



PMJDY: A BOLD PATH WAY FOR FINANCIAL INCLUSION

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Abstract

Financial inclusion could be an instrument to provide monetary fuel for economic growth and is critical for achieving inclusive growth. In order to ensure financial inclusion various initiatives were taken up by Reserve Bank of India (RBI)/ Government of India like Nationalization of Banks, Expansion of Banks branch network, Establishment & expansion of Cooperative, Introduction of Priority Sector (PS) lending, Lead Bank Scheme, Formation of Self Help Groups (SHGs) and State specific approach for Government sponsored schemes to be evolved by State Level Banking Committees (SLBC) etc. Pradhan Mantri Jan Dhan Yojana (PMJDY) is a National Mission for Financial Inclusion, this scheme offers people across the country who do not have a bank account will have a new account opened in one of the banks of India. According to C Rangarajan "There are two aspects to financial inclusion: one is bank accounts and the second is access to credit. The scheme announced by the Prime Minister addresses the first problem. The issue of making credit available to small borrowers remains". However this scheme is a way to take India forward to the future and make it a more economically stable country. This paper aims to study the measures adopted by RBI for better Financial Inclusion and to evaluate extend to which the Pradhan Mantri Jan Dhan Yojana contribute to the mission of Financial Inclusion.

Key words: Bank accounts, financial inclusion, Pradhan Mantri Jan Dhan Yojana, Reserve Bank of India.

INTRODUCTION

The key driver of India's vision of an inclusive economy is Financial Inclusion. Inclusive growth aims at including everyone in the process of development. The important objectives of inclusive growth are reduction in poverty and disparities of income as well as ensuring the minimum standard of living for every individual. The access to finance by the poor and vulnerable groups is recognized as a prerequisite for poverty reduction and social cohesion. Financial access enables poor people to save and borrow – allowing them to build their assets, to invest in education and entrepreneurial ventures, and thus to improve their livelihoods. Hence financial inclusion has become an integral part of the efforts to promote inclusive growth of India.

India has, for a long time, recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution to economic development by finding innovative ways to empower the poor. Starting with Nationalization of banks, Priority sector lending requirements for banks, Lead bank scheme, establishment of Regional Rural Banks (RRBs), Service Area Approach, Self-Help Group bank-linkage programme etc, multiple steps have been taken by the Reserve Bank of India(RBI) over the years to increase the access to the poorer segments of society. In spite of these measures an overwhelming majority of rural India, and a significant portion of urban India, do not avail of financial service. Economic development is not possible without financial inclusion because a large portion of total population remains outside the growth process.

Census, 2011 estimates that only 58.7 % of the households have access to banking services. Achieving financial inclusion in a country like India with a large and diverse population with significant segments in rural and unorganized sector requires a high level of penetration by the formal financial system. Thus the Union Government has come up with a National Mission to reduce the degree of financial exclusion which is popularly known as Pradhan Mantri Jan Dhan Yojana. It is a strategic plan which aims at covering all households in the country with banking facilities. The mission is to accelerate growth, fight poverty effectively and to empower the last man in the last row in the Indian Economy.

OBJECTIVES OF THE STUDY

The purposes of the study are:

- To study the importance of Financial Inclusion and the measures adopted by RBI for better Financial Inclusion.
- To evaluate extend to which the Pradhan Mantri Jan Dhan Yojana contribute to the mission of Financial Inclusion.

METHODOLOGY

Secondary Data is to be used for the study. Main sources of secondary data have been collected from PhD theses, journals, Reports of ministry of finance, official reports of PMJDY, websites and books.



FINANCIAL INCLUSION

Financial Inclusion is broadly defined as the provision of affordable financial services, viz. access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to the vast sections of disadvantaged and low income groups. In other words, the term financial inclusion implies the co-existence of a continuum of financial services outlets that work within their comparative advantage to serve the poor and low income people.

