

## Pradhan Mantri Jan Dhan Yojana: A true financial inclusion scheme: An analysis

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### Abstract

India suffers from the problem of poverty and poor financial inclusiveness. As per Census, 2011 only 58.7 percentage of the households have access to banking services. It was in this background and to improve the benefits of government schemes and assure payment direct of the beneficiary bank account so as to improve his economic condition on 28 August, 2014 Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched which aimed to provide at least one bank account to each household across the country, with a target of covering 75 million households by 26 January 2015. It was a general opinion that opening a bank account is not a big achievement but converting these account into active accounts will indeed be a challenge and only time will tell to what extent the scheme has been successful in achieving the objective of promoting financial inclusion or will it be only be yet another scheme with huge promises but little success. The paper focuses on analyzing the progress made by PMJDY towards achieving 100 percent financial inclusion, and tries to find out bottlenecks in the proper implementation of the scheme and suggests remedial measures to promote the pace of financial inclusion and to convert it into true financial inclusion drive.

**Keywords:** poverty, financial inclusion, banking services, active accounts

### 1. Introduction

Financial Inclusion means providing access to financial facilities from organized banking sector to all section of the society including poor and vulnerable sections. According to Parveen Kumar the basic purpose of financial services is to ensure the release of financial services which include -bank account for saving and transactional purpose, low cost credit for production, personal and other purposes, financial advisory service and insurance facility to the needy of all class and sections of the society. It is in this background it is argued that access to finance by the poor and vulnerable groups is a necessity for poverty diminution and social cohesion. Today the Governments all over the world are aware of this responsibility and are committed towards promotion of human wellbeingness through financial inclusion drives. In fact, providing access to finance is empowering the poor and deprived class and to uplift the poor from one level to another so that they come out of poverty. With this aim in mind and further strengthening the financial inclusion base Prime Minister launched an ambitious scheme named as Pradhan Mantri Jan Dhan Yojana (PMJDY) on 28 August, 2014.

### 2. Review of Literature

Rajeshwari M. Shettar (2016) [7] in his paper titled “Pradhan Mantri Jan Dhan Yojana: Issues and Challenges”, revealed that PMJDY scheme is fully helpful to rural and urban area people in getting directly the benefits of government schemes. The study concluded that, PMJDY scheme has created an impressive result in the banking sector with regard to eradication of financial untouchability in the country. The poaper also put forward the point that mere opening of bank accounts may not fulfill the aim of the scheme, but there should be continuous operation of bank accounts to give the real success of the scheme.

Vinit Kumar (2015) [5] in paper titled, “Pradhan Mantri Jan Dhan Yojana (PMJDY): Financial Inclusion and Inclusive

Growth in India”, explained that Pradhan Mantri Jan Dhan Yojana is a scheme for comprehensive financial inclusion launched by the Prime Minister of India and is based on “Sab ka sath sab ka vikas” i.e. inclusive growth. The main objective of this scheme is to ensure universal access to banking facilities with at least one basic bank account for every household. This research paper focused on financial inclusion, inclusive growth, threats and strategy of the scheme.

Sudhir Singh Chowhan and J.C. Pande (2014) [1] in their paper titled “Pradhan Mantri Jan Dhan Yojana: A Giant Leap Towards Financial Inclusion”, focused on the importance of financial inclusion and to mitigate this 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 (NRFI) for weaker section and low income groups. The paper focused on the importance of financial inclusion and the impact Pradhan Mantri Jan Dhan Yojana (PMJDY) on all stakeholders in our country

C. Paramasivan and Ganesh V. Kumar (2013) [6] in their research paper titled “Overview of Financial Inclusion in India”, explained that the aim of financial inclusion is to provide banking and financial services to all class of people in a fair, transparent and equitable manner at affordable cost.

### 3. Objective

- To Study the status of No Frill Accounts at launch of PMJDY.
- To understand the implications of Pradhan Mantri Jan Dhan Yojana.
- To focus on the threats posed before success of Pradhan Mantri Jan Dhan Yojana.
- To suggest measures for successful progress of Pradhan Mantri Jan Dhan Yojana and through it promoting financial inclusion drive.

