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# Pradhan Mantri Jan Dhan Yojana-The Journey so far & way ahead

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**Abstract**
Even after 67 years of independence, it is found that about ten crore households are not linked with banking yet. Therefore it has been a matter of severe concern that in spite of the incredible escalation of banking sector in India, still a huge population of the country remains unbanked or is deprived of the banking services. Even after the introduction of financial inclusion policy since many years and tremendous efforts taken by government and Reserve bank of India to bring this vulnerable group of people under the umbrella of banking, no key outcomes can be seen in the dilemma of these financially fragile people. Around a decade ago, there has been a continuous course of action for bringing each household within the grapple of the banking system.
Nevertheless, the current Indian government has evolved it as a mission statement and brought it up as an attainable goal. The government has come up with a huge bash action plan also termed as its mega financial inclusion plan popularly known as "Pradhan Mantri Jan-Dhan Yojana" whose main aim is to serve each and every household with basic banking facilities along with integral insurance coverage for them. This mega plan was mainly introduced to diminish financial sufferings of people, to reduce poverty, to speed up growth and to make powerful the last man in the last row in Indian economy. This paper focuses on the significance of financial inclusion and the impact of Pradhan Mantri Jan Dhan Yojana (PMJDY) on the policy and its effect on operations of banks.
**Key Words:** Financial inclusion, Financial Stability, PMJDY, Banking system,, Inclusive growth, Pradhan Mantri Jan-Dhan Yojana and Sustainable economic growth.

**Introduction:**

Financial Inclusion as defined by the Report of the Committee on Financial Inclusion in India under the Chairpersonship of C.Rangarajan in 2008, is "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." C.Rangarajan chairman of Financial Inclusion committee in 2006 came up with its information in its report. The report mentioned that around 51.4% of the farmer's families don't take credit finance from formal sources of finance i.e. institutional or non-institutional sources. Only about 27% of the farmer's families are taking credit finance from formal sources even when ease of accessibility of bank branches is available in there surrounding areas. This proportion iS as high as 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central regions. So somewhere it was clear indication that there was error or mistake on any one side i.e. demand side or supply side of banking services. These facts necessitated a call for serving the unserved population with the basic banking facilities. Such a venture or undertaking would result in improving the potential of country and bringing in financial stability in the economy and in turn in the country.

Pradhan Mantri Jan Dhan Yojana (PMJDY) was announced by Prime Minister Narendra Modi In his initial Independence Day speech on on 15th Aug 2014, and it was been called as the National Mission on Financial Inclusion

  

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(NMFI) for weaker section and low income groups. Pradhan Mantri Jan Dhan Yojana was launched on 28th Aug 2014 and has managed to open a record 1.5 crores new accounts on the introductory or we can say on inaugural day itself which was incredible work been ever done before and was applauded by the Prime Minister. It was evident that this attempt and hard work done will undoubtedly go a long way in diminishing financial sufferings of people, in reducing poverty, speeding up growth and making powerful the last man in the last row in Indian economy along with this it will also help people in being financial stable.

Financial Inclusion is the deliverance of financial services at inexpensive or reasonable costs to different groups of people who are coming under vulnerable group, in comparison to financial exclusion where such services of banking are not accessible or reasonable. Such melancholy has resulted to formation of financial volatility and pauperism among the group of people, who are not able to have an way in to such financial products and services. The National Mission on Financial Inclusion (NMFI) is projected to be implemented or applied as a Mission Mode Project which is having an incorporated move towards providing banking, insurance and pension products together to the recipient. It also envisages having complete wide range coverage of all excluded households in the country in 2 phases:

**Phase I (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. Account holders will be provided zero balance bank account anong with this RuPay Debit

   Card with inbuilt accident insurance cover of Rs. 1 lakh.
4. Those who open accounts by January 26, 2015 over and above the Rs1 lakh accident, they will

   be given life insurance cover of Rs 30,000.
5. Financial Literacy Programme.
6. Aadhaar number will be seeded to make account ready for DBT payment.

**Phase II (from 15 Aug 2015 -14 Aug 2018) proposes the following**:

1. Six months of opening of the bank account, holders can avail Rs 5,000 overdraft facility
2. Creation of Credit Guarantee Fund for coverage of defaults in accounts with overdraft limit upto 5,000/-.
3. Micro Insurance.
4. Unorganized sector Pension schemes, like Swavlamban.
5. Coverage of households in hilly, tribal and difficult areas, and coverage of remaining adults in the households and students.
6. Perhaps, financial inclusion through PMJDY will now commence the next revolution of growth and prosperity.