WHY FINANCIAL INCLUSION

The correlation between financial inclusion and economic growth has long been widely recognized: low financial inclusion impedes economic growth. Access to easy and affordable credit by the disadvantaged social groups is acknowledged as a key criterion for poverty alleviation and reducing social inequity. Such unfettered access enables the financially excluded population to build savings, carry out investments, avail safe and low-cost credit and perhaps most importantly, it enables the poor to mitigate risks of income seasonality, illness and employment loss. However despite broad international consensus on the importance of access to finance as a powerful poverty alleviation tool, it is estimated that over 2 billion people globally continue to be excluded from the formal financial sector.

The objective of Financial Inclusion is to extend financial services to the large hitherto unserved population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular. Government of India wishes to directly transfer subsidies on LPG, fertilizer and kerosene to the bank accounts of the beneficiaries. Besides there are at least 32 other schemes including Mahatma Gandhi Rural Employment Guarantee Act (MNREGA) where the benefits are intended to be transferred to the beneficiaries by way of electronic transfers. This has necessitated bringing in the hitherto unreached population to the ambit of banking. Extension of banking and other financial services to the rural areas will also facilitate and, in fact, accelerate the economic development of such areas.

STRATEGY FOR FINANCIAL INCLUSION BEFORE INITIATION OF PMJDY

The RBI's broad approach to financial inclusion is to 'connect' the people with the banking system and not just to dispense credit. The objective is to provide people with access to payment systems and establish financial inclusion as a viable business model and opportunity. The measures initiated by the Reserve bank to bring the financially excluded population into the fold of formal financial system are the following:

(a) No Frills Accounts

Since November 2005, RBI asked the commercial banks to open the savings account with 'no frills'. It refers to the savings account either with 'nil' or very low minimum balance. There will be no other charges involved in opening and maintaining the account. This was made with the noble intention of making the accounts accessible to vast sections of the unbanked population. The no frill accounts are established to benefit the poor and neglected masses. When such accounts are opened people will be naturally encouraged to transact with the help of technology repeatedly. This direction is a milestone towards achieving the Financial Inclusion.

(b) Know Your Customer (KYC)

RBI had introduced the KYC for the purpose of customer identification, monitoring of accounts and reporting of suspicious transactions to the appropriate authorities. The KYC guidelines define the customer as a person or entity that maintains an account or has a business relationship with the bank. Since August 2005 RBI simplified the procedure and relaxed know your customer (KYC) requirements for small accounts. Any evidence of customer's identity and address proof were considered as sufficient for opening the account. A customer of the bank with six months satisfactory transaction can now be the introducer for opening the account.

(c) Business Correspondents

RBI has permitted commercial banks to engage business correspondents as intermediaries for providing financial services in unbanked areas. In January 2006, banks were permitted to utilize the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) model. The business correspondents would go to door to door to deliver the financial services in unbanked areas. It is done through handheld electronic devices, mobiles, mini ATMs etc. Link to mobile or hand held connectivity devices ensure that the transactions are recorded in the bank's books on real time basis.

(d) Kissan Credit Card (KCC) Scheme

The Kissan Credit Card (KCC) scheme aims to provide financial support to farmers to meet their different financial

requirements, including the purchase of seeds and inputs for agriculture. It requires a very limited documentation. Account holders under this scheme are allocated a card and a pass book which contains their credentials and also serves as an authentic identification document. The KCC provides a line of credit for 3 years, with the review of the transactions every year. The farmer is having flexible repayment options. The three-year Personal Accident insurance is added bonus to the card holders.

(e) General Credit Card (GCC)

RBI in 2005 introduced General Credit Card (GCC) scheme for non-agricultural clients of banks in rural and semi-urban areas. Women clients are given preference while distributing GCC. The upper ceiling of the credit is Rs. 25,000 in GCC.

(f) Simplified Branch Expansion

Since 2009, scheduled commercial banks are permitted to open their branches freely under general permission, subject to permitting. It has been permitted in the areas, where less than 50,000 populations are residing.