#### 4. Status of Zero Balance Accounts at Launch of PMJDY

Reserve Bank of India (the central bank) in its Annual Policy Statement for the year 2005-06, while recognizing the concerns in banking practices that tend to exclude rather than attract vast sections of population, urged the banks to align their policies with the objective of financial inclusion. RBI advised banks to make 'Zero Balance Accounts' or 'No Frills Accounts' 'accessible to vast sections of the population'. Zero Balance Accounts are basic low-cost bank accounts for

transacting and saving money, with no conditions of minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance and in a transparent manner. The Zero Balance Accounts known as No Frill accounts are intended mainly for new customers who previously had no bank account.

**Table 1:** Increase in Number of Zero Balance Accounts (In million)

Year	Number of No Frill Accounts	Growth Over Previous Year	Zero Balance Accounts with OD Facility	Proportion of OD facility to Number of No Frill Accounts	Value of Over Draft against No Frill accounts	The number of active accounts reported by various banks varied between 3 per cent and 20 per cent
2010	73.45	-	0.18	.25	100	
2011	104.76	42.62	0.61	.59	260	
2012	138.50	32.21	2.71	1.95	1080	
2013	180.06	30.00	3.95	2.19	1550	

Data compiled from various Annual Reports of Reserve Bank of India

#### 4.1 Big Numbers Little Difference

Even after more than a half a decade of the introduction of 'no frill accounts' now known 'zero balance accounts' the situation at the ground has not changed much. With many of the ZBAs dormant and only 3.95 million (2.19 per cent) out of 180.06 million zero balance accounts having over draft facility as at the end of financial year 2013, it is difficult to say how useful ZBAs are in achieving the goal of 100 percent financial inclusion. In the year 2013, though there is a substantial increase in the number of new ZBAs, 41.56 million new accounts, the situation in terms of actual utilization of these accounts has not been much encouraging. In the 3.95 million zero balance accounts with overdraft facility, the amount available for credit totaled to just Rs.1550 million. Since the total deposit in the zero balance accounts has been transferred under the MGNREGA wages it is apparent that the accounts are mainly used to receive the employment wages.

#### 5. Financial Inclusion: Status at the launch of PMJDY

As per census 2011 around 58.7 percent of the households were able to have access to banking services. Further to it as on 31 March 2014 there stood a bank network of 1, 15, 082 branches and ATM network of 1,60,055 units. Of these 38.2 percent branches and only 14.58 percent of ATMs are working in rural areas. Though access to formal financial institutions has improved over time but still thousands of villages not have a bank branch and less than 10 percent of all commercial bank credit goes to rural area which is the dwelling area for around 70 percent of the total population of India. RBI data, March 2014, suggests that only 46,126 out of 640,867 villages in India are covered by banks which are even less than 10 percent. Out of the 210 million total households around 95 million households do not have access to any banking services. In order to cater these 95 million households and bring them into the ambit of financial services and to achieve almost near to 100 percent financial inclusion the scheme Pradhan Mantri Jan Dhan Yojana has been introduced from 28 August 2014, targeting opening of 75 million accounts in phase I till 26 January 2015. This was in November 2015 revised to 100 million bank accounts.

#### 6. Pradhan Mantri Jan Dhan Yojana – A Fact Sheet

The main objective of Pradhan Mantri Jan Dhan Yojana

(PMJDY) to facilitate each family with at least with one bank account, this means opening 75 million bank accounts by 26 January 2015 for those who are totally deprived of any source of formal banking facilities. As it is difficult to spread bank branches across all unbanked areas, Business Correspondents (BCs) will be deployed on a large scale to help execute the plan.

#### 6.1 Features of the Scheme

- Account holders will be provided zero-balance bank account with RuPay debit card, in addition to accidental insurance cover of Rs 1 lakh (to be given by 'HDFC Ergo').
- Those who open accounts by January 26, 2015 over and above the Rs.1 lakh accident cover, account holders will be given life insurance cover of Rs. 30000 (to be given by LIC).
- Once the bank account has been active for 6 months and has been linked to account holders Aadhar identity, they would become eligible for an overdraft of up to Rs 2500 which would further be enhanced by the bank to Rs 5000 over time.
- With the introduction of new technology introduced by National Payments Corporation of India (NPCI), a person can transfer funds, check balance through a normal phone which was earlier limited only to smart phones so far.
- Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.
- A Credit Guarantee Fund will be created before August 2018 to cover potential defaults in overdrafts.
- All willing and eligible persons will be provided with micro-insurance by August 2018.
- Pension payments under the Swavalamban Yojana scheme for workers in the unorganised sector will be paid through bank accounts by August 2018.

