

Pradhan Mantri Jan Dhan Yojana (PMJDY): Financial Inclusion and Inclusive Growth in India

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ABSTRACT

One of the biggest developments by the NDA government is first social welfare Scheme i.e. "Pradhan Mantri Jan Dhan Yojana (PMJDY)". It is a scheme for comprehensive financial inclusion launched by the Prime Minister of India, Mr. Narendra Modi on 28 August 2014. He had announced this scheme on his first Independence Day speech on 15 August 2014. This scheme 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. It was reported that total of 7 Crore (70 million) bank accounts have been opened with deposits totaling more than 5000 crore Rupees (approx 1 billion USD) as of November 6, 2014. This research paper includes financial inclusion, inclusive growth, threats and strategy of the scheme etc.

Key Words: PMJDY, Banking system, Financial inclusion, Inclusive growth.

INTRODUCTION

'Pradhan Mantri Jan-Dhan Yojana' was announced by Honorable Prime Minister, 'Mr. Narendra Modi', in his first Independence Day address on 15 August, 2014. This is a National Mission on Financial Inclusion includes inte-grated approach to bring about complete financial inclu-sion of all the households in the country. This scheme is launched on 28th august 2014. The logo of this scheme is designed by Priya Sharma.

Financial inclusion has been a buzzword for the policymakers and governments for a long time. Attempts have been made by the policymakers and financial institutions to bring large sections of the rural population within the banking system having realized that financial inclusion is the essence of sustainable economic growth and development in a country like India. Inclusive growth becomes impossible without financial inclusion. Financial inclusion is also must for the economic development of the country. Without Financial Inclusion we

cannot think of economic development because a large chunk of total population remains outside the growth process. Though our country's economy is growing at a one digit, still the growth is not inclusive with the economic condition of the people in rural areas worsening further. One of the typical reasons for poverty is being financially excluded. Though there are few people who are enjoying all kinds of services from savings to net banking, but still in our country around 40% of people lack access to even basic financial services like savings, credit and insurance facilities. India is the second only to China in the number of people excluded from financial facilities. Even after 68 years of independence, around ten crore households are not connected with banking. SBI, India's largest bank had opened 11,300 camps for Jan Dhan Yojana and over 30 lakhs accounts are opened so far, which include 21.16 lakh accounts in rural areas and 8.8 lakh accounts in urban areas. Followed by Punjab National Bank with 20.24 lakh accounts, Canara Bank 16.21 lakh accounts, Central Bank of India 15.98 lakh accounts and Bank of Baroda with 14.22 lakh

accounts. It was re-reported that total of 7 Crore (70 million) bank accounts have been opened with deposits totaling more than 5000 crore Rupees (approx 1 billion USD) as of November 6, 2014.

The present paper endeavours to study the recent trends in financial inclusions in India with special reference to PMJDY, analysis of its different key areas, the barriers in the process and suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas.

Objectives of the Study

- ✓ To know implications and effectiveness of PMJDY
- ✓ To Study Financial Inclusion.
- ✓ To Study Inclusive Growth
- ✓ To understand Threats for success of PMJDY

Literature Review

- Research Paper on, "An Analytical Study: Relevance of Financial Inclusion For Developing Nations" by Dr. An-upama Sharma and Ms. Sumita Kukreja, The study focuses on the role of financial inclusion, in strengthening the In-dia's position in relation to other countries economy. For analyzing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors.
- Research Paper on, "Overview of Financial Inclusion in India", by C. Paramasivan and V. Ganeshkumar, Financial inclusion is aimed at providing banking and financial ser-vices to all people in a fair, transparent and equitable manner at affordable cost. This paper is an attempt to discuss the overview of financial inclusion in India.
- Research Paper on, "Financial Inclusion in Gujarat: A Study on Banker's Initiatives" by Mr. Nanjibhai D. Ranparia includes study of various

financial inclusion and to evaluate progress and current status of financial inclusion of the state.

Financial Inclusion before PMJDY

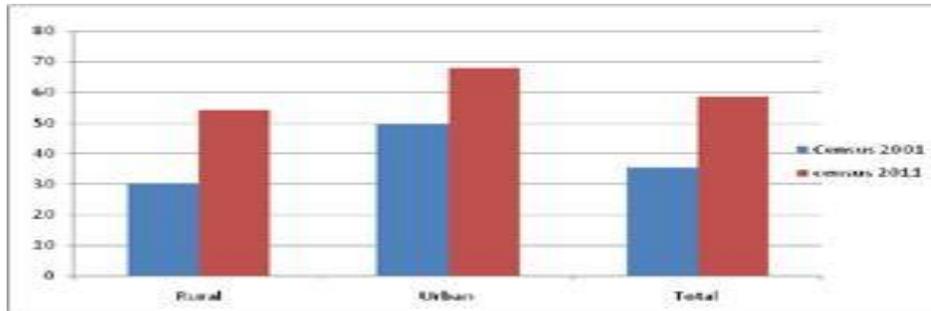
In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborty, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. KYC Norms were relaxed for people intending to open ac-counts with annual deposits of less than Rs. 50,000.

In order to ensure financial inclusion various initiatives were taken up by RBI like Nationalization of Banks, Expansion of Banks branch network, Establishment & expansion of Co-operative and RRBs, Introduction of PS lending, Lead Bank Scheme, Formation of SHGs and State specific approach for Govt. sponsored schemes to be evolved by SLBC (State Level Bankers Committee) etc. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. RBI in the year January 2006, with the objective of ensuring greater financial inclusion and increasing the out-reach of the banking sector, decided in public interest to enable the banks to use the services of NGOs/SHGs, MFIs and other Civil Society Organizations as intermediaries in providing financial and banking services through use of "Business Facilitator and Business Correspondent Model". Census 2011 estimated that 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%) house-holds were availing banking services. In the year 2011, Banks covered 74,351 villages, with population more than 2,000 (as per 2001 census) with banking facilities under the "Swabhimaan" campaign with Business Correspondents. However the program had a very limited reach and impact. Public Sector Banks (PSBs) including RRBs have estimated that by

31.05.2014, out of the 13.14 crore rural households which were allocated to them for coverage, about 7.22 crore households have been covered (5.94

crore uncovered). It is estimated that 6 Crore households in rural and 1.5 Crore in urban area needs to be covered.