(g) 25 Percent Branches in Unbanked Rural Areas

RBI in order to improve the banking penetration in unbanked areas has directed the banks to open at least 25% of the total number of branches in the unbanked rural areas. The future of India lies in the success of Financial Inclusion. Hence all the stake holders, academicians, researchers, policy makers, banks should join together and do their part for the successful financial inclusion of unbanked areas and its people.

(h) Financial Literacy Initiatives

Financial education, inclusion and stability are three elements of an integral strategy. While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions.

PRADHAN MANTRI JAN DHAN YOJANA

The Pradhan Mantri Jan Dhan Yojana launched on 28th August 2014 lies at the core of development philosophy of "Sab KaSath Sab KaVikas". The National Mission on Financial Inclusion has an ambitious objective of ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This scheme not only provides the families of India to have an account but it also offer various different profits for the poor families. It is the first step towards bringing economic equality in the country. The Plan also envisages channeling all Government benefits (from Centre/ State/ Local Body) to the beneficiary's accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government.

Account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet. PMJDY accounts are being opened with zero balance. However, if the account-holder wishes to get cheque book, he/she will have to fulfill minimum balance criteria.

Focal Point of Jan Dhan Yojana

- The mission aims to bring all the households under the coverage of formal financial system by opening a bank account.
- The new bank account can be opened as zero balance account. The account holder will be provided with a RuPay debit card also.
- By opening a bank account under PMJDY, the account holder will be provided with a life cover of Rs.30, 0000 and an accidental cover of Rs.1, 00,000. But the facility will be assured only if the RuPay debit card is used once in 45 days.
- If the transactions of the account are proved satisfactory for 6 months, then the owner of the account will be provided with an overdraft facility of Rs.5000. The overdraft facility helps the rural people to meet their small household needs and thereby prevent their dependence on private money lenders.
- When all citizens are brought under banking system then the Government can easily transfer the benefits to them. Thus Credit Theft can be avoided.
- The most important point is that for opening a bank account, one should need only an identification document which is approved by the Government.

The Jan Dhan Yojana will be implemented in two phases

Phase I covers a time period starting from 15th August of 2014 and ending on 14th August of 2015. The initial phase aims to provide banking facilities in all areas, providing bank accounts and a RuPay debit cards to all which has an inbuilt insurance and accident coverage and also to implement Financial Literacy Programme. **Phase II** covers a time period starting from 15th August 2015 and ending on 14th August 2018. The phase aims to cover the households in hilly, tribal and other difficult areas where the phase I could not cover because of infrastructure and connectivity problems. The phase also focuses on providing Overdraft facility and creation of Credit Guarantee Fund for covering the defaults made by accounts with overdraft facility. Micro Insurance and Unorganized Sector Pension schemes also form part of the Second Phase.

PILLARS OF THE MISSION – PMJDY

The objective of the mission (PMJDY) is to bring the citizens of the country into the fold of banking system and to provide them affordable banking services within a reasonable period of time. The six pillars through which the missions are implemented are:

(1) Universal Access to Banking Facilities

The first pillar of the mission aims to provide banking facilities to all. For this the banking network should be extended and financial services should be designed in such a way that no person remains excluded from the banking facilities. Business Correspondents or Bank Mitra should provide adequate banking facilities in areas where the bank branches cannot penetrate. The mission also focuses on the promotion of mobile banking because it is easy to reach people through mobiles than branch networks.

(2) Basic Bank Account and RuPay Debit Cards to all Households

The pillar focuses on providing basic bank accounts to all adult citizens in the country. Any person can open a zero balance Savings Bank account with minimum procedures. The account holders are provided with a RuPay Debit card which carries an accident insurance of rupees one lakhs. In order to make the account operational all the benefits from the Government would be linked with the bank account. In addition an overdraft facility would also be provided which will be supported by a Credit Guarantee Fund.

