rural poor have irregular/volatile income streams and expenditure needs, and therefore, prefer to borrow frequently, and repay in small installments.

Need for composite financial services: While small rural borrowers seek savings and lending services, they also seek insurance (life, health, crop insurance, etc): bank branches in rural areas would do well to explore opportunities to offer composite financial services, as they have begun to do in urban areas, and as some micro- financiers have begun to offer in rural and urban areas.

Setting of Biometric ATMs in rural areas for catering to illiterate customers: Biometric authentication systems are especially effective in rural areas with low literacy rates. Customers no longer have to rely on
signatures or filling out documents - they can simply provide their fingerprints to authenticate themselves and access their accounts through specialized biometric teller machines (BTMs).

Technology Enhancement: 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.

Simplification of documentation: A lack of legal documentation is another major obstacle that poor households employed in the informal sector face when trying to open any kind of bank account, be it savings, credit, or current account. Simplification of procedures could also go a long way in encouraging the poor to bank with the formal sector, by reducing clients' transaction costs.

Better staffing policies and doorstep banking: Public sector banks currently do not have the flexibility to recruit staff locally, but staffing policies could be revisited. It is worth noting in this context that the high recovery rates of microfinance are associated with staffing policies that allow recruiting staff from the local area who understand clients' needs, and a focus on doorstep banking.

Removing usage fee on ATMs for use of other Bank ATMs: Charges for using an ATM of another bank generally discouraged the customer from using the ATMs of other banks. Now there is more utilization of the installed ATMs and it has also helped the customers from frequent unserviceablity of the ATMs .Given the economic level of rural people and given the density of the population, conventional banking methods (brick and mortar) cannot cover all people in a cost effective manner. The customers cannot be expected to come to branches in view of opportunity cost and time and hence banks will have to reachout through a variety of devices such as weekly banking, mobile banking, satellite offices, rural ATMs and use of Post offices.

VI. CONCLUSION

Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. To mitigate such sufferings, the Pradhan Mantri Jan Dhan Yojna lies at the core of Govt. of India development philosophy of Sab Ka Saath Sab Ka Vikas. Focus of this scheme remains at rapid move forward for those people who have still remained deprived of basic banking & financial systems, in this knowledge era with modern banking. Financial inclusion of the unbanked masses is a critical step that requires political will, bureaucratic support and dogged persuasion by RBI. It is expected to unleash the hugely untapped potential of bottom of the pyramid section of Indian economy. Its huge success will enable the Bank Managers to understand and utilize the opportunity provided by Financial Inclusion to their advantage, by participating in Govt.'s poverty alleviation programmes for weaker section, improving their CASA base, raising their deposit base through direct fund transfer scheme of the Govt. The widely acknowledged & successful launch of this PMJDY scheme also strengthens the resolve that when coordination, dedication, opportunism, commitment, formalization, dependence, trust, satisfaction, cooperation and continuity is provided by all the constituents and stakeholders, a framework of construct is created which acts as a dominant force for accomplishment of the mission.

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