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The Impact of Pradhan Mantri Jan-Dhan Yojana on Financial Inclusion in India

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Abstract
To provide access to financial services to the marginalized sections of the society in India, a number of efforts have been done by way of nationalization of banks, establishment of cooperative and regional rural banks, permitting zero balance accounts etc by the government as well as the Reserve Bank of India. Many campaigns were launched but could not deliver as expected due to various factors such as lack of proper implementation, lack of effective use of technology or improper monitoring. Consequently, even after 67 years of independence, less than two thirds of the households, in the country have access to formal banking facilities. Thus, to bring maximum number of people, especially from the economically weaker sections, into the financial mainstream, the honorable Prime Minister of India, Mr. Narender Modi has launched The Pradan Mantri Jan Dhan Yojana - A National Mission on Financial Inclusion. This proposal has a comprehensive, user friendly and technology oriented approach and is expected to change the financial inclusion scenario of India. This article gives the salient features of this much hyped proposal, its potential challenges and the expected impact it can have on the financial inclusion.

Keywords*: Financial Inclusion in India, Pradhan Mantri Jan Dhan Yojana*

1. Introduction

Financial inclusion is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups. The Committee on Financial Sector Reforms, chaired by Dr. Raghuram G. Rajan define Financial Inclusion as 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.
(Figure 1).

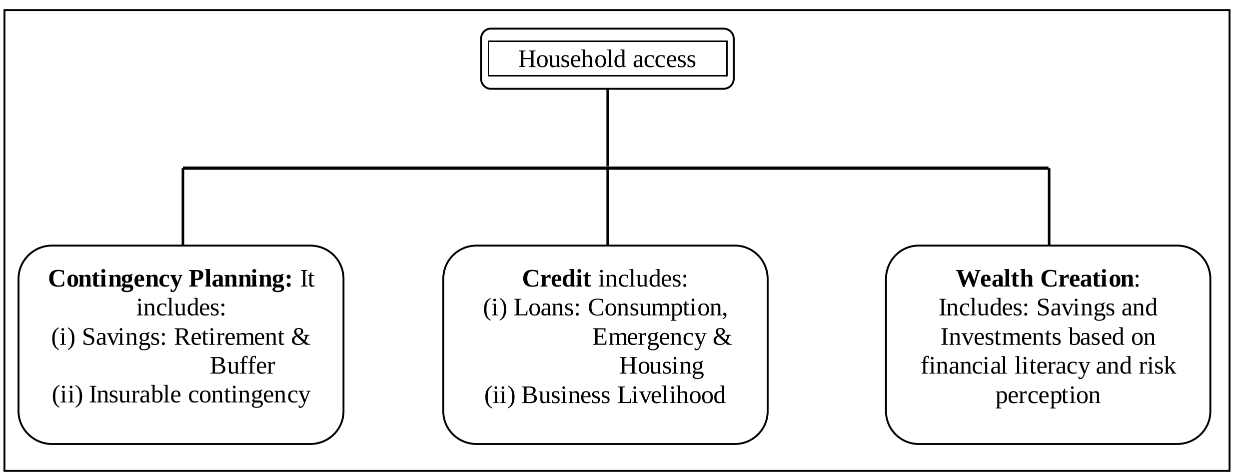

Figure 1: Household access to financial services (Source: A Hundered Small Steps - Report of the Committee on Financial Sector Reforms by RBI Chairman Dr. Raghuram Rajan)

As per the RBI, the essence of concept of financial inclusion is to ensure the delivery of various financial services, which can be in the form of bank accounts for savings and transactional purposes, low cost credit for productive or personal purposes, financial consultative services, insurance facilities etc

2. History of Financial Inclusion in India

The initiation of Financial Inclusion in India dates back to July 1969 with the nationalization of large privately owned banks. Before this step, the branches were mainly located in urban areas and lending was majorly done by organized sectors. Later, in early 1970s the concept of direct lending was evolved which ensured that the vital sectors of economy are able to acquire adequate credit. However, a more structured approach came in 2005-06 when The Reserve Bank of India started the branchless banking through Bank Mitr or Business Correspondent (BC). Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased significantly from 68,681 in March 2006 to 1,02, 343 in March 2013, spread across the country. In the year 2011, The Government of India undertook the Swabhimaan campaign to cover over 74,000 villages with population of more than 2,000.