(3) Financial Literacy Programme

Financial literacy is a key to create awareness and provide impetus to financial inclusion initiative. Financial Literacy Programmes enables financial planning, inculcate saving habits and improve the understanding of financial products leading to effective use of financial services by the common people. The mission aims to bring a large section of population who are remaining out of the formal financial set up due to financial illiteracy into the coverage of formal financial set-up.

(4) Creation of Credit Guarantee Fund

The fourth pillar of the mission stress on the creation of Credit Guarantee Fund to provide a support to the accounts with overdraft facility. These funds provide coverage to the banks in case of defaults in overdrafts.

(5) Micro-Insurance

Micro-Insurance are insurance products offered by Insurance Regulatory and Development Authority to promote insurance among the people with limited means. It can be a general of life insurance policy with an assurance amount of Rs.50, 000 or less. The mission aims to provide micro-insurance to economically backward sections of the country by linking the insurance policies with the bank account.

(6) Unorganized Sector Pension Schemes

The final pillar stress on the income security of people at their old age. About 85% of the populations are working in the unorganized sector. The Pension schemes are designed to encourage them to save small amounts at their working age and get pension at their old age. The schemes assures a pension amount which makes them independent even after their working age and the scheme would be linked to the bank account.

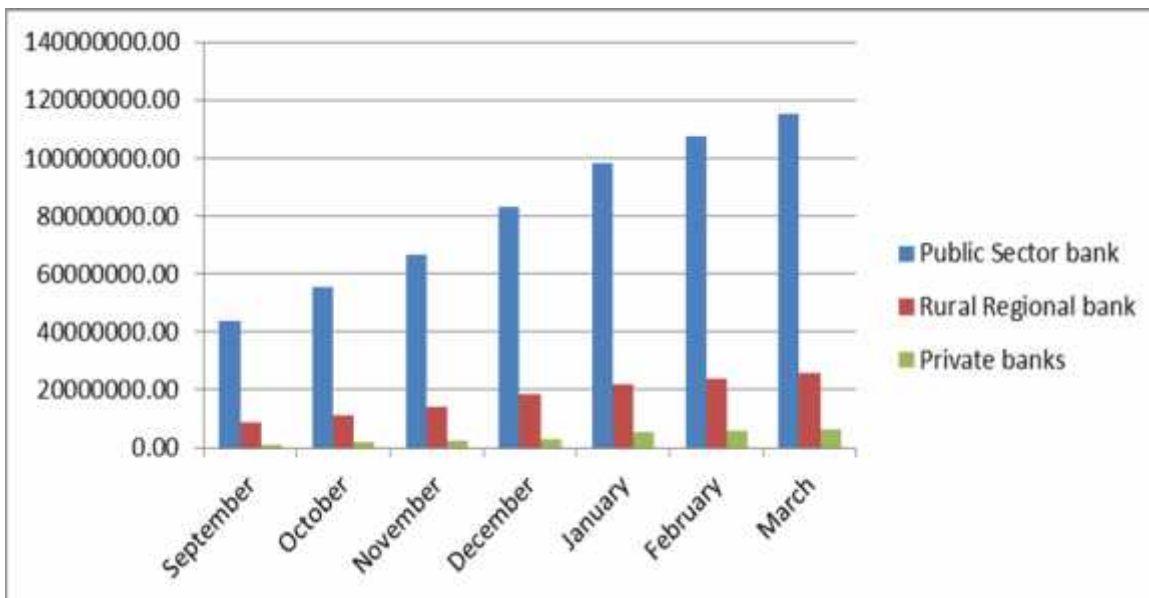
BENEFITS OF THE SCHEME

The Pradhan Mantri Jan Dhan Yojana benefits both the Nation and the common man opening the bank account. The country will derive a better financial stability when all citizens are brought into the fold of formal financial structure. Apart from this the poor people of India will get a high economic boost under this scheme. The people will get a RuPay debit card with an accident cover of Rs.1, 00,000. An overdraft facility of Rs.5000 will be provided which will extend a great support for poor borrowers in meeting out their basic needs like health, farming etc. This is to bring out people from the clutches of money lenders in both rural and urban areas. Apart from these, the account would be linked with the Aadhaar number of the account

holder and would become the single point for receipt of all Direct Benefit Transfer (DBT) from the Government. The programme will lead to reduced leakages, better tax collection and improved savings. The scheme will surely prove to be a strategy towards uniting the country together and moving in the correct direction of economic stability which is necessary for the country to prosper.