#### 7. Progress of PMJDY

The basic purpose of launching PMJDY was to open at least 75 million bank accounts, which was revised to 100 million accounts in November 2014 based on the initial success of the scheme, in order to bring all the households under the coverage area of banking services by 26th January 2015, seemed to be a very daunting task, and created interest to see

to what extent this mission could be achieved. Going through the data in the table 6 it was heartening to witness that the commitment of the government resulted in opening of 125.473 million of account as on 31 January, 2015, that is more than what was planned for the first phase, actually the target of opening 100 million bank accounts was achieved a month before the January 26 deadline. The result of such a successful drive has been that 100 percent of the eligible households have

now been covered and are said to be financially included. Add to it what was encouraging to note was that of the total accounts opened almost 60 percentage of accounts were opened in rural areas. But the point that needs to be taken care and may be a matter of concern is that around 67 percent of the total accounts opened are Zero Balance Accounts. The challenge before the Government will be how to convert these accounts into active accounts in times to come.

**Table 2:** Report Card of Pradhan Mantri Jan Dhan Yojana (As on 31 January, 2015) (In million)

S. No.		No. of Accounts			No. of Rupay Debit Cards	Balance in Accounts	No. of Accounts with Zero Balance
		Rural	Urban	Total			
1	Public Sector Banks	53.30	45.14	98.44	91.23	81746.30	65.54
2	Regional Rural Banks	18.49	3.30	21.79	14.97	15994.81	15.94
3	Private Banks	3.23	2.01	5.24	4.59	7255.15	2.99
	Total	75.02	50.45	125.47	110.79	104996.26	84.47

Source: <http://www.pmjdy.gov.in/account-statistics-country.aspx>

**7.1 Dormant Accounts- The Biggest Challenge**

No doubt that the PMJDY has been a great success beyond expectations as far as opening of a minimum of 100 million bank accounts was concerned. At the same time it should always be kept in mind that almost 67 percent of the total bank accounts opened are zero balance accounts. The challenge before the government is to initiate measures that could build confidence among rural poor that the banks are the ultimate source of funds at times of need else the accounts will only be categorized as ornamental accounts with having no transactions other than receiving and withdrawing the transfer money. Creating new account is not a challenge but increasing transaction per account is a challenge.

been dormant have due to positive and committed efforts of the government such as enforcing all payments to be remitted through banking channels worked as a blessing for the poor masses as now they have no choice other than to make use of accounts and thereby develop banking habits and understand the importance of savings through banking channels. Most of the account activity is due to higher government subsidies flowing in, said bankers who continue to conduct their monthly financial literacy and training programmes in rural areas. While cooking gas subsidies, pensions, scholarships and wages for the rural jobs scheme are currently routed through these bank accounts; new customers are also making small deposits, besides availing loans and insurance facilities.

**8. Achievements under the Scheme**

**8.1 Reducing Percentage of Zero Balance Accounts**

Most of the accounts opened under the PMJDY and initially

**Table 3:** Status of Total Accounts Opened and Zero balance Accounts under PMJDY (In million)

As on	Rural	Urban	Total	No of Rupay Cards	Balance In Accounts	% of Zero Balance Accounts
31st January 2015	75.00	50.45	125.47	110.79	104996.26	67.32
24th February 2016	128.70	81.30	210.00	174.60	330748.90	28.88
19th October 2016	154.50	97.30	251.80	192.70	447745.60	23.70

Source: <http://www.pmjdy.gov.in/account-statistics-country.aspx>

The share of zero-balance accounts—which indicates lack of activity—has fallen. According to data on the PMJDY website, as on 31 January 2015, 67 percent of the 125.47 million Jan Dhan Accounts were zero-balance accounts. As on 24 February 2016, only 28.88% were zero-balance accounts, even as the total number of Jan Dhan accounts increased to 210 million. The status of zero balance accounts of the total 251.80 million accounts opened under the Pradhan mantra Jan Dhan Yojna stands at 23.70 percent as on 19 October 2016.