On August 15, 2014, India's Independence Day, Prime Minister Narendra Modi announced a national mission of financial inclusion named the Pradhan Mantri Jan-Dhan Yojana (the Prime Minister's People's Wealth Program). It envisions bank accounts for all Indians with a target of 75 million accounts in the very first phase, that ends on August 14, 2015. A number of efforts have been done by earlier governments in this direction but could not make an impressive presence felt due to limited coverage and lack of effective use of technology. However, the Pradhan Mantri Jan Dhan Yojana (PMJDY) with its people friendly approach, comprehensive planning and maximum use of technology, seems to be different from the earlier approaches. The plan envisages universal access to banking facilities, financial literacy, insurance coverage, pension and last but not the least, channeling all government benefits to the subscriber's account via the Direct Benefits Transfer (DBT) scheme. This article brings the key features of the PMJDY, its proposed strategy of technology implementation and the expected challenges.

3. Current Status of Financial Inclusion in India

Despite various measures undertaken by the Government of India and the Reserve Bank of India, poverty and inaccessibility to financial services are still the major obstacles in the socio-economic growth of our country. As per Census, 2011 only 58.7% of household have access to banking facilities. According to the RBI's annual report 2013-14, out of 1, 15082 bank branches in the country, 38.2% are in the rural areas. Similarly, a total of 1,60,055 ATMs exist and only 14.58% are in the rural areas. The Nachiket Mor Committee (set up by the RBI in September 2013) on Comprehensive Financial Services for Small Businesses and Low-Income Households, reports that 60% of the rural and urban population do not have a functional bank account. The World Bank Findex Survey (2012) states that only 35% of Indian adults use or have access to a formal bank account and 92% borrowed from a non-formal financial institution in the last one year. All these numbers clearly depict the sad state of financial inclusion in India.

4. Need of Financial Inclusion in India

Financial inclusion broadens the resource base of the financial system as firstly it is expected to develop a culture of savings among segments of rural population and secondly to help in their 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 allays the exploitation of vulnerable sections by the moneylenders by facilitating an easy access to formal credit. Lastly, it bridges the gap between public subsidies and welfare programs by way of assisting direct cash transfer to beneficiaries from their bank account instead of subsidized products.

5. The Pradhan Mantri Jan Dhan Yojana

It was officially launched on 28th August, 2014 with the objective to 'ensure access to various financial services like availability of basic savings bank account, need based credit, remittance facility, insurance and pension to the excluded sections like the weaker sections and the low income groups, with the effective use of technology. The earlier efforts by the Government of India, namely the Swabhimaan campaign could not achieve the desired goals. Its focus was on providing banking facility in villages having population greater than 2,000, but some technological issues held back the scalability of the campaign. Consequently, the expected benefits were obscure and large number of bank accounts remained dormant. The present proposal, PMJDY, has come out with solutions to the challenges faced by the earlier campaign (Table No. 1).

Swabhimaan Campaign	PMJDY Proposal
Limited geographical coverage with villages having more than 2,000 population covered	Coverage of the whole country
Applied to rural areas only	Both rural and urban
Offline account opening	Online opening of accounts
Focus on account opening only	Integration of account opening with DBT, credit, insurance and pension
No focus on financial literacy	Financial Literacy Cell incorporated in rural branches
Monitoring done by banks itself	Structured monitoring at centre, state and district level
No use of mobile banking	Mobile banking to be utilized
Tedious Know Your Customer (KYC) form	Simplified KYC/eKYC form
No remuneration fixed for BCs	Minimum remuneration fixed as ₹ 5,000 (fixed + variable)
No active participation by states and districts	State level and district level monitoring committees to be set
No encouragement to provision of credit facility	Overdraft limit to be set after satisfactory performance
No grievance handling mechanism	Grievance redressal at centre/state/district level

Table 1: Comparative of Swabhimaan and PMJDY proposals

5.1. Key Features of PMJDY

The proposal consists of 6 pillars which are to be implemented in two phases; the first three in the first phase (August 2014-August 2015) and the last three in the second phase (August 2015- August 2018).

5.1.1. Universal Access to Banking Facilities

First and the basic pillar of PMJDY, deals with the expansion of banking network to reach out to the financially excluded segment of the country. It plans to divide each district into Sub Service Areas (SSA) and each SSA will cater to 1000-1500 households and will have access to banking facilities within 5km.

5.1.2. Overdraft Facility and Rupay Debit Card to All Households

Once all the households are linked with banking services (opening bank account with zero balance), a debit card namely 'RuPay' with an inbuilt accident insurance cover of ₹ 1 Lakh will also be issued. The overdraft facility upto ₹ 5,000 would be provided after six months of satisfactory operation or credit history. This facility is proposed to be covered by the credit guarantee fund with rate of interest @base rate + 2% or 12%, whichever is less. The benefits provided by the Government will directly flow into this account thereby reducing the chances of the account becoming dormant.