PROGRESS OF PMJDY AT A GLANCE

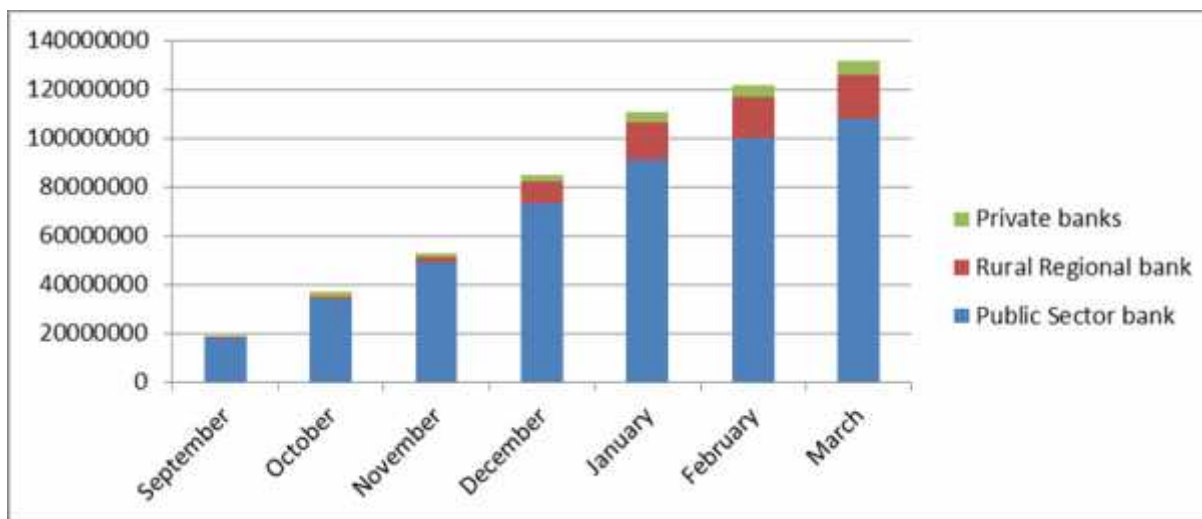
Figure: 1, Number of accounts opened under PMJDY



Source: pmjdy.gov.in

From the above figure indicated that more accounts (11.54 crores) are opened by public sector banks as compared to Rural Regional banks accounts (2.56 crores). After the Rural Regional banks, Private sector banks accounts (61.06 lakhs) has been showing growing tendency. However figure 1 depicts the fact that ambitious programme on financial inclusion PMJDY is succeeded day by day.

Figure-2, Number of RuPay Debit Card Issued



Source: pmjdy.gov.in

Figure 3 clearly stated that Rs.13.14 crores RuPay Debit Cards have been issued till 31st march 2015. It is observed that during first few months after implementation of PMJDY public sector bank were the dominate players for the issue of RuPay Debit card, share was above 90%. After the month of December the share of public sector banks showing decline trends. But in the case of Rural Regional banks and Private sector banks are showed a growing trend.