**8.2 Rising Deposits in Accounts**

The above table highlights the fact that the total deposits in these accounts as on 24th February 2016 stand at Rs.330748.9 million which has increased more than thrice within a period of 13 months from Rs.104996.26 and further to Rs. 447745.60 as on 19th October 2016, This means the average balance in each account that is not classified as zero-balance is about Rs.2332. This shows the build-up of confidence which the government has succeeded to develop among the poor.

**8.3 Plugging Leakages from Subsidy**

Routing subsidies and welfare payments through the Jan Dhan scheme has helped plug leakages in subsidy transfer. According to the Economic Survey for 2015-16 leakages in LPG subsidy transfers fell 24% and the exclusion of beneficiaries had been greatly reduced, due to forced banking infrastructure created by Jan Dhan Accounts, Aadhaar and Mobile networks, the combination named as JAM trinity. Besides, these new account holders, however, are not just receiving benefits from the government under the Jan Dhan scheme; they have also started using the accounts to make deposits and avail credit.

**9. Challenges before PMJD Yojana**

**9.1 Internet Connectivity Problem**

The greatest challenge before proper operation of the scheme is related to inadequate infrastructure base for internet facilities basically in tribal and hilly areas thus making it difficult for Business Correspondents to actually deliver the required basic banking services, which can dent the

confidence and faith of the rural poor on banking services.

### 9.2 Diversion of Funds for Overdraft Facility

The overdraft facility that the Jan Dhan scheme commits could be valuable for the poor but clarity has still not emerged on where the funds would be diverted from to finance it. Some news reports suggest that the overdraft facility will be guaranteed by an Rs 1,000 crore fund from NABARD. But this may not be sufficient if the overdraft facility really takes off. Assuming one account each for 75 million households, an overdraft facility of Rs 5000 each amounts to Rs 37,500 crore. Even if one is to assume a risk proportion of 20-25 per cent, it would imply a minimum of Rs 7,000 crore loss to the banking sector. The question is who will bear this loss.

### 9.3 Increasing Cost of Business Correspondents

KR Srivats in his article titled Jan Dhan Scheme may not bring much 'Dhan' to Public sector Banks published in The Hindu Businessline pointed out that the costs of running this banking correspondent model will be tested even more as the financial inclusion scheme reaches deeper into rural India. If one wants these accounts to be functional and not remain dormant then the density of banking correspondent has to be increased, which will increase the cost of delivering the banking services. This also needs to be tested if the cost of delivering exceeds the banking business who is going to be blamed. To ensure the success of this scheme, the Finance Ministry has also decided to increase the salary payments for BCs to Rs. 5000 per month. If we assume a BC force of 5 lakh persons, then the annual salary bill for the banks will be around Rs. 3,000 crore. Now, the moot question is whether the PMJDY accounts will earn sufficient returns to offset the increased BC salary payout for the banks.

### 9.4 Managing Multiple Saving Bank Accounts

It is assumed that around 20 percent of the total bank accounts opened in the last week as part of Prime Ministers Jan Dhan Yojana have been opened by individuals who already have savings bank accounts in other banks. Many of the new enrollments under PMJDY have opened accounts with an eye on benefiting from the Rs. 1 Lakh accident insurance and overdraft which can be availed in six months' time. Thus the challenge before the Government and banks is to identify such accounts and initiate strict actions against those involved. As per norms PMJDY is only for those who do not have any bank account either in public or private sector banking setup.

### 9.5 Retrieval and Collection of Loans

One of the major limitations that PM Jan Dhan Yojana may come across is the retrieval and collection of loans. The borrowers are primarily going to be low amount borrowers and would often come from unorganized segments of society and profession. It might be a little difficult for the banks and the system to keep a track of the borrowers and thus they may end up in losses. It is however yet to be seen how banks cope up with this opportunity and still be a source of the right financial change, as aspired by the Yojana.