5.1.3. Financial Literacy and Credit Counselling (FLCC)

This pillar deals with providing basic awareness among the vulnerable sections regarding the financial systems, savings, credit, building good credit history by making timely payments. In a country like India, Financial Literacy is altogether more relevant to save the marginalised poverty driven, illiterate people from being exploited by moneylenders. This objective shall be achieved with the help of various NGOs and self- help groups by establishing adequate number of literacy cells /centres at block level.

5.1.4. Creation of Credit Guarantee Fund

This pillar proposes to create a credit guarantee fund with corpus of ₹ 1,000 crore, to provide guarantee against defaults in overdraft. As per RBI estimates, out of the 242 million accounts opened upto March 2014, only 5.9 million accounts availed the overdraft facility. Thus the proposed ₹ 5,000 overdraft facility being provided after six months of satisfactory operation as discussed above, will be a great support for the poor to meet their basic needs and will help them come out of the trap of the money lenders.

5.1.5. Micro-Insurance

The present proposal, with the notifications of the Insurance Regulatory Development Authority (IRDA) will steadily work towards creating special categories of insurance policies to enhance the insurance coverage among the economically weaker sections of the society. It is applicable to both general and life micro-insurance policy with an assurance of ₹ 50,000 or less. The proposal is flexible with respect to the regulations for insurers and offers a composite coverage that includes life and general insurance together. Intermediaries like non-governmental organizations, self-help groups and micro finance institutions will be helping in this endeavor.

5.1.6. Unorganized Sector Pension Scheme

Almost 400 million people i.e. more than 85% of the working population of India works in an unorganized sector, out of which 120 million are women having no access to any kind of formal income security . They are the ones who are highly vulnerable to economic shocks during the ever-changing socio-economic changes. Thus, the sixth and the last pillar of this proposal envisages to encourage these workers to save small amounts during their working years to enable them to draw pension in the years when they will no more be working. The Government of India will contribute ₹ 1000 per annum for a stipulated time to incentivize and mobilize savings. The subscriber can deposit a minimum amount of ₹ 1000 to a maximum of ₹ 12,000 per annum and can exit at the specified age. The built up corpus until this point or age shall be given back to the subscriber partly as lump sum and partly as pension.

5.2. Role of Technology in Mobilizing Financial Inclusion

One of the major reasons for the failure of earlier schemes for the benefit of people was lack of connectivity and improper or inadequate use of technology. The PMJDY, however, proposes to use technology in a big way to achieve its objectives in a time bound manner. In fact, the effective leveraging of technology is perhaps the strongest aspect of this proposal. Some interesting facts as to how technology can be a game changer for financial inclusion are

5.2.1. Electronically Know Your Customer

RBI, in 2013, permitted e-KYC for customer verification which will minimize the risk of forgery and have paperless verification.

5.2.2. Mobile Banking

Mobile usage in India is enormous as about 886 million people, of which one fourth are from rural areas, are using mobile services. This fact can be exploited for using financial services like immediate payment, balance enquiry, bill payment etc, irrespective of time and place. Moreover, the transaction services through mobile based PIN system are free of cost and can be done by way of Short Service Message (SMS).

5.2.3. Micro-ATMs

Another application of mobile banking is the concept of micro ATMs, which are biometric authentication enabled hand-held device. The application of these micro ATMs can be done for depositing or withdrawal of funds instantly without any consideration of the bank associated with a particular Bank Mitr. Every Bank Mitr shall be provided with a mobile phone connection and the customers, after getting their identity authenticated can avail the services of withdrawing or depositing funds in their accounts. It is more or less like a mobile-ATM or 'bank next door'.

5.2.4. National Unified Unstructured Supplementary Service Data (USSD)

It is perhaps the most beneficial modes of mobile banking for financial inclusion. USSD messages create a real time connection unlike SMS (which are relatively not safe). The accessibility cost of information through the technology is low since all low-end phones can also use the technology without downloading any additional applications.