Pradhan Mantri Jan Dhan Yojana (PMJDY) has made a study of the previous financial inclusion plan, and have tried to overcome all these flaws of the plan. It seeks out for a solution for suggesting ways to make a prospective customer to become one customer. According to saying of Raghuram Rajan governor of RBI, that if we want to bring the poor towards banking , then the products of banking should be designed in such a way that the products should address the needs of poor. They should feel secure and should be able to identify a place which they feel safe to save, a trustable way or medium to send and receive money, a faster way to borrow in times of emergencies or to flee the control of the moneylenders, easy for understanding, life and heatl insurance coverage and a place or product to invest money in savings for the old age.

**Objectives:**

1) To peep into the history of financial inclusion policy before PMJDY in India.
2) To study the role of RBI in Financial Inclusion.

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3) To have a snapshot of progress of Pradhan Mantri Jan Dhan Yojana.
4) To have an overview of the Challenges to meet in implementation of Scheme.

**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.

**Review of Literature**:-

Usha Thorat, Deputy Governor, Reserve Bank of India in her speech "Financial Inclusion – The Indian Experience" at DFID Financial Inclusion Conference on June 19, 2007 at Whitehall Place, London has explained the move of developing countries like India towards Financial Inclusion. According to her main causes or reasons of financial exclusion are people living in mountainous and densely populated areas were basic transportation facilities are very deprived, the level of awareness regarding banking is low, percentage of literacy is low, level of income is also low, bank and there branches are located far away from them, branches operating timings, exasperating procedures of documentation, communication medium as well as language problem, incorporation from staff members in understanding things and social exclusion. While on the other hand the simple and easy way of informal sources of receiving money even though at more cost are more attractive as compared to banks which are cheaper. According to her one of the main reason why these people especially migrants and slum dwellers are reluctant towards Banks are the documentation required for opening a bank account such as identity and address proofs.

In one of the paper on "FINANCIAL INCLUSION- AN OVERVIEW" the authors like Nirupam Mehrotra, Dr. V. Puhazhendhi, Gopakumaran Nair G, Dr. B. B. Sahoo, (2009) have stated that regardless of commendable achievements that have been achieved in the area of rural banking , still there are issues which seems to be larger than ever before such as sluggish progress in growing share of institutional credit, high reliance of farmers which are small and marginal on informal or non-institutional sources, tilted environment of right of entry to credit between developed regions and undeveloped regions. Therefore now the important area is to make sure that rural credit that is provided by institutional or formal sources have wider coverage area.

Singh, Shravan Kumar, (Sept 2010), in his article "Economic Growth and Financial Inclusion in India: An Analysis", notes that growth with equity has been central objective right from inception of planning process, in India. He further explains that farming, micro, small and medium enterprises have immense potential to play a critical role in achieving the objective of faster and more inclusive growth.

Mr. Balbir Singh in his article "Financial Inclusion –Role of Banking Industry" in The Management Accountant, Volume 47 No., 1 January 2012 says that an inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. Banks that have global ambitions must meet local aspirations. Financial access will also attract global market players to our country that will result in increasing employment and business opportunities. If we look at the progress that has been achieved, banks are able to scale up and sustain their efforts, India is quite hopeful that the targets set by the banks & objectives of achieving universal financial inclusion are attainable.

Roshny Unnikrishnan (2012) analysed in their study "Enabling Financial Inclusion at the bottom of the Economic Pyramid", the importance of financial inclusion in economic empowerment. This study identified the variables in enabling financial inclusion, analyzed the barriers to effective financial inclusion and the prerogative steps to be taken to overcome the barriers and enable inclusive growth. The study concluded by identifying the variables that empower the masses financially

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and stating the importance of social inclusion in relation to financial inclusion and also by reinforcing the importance of self sustenance at the bottom of the economic pyramid.

**A Peep into the History Financial Inclusion before PMJDY in India:-**

For the first time in April 2005 in the Annual policy statement presented by Governor of Reserve Bank of India Mr.Y.Venugopal Reddy introduced the concept of "financial inclusion". There onwards the concept was widely worn out in India and became popular. Later on in 2005 this term got featured by K.C. Chakraborthy, the chairman of Indian Bank and the first village in India were banking facilities was provided to each and every household was Coimbatore, of Tamilnadu. However, as per Census, 2011, 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. With the help of BC's (Business Correspondents) under the "Swabhimaan" campaign in the year 2011, around 74,351 villages with population more than 2000 were covered under this scheme. But still there was a lack of impact of the scheme on the coverage. But according to the reports of march 2014 the banking network consisted of around 1,15, 082 bank branch network and around1,60,055 ATM network. Among this around 38.2% branches (i.e. 43,962 branches) and 14.58% ATMs(i.e. 23,334 ATMs) are in rural areas. Moreover, there are more than 1.4 lakh Business Correspondents (BCs) of Public Sector Banks and Regional Rural Banks in the rural areas.