### 9.6 Default in Loan Repayment

Though the Jan Dhan Yojana has extended the facility of overdraft to the account holders based on their good track record for the last six months, still one cannot deny the

possibilities of default in repayment by these poor sections of society. Nothing has been clarified regarding the recovery machinery except that the provision on credit guarantee fund will be maintained for such sort of default. To what extent this fund will be able to cater the default situations is yet to be seen. Further by whom the liability of default will eventually be shared is a big question. In the year 2013 through his research paper Akhil Damodaran also tried to draw the attention of government towards poor connectivity of internet connectivity basically in rural areas.

## 10. Suggestions

Opening bank accounts may not be immediately viable but over a period of time with payments from Governments under Direct Benefit Transfer schemes can improve viability, following strategic actions by banks can contribute to improve viability and effectiveness of the Jan Dhan Yojana towards attaining the true financial inclusion objective.

- Both the Government and banks have to work in coordination towards launching massive campaign programmes regarding better understanding of PMJDY among the poor households and also focus on improving the level of financial literacy and education that can help them recognize the benefits they can avail under the scheme and the responsibilities associated with it.
- Banks should owe the responsibility of creating customer friendly systems that could develop an element of confidence among these new account holders and motivate them for operating bank accounts and keeping operative with flow of transactions rather than letting these accounts as dormant. For this a personal touch on the part of bank employees is important so as to remove an element of fear from poor rural masses. Though remarkable progress has been done in this direction still it is suggested that there should not be any let off till 100 percent financial inclusion is achieved.
- Banks under the PMJDY need to ensure that beneficiary uses overdraft facility to acquire assets, pursue economic activity, generate income and ultimately convert it into loan in due course. This calls for concern, commitment and accountability of all stake-holders under the PMJDY to make it result-oriented.
- The network of post offices which spread across the nation even in the remotest areas can be utilised for effective implementation of the Jan Dhan Yojana. It is suggested that if there is no bank in nearby locality then an extension counter beside the post office counter can be established and the post master or even bank employee assigned for the task can be given targets and responsibility for proper counselling of people and providing necessary basic banking services to the satisfaction of the account holder.
- Like the "Post Office on Wheels", which provides a variety of postal services through a mobile van in the country, the mobile van banking is another credible delivery model which could be used to serve large customers located in the far-flung rural areas at regular intervals.
- It is imperative that the policy focus should shift from the quantity of inclusion to the quality of inclusion. The success of the JDY should not be measured only on the basis of the number of new accounts opened. The measure

of success should also include clearly-defined targets for usage and transactions.

- In a rural setting, a mini-branch (consisting of two staff persons) can easily serve four-to-five villages and provide a full range of banking services. This would ensure that the villagers will no longer have to take substantial travel and expense to visit a mini-branch. A mini-branch linked to the nearest large branch could function as a hub-and-spoke system. In Andhra Pradesh, for instance, the HDFC bank has recently established several mini-branches and found it to be a commercially viable model to offer full banking services to the rural people.
- 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 be 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.
- It is recommended that internet connectivity and speed should be increased in tribal and hilly areas so that the confidence and ease of doing banking transactions can be entertained.
- The expanded financial architecture will need personnel, which is lacking, and could be important supply side deficit. Banks have been advised under the PMJDY to open 200 accounts a day in each of their existing rural branches, but they are wary, as the existing infrastructure in those branches cannot handle the extra load. Therefore, banking reach should be increased gradually and along with the capacity of banking infrastructure, so that the customer base at any time can be serviced well and the system is not pressurised at any time.

## 11. Conclusion

The situation as regard to financial inclusion is concerned has started showing signs of improvement and more so because of the successful implementation of Pradhan Mantra Jan Dhan Yojna. The commitments level and firm determination on the part of government, policymakers, banks and all those associated with the scheme, made sure that the accounts opened under the scheme do not lay as dormant accounts but be a legal active account, which has been a great achievement for the scheme. However still 100 percent financial inclusion has not been achieved in true sense but by taking care of the implementation problems, there is no doubt soon that the day will come when we can proudly say that yes our country is financially included cent percent and ready to govern the world as real economic power.

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