Figure- 3, Number of Zero Balance accounts opened under PMJDY

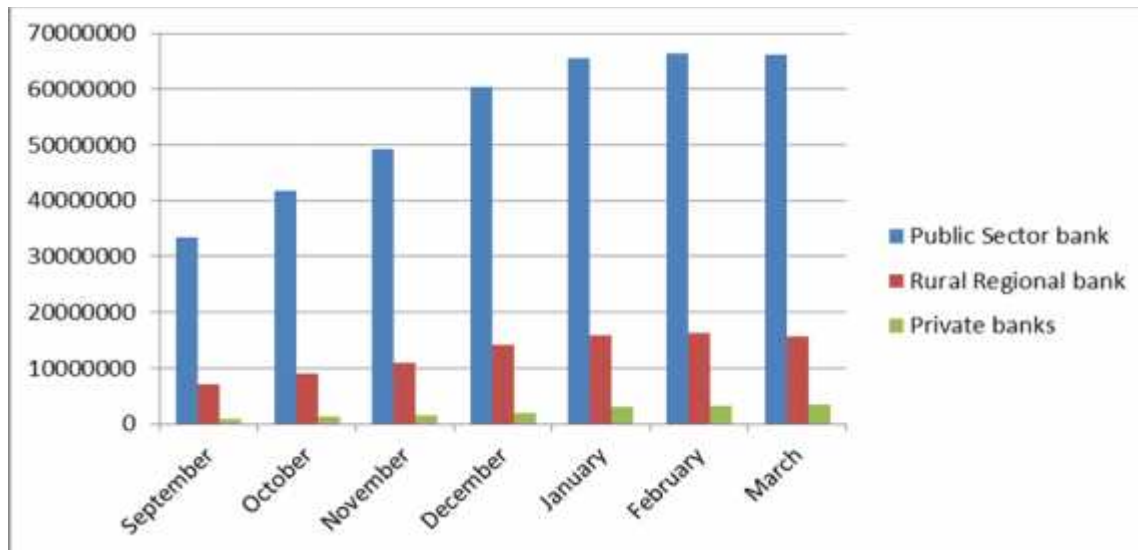


Figure 3 reveals that as on 31st march 2015, 6.61 crores of Zero balance account are opened by public sector banks. Likewise 1.56 crores of account from Rural Regional Banks and 34.13 lakhs account from Private sector banks. This growth is not a positive indicator of financial inclusion. So efforts should be made to convert these accounts to minimum balance accounts. Better financial inclusion can be achieved only if accounts are lively with transactions.

Table- 1, Current Status of the PMJDY

STATUS OF PMJDY as on 17.06.2015 (figures in crores)							
SL.No		No of Accounts			No of RuPay Debit Cards	Balance In Accounts	% of Zero Balance Accounts
		Rural	Urban	Total			
1	Public Sector Banks	6.93	5.77	12.70	11.85	14357.46	52.28
2	Private Banks	2.47	0.43	2.90	2.10	3258.48	52.07
3	Regional Rural Banks	0.40	0.28	0.68	0.60	1068.61	49.25
	Total	9.80	6.48	16.28	14.55	18684.55	53.60

Source: pmjdy.gov.in

As per the current status of the PMJDY, Public Sector Banks dominates a major part in the successful initiation of the PMJDY. The numbers of accounts opened are more in the rural area which indicates that more rural people are brought on the fold of formal financial system, which is a positive indication for better Financial Inclusion. The Government is implementing various schemes like LPG Aadhaar linked bank account to transfer some amount to the account holders. This will reduce the number of Zero Balance Accounts in Future.

CONCLUSION

In the current world, the financial untouchability is a big concern and it separates people. Thus a bank account will be the first step to eradicate the financial untouchability from the system. Looking to the scheme from an economic point of view, India comprises of a huge population. Each of the families living in India is the part of the economic cycle. So once the families have a bank account they get connected to the vehicle of economy. Thus when everyone will be connected the



economy of the country will run at a greater pace. Overall the Pradhan Mantri Jan Dhan Yojana (PMJDY) has become the biggest Financial Inclusion initiative in the world. India has entered the Guinness Book of World Records for opening the maximum number of bank accounts in the shortest possible time under the scheme. Thus the strategy of national mission, Pradhan Mantri Jan Dhan Yojana is a great move and this step can be a source to a better economic prosperity of the Nation.

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