Range of measures or initiatives that were being introduced for making certain or for guarantee the spread of financial inclusion are as follows:

- Nationalization of Banks.
- Expansion of Banks branch network.
- Establishment & development of Cooperative and RRBs.
- Introduction of PS lending.
- Lead Bank Scheme.
- Formation of SHGs i.e. Self Help Groups.
- State specific approach for Govt. sponsored schemes to be evolved by SLBC (State Level Bankers Committee) etc.

Other major steps that were taken by government for promotion of financial inclusion was introduction of GCCs i.e. General credit cards which were allotted or issued to the vulnerable group with a objective to assist or help them in having way to get easy credit. Later on in January 2006 with an aim of widening the scope of banking facilities and services along with increasing base for financial inclusion, RBI in interest of public decided to permit the banks to make usage of the services provided by Civil Society Organizations, NGOs, Self Help Groups, Micro Financial Institutions as mediators in making available financial and banking services through use of "Business Facilitator and Business Correspondent Model".

**Six elements (Pillars) of Pradhan Mantri Jan Dhan Yojna :**

The PMJDY can be carried on by mission mode, with reasonably financial services to all households. Financial Inclusion under PMJDY is based on six pillars:

1) For having access to basic banking facilities every states each district will be divided into sub-service areas called SSA each serving around 1000 to 1500 households. For achievement of this one branch or one Business correspondent will be established within a distance of 5KM and all these will be done by August 2015.
2) By August 2015 it will be ensured that every household have a bank account, along with it they have a Rupay debit card and an accident cover up of Rs.1,00,000 . Not only this during the first six months if the credit history of the account holder remains satisfactory then the

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accountholder will be entitled for an overdraft facility worth Rs.5000.

3) To increase awareness among the households regarding financial services, so that make best use of services provided to them, financial literacy programs will be an vital part of the scheme by August 2015.
4) To cover up the defaults in overdrafts a credit guarantee fund will be created before August 2018.
5) By August 2018 micro-insurance will be made available to all willing and eligible persons.
6) In the unorganized sector pension payments will be paid to workers through bank accounts under Swavalamban yojana by august 2018.

**Role of RBI in Financial Inclusion:-**

RBI has been pursuing the goal of financial inclusion for a long time. RBI's financial inclusion efforts can be traced back to the 1960s when the focus was on channelizing of credit to the neglected sectors of the economy and weaker sections of the population. While the Government of India nationalized the banking operations of few commercial banks in two tranches in 1969 and 1980; RBI also took initiatives like laying down priority sector lending requirements for banks, Lead Bank Scheme, establishment of Regional Rural Banks (RRBs-1975-76), Service Area Approach (1989), Self-Help Group-Bank Linkage Programme (1989-90), setting up of Local Area Banks etc., all aimed at making available benefits of banking services to the masses.

Although these measures resulted in impressive gains in enhancing the outreach of banking services and extent of credit to the population, there were certain structural challenges which impeded the progress of financial inclusion. On the supply side, the absence of technology was a major impediment as it restricted the expansion of banking services to far-flung areas of the country comprising of 600 thousand plus villages. In the absence of technology, developing a cost-effective delivery model also remained a challenge.

Since 2006, RBI has adopted a planned and structured approach to addressing the issues of financial inclusion. RBI's approach has been to focus both on the demand as well as on the supply side. This has in a large way been possible due to the availability of technology and its gradual adoption within the banking processes.

Institutionalisation of the framework of Banking Correspondents (BCs) has been a major step towards enhancing access to banking services. RBI advocated a combination of 'Brick and Mortar' structure with 'Mouse and Click' technology for extending financial inclusion in geographically dispersed areas.

On the regulatory side, the banks were mandated to open at least 25 percent of their new branches in unbanked rural centres. Taking into account the difficulties encountered by common people in meeting the 'Know Your Customer (KYC)' requirements for opening bank accounts, several measures were taken. For example, RBI allowed banks to accept self-certification for the opening of basic service bank accounts. RBI has encouraged banks to open Aadhaar Enabled Bank Accounts by linking Aadhaar numbers of individuals, wherever available, with the Basic Savings Bank Accounts opened for them, so that their credit histories can also be built up over time.

Co-terminus with the above efforts, RBI also encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels through the preparation of Board-approved Financial Inclusion Plans (FIPs). The first two phases of FIPs implemented over 2010-13 and 2013-16 were interspersed with the implementation of PMJDY by the Government of India during 2014-15, whereby the supply side efforts received an extra push.