5.3. The Expected Impact of Financial Inclusion through PMJDY

The households of the country are expected to be benefited from PMJDY by getting three types of security. Firstly, with the help of RuPay debit card and mobile banking the customers will get transaction security, making transactions convenient irrespective of time and place. Secondly, the bank account will help in providing the subsidies and credit facilities directly from the government thus enhancing their economic security. Lastly, by way of micro-insurance, life insurance and other insurance schemes they will have social security. According to the financial services the summary of total no. of accounts opened in various categories of banks in given below

S.No		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	393.94	330.57	724.51	628.45	553553.6	533.14
2	Regional Rural Banks	132.37	23.51	155.88	37.73	106414.86	118.88
3	Private Banks	12.47	11.57	24.04	16.16	40633.94	16.69
	Total	538.78	365.65	904.43	682.34	700602.40	668.71

Table 2: Accounts opened under PMJDY (till December 11^{th}, 2014).
Source: http://www.pmjdy.gov.in/account-statistics-country.aspx (Retrieved on 14-12-2014)

5.4. Potential Challenges

Although the proposal seems to be a well thought of, comprehensive and customer friendly approach, but there are number of potential challenges that could perhaps pose a threat to its effectiveness. Primarily, India is a country of geographic diversity and accessing those tough areas like upper parts of Jammu and Kashmir, the tribal areas of North East would not be an easy task. Moreover, telecom connectivity in these areas is also not reliable which will allay the opening of bank accounts there. Furthermore, as per Census 2011, India's literacy rate is 74% with states of Bihar and Arunachal Pradesh having literacy rate as low as 63.82% and 66.9%, respectively. Thus, being financially literate is not more than a dream for people who are not even literate. The financial literacy centers will definitely have tough time in explaining the financial services to these people thus, hampering the purpose of this. Another very basic question is the financial feasibility of maintaining these accounts. Whether the government can afford it or not can be seen in future. As per Business Standard, there is no clarity as to from where the funds for overdraft facility of ₹ 5,000 each (a total of ₹ 37,500 crores is required for the targeted 75 million household) will come from.

The immediate challenge for banks, however will be acquiring the requisite technology needed to assist more financial inclusion to convert the old and dormant accounts into the new accounts in order to avail the accident coverage and overdraft facility for the account holders. This means that some of the work already done on financial inclusion will have to be repeated.

Another challenge will be the expansion of bank correspondent's model. It is estimated that to avoid accounts from becoming dormant, bank correspondents will play a pivotal role who have to be remunerated and motivated to work. This was one of the major rate-limiting steps during the last government tenure as there was no remuneration fixed for the BCs due to which they did not work in an effective manner. They have to create awareness regarding banking facilities to the potential customers and help them in filling form and other formalities. The importance of their role has to be explained well to ensure efficient participation of these correspondents.

As it is said, half knowledge is always dangerous, so, complete and accurate information regarding the proposals has to be addressed effectively. The role of media and advertising would come to help here as they endow with awareness to the customers. In the absence of providing accurate information, the whole essence of this proposal will be defeated. Greater co-ordination between mobile telephone companies and banks will be necessary since mobile banking through phones is to play an increasingly important role in a scenario where brick and mortar branches will be few. Thus, maintaining effective coordination is another challenge for the same. And last but not least, the mindset of the rural people has to be shifted from using informal banking to using formal banking services including savings and credit. They should frequently use these services because mere financial inclusion will not uplift their economic condition. It will be done only by its continuous usage so that dependency on informal banking is reduced.

6. Conclusion

The Government of India in collaboration with the RBI has undertaken a number of efforts to include the needy and the marginalized in the financial mainstream but a lot has still to be done. A large number of households are still too far from getting the benefits of financial services provided by the banks. Lack of relevant technology, illiteracy, improper implementation of financial services, are some of the major obstacles in the financial inclusion mission in India. To overcome this, Pradhan Mantri Jan-Dhan Yojana was launched with much fanfare. The mission of this much-hyped proposal is to ensure universal access to banking facilities with at least one account for every household and provide them various banking facilities directly through this account. The road to achieve the desired result is not going to be easy with a number of potential problems posing a threat. The PMJDY can only succeed if the government with the help of the state governments and local self- help groups addresses these problems in a comprehensive, collaborative and a consistent manner. Moreover, by providing cost effective and convenient services along with proper design and implementation will help it perform better than the earlier scheme. The need of the hour is not to only create accounts but to develop the awareness to use these accounts effectively in order to avoid them from becoming dormant. India is a country of diversity, thus, a single strategy even if well designed will not be successful for the entire country. So new thinking, innovative ideas and novel technology all will have to be collaborated with experiences of the past as well as other countries to make this agenda of financial inclusion a success. At the end of the day, what is really going to have a strong impact is having a clear vision, establishing a set of principles and allowing various strategies to help achieve the goal.

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