**Snapshot of Progress of PMJDY:-**

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. Table below illustrates achievements of this scheme in the form of No. of Accounts

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opened under PMJDY as on 15th July, 2015 in
Crores.

| S. No. | Type of Bank | No of Accounts | | |
|---|---|---|---|---|
| | | **Rural** | **Urban** | **Total** |
| 1 | Public Sector Bank | 7.24 | 5.98 | 13.22 |
| 2 | Rural Regional Bank | 2.57 | 0.44 | 3.02 |
| 3 | Private Banks | 0.41 | 0.28 | 0.69 |
| | **Total** | **10.21** | **6.71** | **16.92** |

**Table no.1- No. of Accounts opened under PMJDY as on 15th July, 2015 in Crores**

Figures in the table demonstrate that Public sector banks have contributed more to make the scheme success in both rural and urban areas with 7.24 crores and 5.98 crores account respectively while at the second position are the Regional Rural Banks with 2.57 and 0.44 crores accounts respectively in Rural and Urban Area,while private banks have contributed nominally with 0.41 and 0.28 crores accounts in Rural and Urban areas. However total number of accounts cross 16 crores mark beyond expectations of government that is really significant.

Reserve bank of India has sustained with its hard work to cover the uncovered villages or to bank the unbanked villages so far by providing them all basic banking facilities and services. According to the reports of State Level Bankers Committees (SLBCs) at the end of financial year March 2015 about 390,387 villages among 4,90,000 villages which were recognized as unbanked villages with population less than 2,000 were covered by about 14,207 branches under the continuing Phase-II of the roadmap. Also about 357,856 business correspondents (BCs) and 18,324 other modes, such as automated teller machines (ATMs) and mobile vans were used to cover these unbanked areas. Phase II was supposed to be completed by March 2016 as approved earlier, but due to the introduction of *Pradhan Mantri Jan Dhan Yojana (PMJDY) and* in view of its continuing execution banks were advised to complete Phase-II coverage by August 14, 2015.

The table below gives complete details of progress in banking services due to the introduction of *Pradhan Mantri Jan Dhan Yojana (PMJDY).*

| Particulars<br>1 | March 2014<br>2 | March 2015<br>3 | Progress April 2014-Mar 2015<br>4 |
|---|---|---|---|
| Banking Outlets in Villages - Branches | 46,126 | 49,571 | 3,445 |
| Banking Outlets in Villages –Branchless mode | 337,678 | 504,142 | 166,464 |
| Banking Outlets in Villages –Total | 383,804 | 553,713 | 169,909 |
| Urban Locations covered through BCs | 60,730 | 96,847 | 36,117 |
| Basic Savings Bank Deposit A/c through branches (No. in million) | 126.0 | 210.3 | 84.3 |
| Basic Savings Bank Deposit A/c through branches (Amt. in ` billion) | 273.3 | 365.0 | 91.7 |
| Basic Savings Bank Deposit A/c through BCs (No. in million) | 116.9 | 187.8 | 70.9 |
| Basic Savings Bank Deposit A/c through BCs (Amt. in ` billion) | 39.0 | 74.6 | 35.6 |
| BSBDAs Total(No. in million) | 243.0 | 398.1 | 155.1 |
| BSBDAs Total (Amt. in ` billion) | 312.3 | 439.5 | 127.3 |
| OD facility availed in BSBDAs (No. in million) | 5.9 | 7.6 | 1.7 |
| OD facility availed in BSBDAs (Amt. in ` billion) | 16.0 | 19.9 | 3.9 |
| KCCs (No. in million) | 39.9 | 42.5 | 2.6 |
| KCCs (Amt. in ` billion) | 3,684.5 | 4,382.3 | 697.8 |
| GCC (No. in million) | 7.4 | 9.2 | 1.8 |
| GCC (Amt. in ` billion) | 1,096.9 | 1,301.6 | 204.7 |
| ICT A/Cs BC Transaction (No. in million)* | 328.6 | 477.0 | 477.0 |
| ICT A/Cs BC Transactions (Amt. in billion)* | 524.4 | 859.8 | 859.8 |

*: During the financial year

**Table No.2 Source:- RESERVE BANK OF INDIA ANNUAL REPORT 2014-2015**

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Looking at the banking outlets opened in villages we can see that the number of branchesless mode has increased tremendously as compared to branches in villages which somewhere reflects the increase in usage of banking services in rural areas.

**Challenges to meet in implementation of Scheme**:-

1) One major challenge the governments have to confront is the poor connectivity of telecom network which make act as a major hindrance in some remote and hilly areas in opening of bank accounts through Bank Mitra (Business Correspondent). However the government is trying to resolve the problem by being in contact with BSNL authorities.
2) Governments have to continuously monitor regularity of number of transactions in such bank accounts opened under this scheme. Government also keeps a watch that Direct Benefit Transfer should also be continued with this reference and accounts opened should be kept live.
3) For efficient and effective execution of the scheme, sufficient infrastructure needs to be established and also for reaching out to the beneficiaries.
4) Government also needs to work over branding and creating awareness regarding facilities like insurance, overdraft to be provided by the government.

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