Figure 1: Availability of Banking Services



Source: Pradhan Mantri Jan-Dhan Yojana, Department of Finance services, Ministry of Finance

Above graph indicates the availability of banking services in percentage to rural and urban areas, showing increase during the period 2001 to 2011; however the increase is not yet satisfactory.

Implications

Under the scheme, account holders will be provided zero-balance bank account with RuPay debit card and in addition an accidental insurance cover of Rs 1 lakh. 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. Six months of opening of the bank account, holders can avail Rs 5,000 overdraft facility. 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. Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.

The PMJDY can be executed by mission mode, envisage affordable financial services to all citizens. It comprises six pillars:

- ✓ Providing Basic Banking Accounts with overdraft

facility and RuPay Debit card to all households: The effort would be to first cover all uncovered households with banking facilities by August, 2015, by opening basic bank accounts. Account holder would be provided a RuPay Debit Card. Facility of an overdraft to every basic banking account holder would be considered after satisfactory operation / credit history of six months.

- ✓ Universal access to banking facility: First aim of remove untouchability in financial sector. District will be divided into sub service area catering to 1000 to 1500 household for access to basic banking facility by 14 August 2015.
- ✓ Financial Literacy Program: Financial literacy would be an integral part of the Mission in order to let the beneficiaries make best use of the financial services being made available to them.
- ✓ Creation of Credit Guarantee Fund: Creation of a Credit Guarantee Fund would be to cover the defaults in overdraft accounts.
- ✓ Micro Insurance: To provide micro- insurance to all willing and eligible persons by 14 August, 2018, and then on an ongoing basis.
- ✓ Unorganized sector Pension schemes like Swavalamban: By 14 August, 2018 and then on an ongoing basis.

Under PMJDY will be implemented in two phases

Phase I (15 Aug 2014 to 14 Aug 2015) Providing Basic Banking Accounts and RuPay Debit card which has inbuilt accident insurance cover of Rs. 1 lakh. Aadhaar number will be seeded to make account ready for DBT payment.

Phase II (15 Aug, 2015 - 14 Aug, 2018) Overdraft facility up to 5000/- after six months of satisfactory operation. Creation of Credit Guarantee Fund for coverage of defaults in A/Cs with overdraft limit up to 5,000/-. Micro Insurance Unorganized sector Pension schemes like Swavalamban In addition, in this phase, coverage of households in hilly, tribal and difficult areas would be carried out. Moreover, this phase would focus on coverage of remaining adults in the Households and students.

Strategy for effective Implementations

Reaching out - Network expansion and geographical coverage of the banks: First basic pillar of PMJDY is expansion of banking network of country to reach out to the financially excluded segment. All the 6 lakhs villages across the entire country are to be mapped according to service area of each bank to have one fixed point called Sub Service Area.

Individuals like unemployed youth & entities like retired bank employee, retired teachers, retired Government / Military personnel, etc., kirana shops, PDS, PCOs, CSCs, NGOs/MFIs and section 25 companies, Self Help Groups (SHG), Civil Society Organisations, agents of small saving schemes of Government of India, individual petrol pump owner, authorized functionaries of SHG, non deposit taking NBFCs, Post Offices/Postman/Gramin Dak Sewak, cooperative societies or other eligible individuals/entities allowed by RBI from time to time may be engaged as Bank Mitra (Business Correspondent). The Bank Mitra (Business

Correspondent) outlets (in both rural and urban areas) would be fully equipped with the required infrastructure including the computers and other peripherals like Micro ATM, Bio-metric scanners, Printer, Web cam and internet connectivity.

Opening of Basic Saving Bank Account of every adult citizen. The second pillar of this plan envisages providing basic bank accounts (Basic Saving Bank Deposit Account - BSBDA with zero balance) to all adult citizens starting with coverage of all households. Financial Literacy and Credit Counseling (FLCC) – Establishing adequate number of Financial Literacy Centers (FLC) & Mechanism to increase financial literacy among the financially excluded sections.

Credit Guarantee Fund: The fourth pillar of this plan is the creation of a Credit Guarantee Fund. It is proposed to be housed in National Credit Guarantee Corporation (NCGC).

There is wide scope in further development of the scheme. Chairman of IRDA T.S. Vijayan said, that government should launch scheme Jan Bima Yojana in lines of similar programmed launched in banking sector. The scheme can be linked to Swachta Abhiyan. For construction of toilets in rural area finance can be provide under PM JDY. This can be help to boost previous scheme under financial inclusion such as Micro finance, SHG, for working towards positive development. It could help to build small businesses in rural area and creating job opportunity in banking sector.

Threats of PMJDY

There is big possibility of opening account under PMJDY from those who have account already. There is no check on the new account holder. Regarding debit card implementation there may be slow roll out, logistics issue and possibility of misuse. In rural area network of ATM is less so people are not well verged with use of ATM. No clarity if existing account holders would get 1 lakh accidental

insurance coverage. It is also not cleared who is going to bear bill of insurance premium and cost to keep account running. Even the cost of overdraft facility, and thereafter non recovery, no clarity that is bearing loss. Creating new account is not a challenge but increasing transaction per account is a challenge. Existing saving accounts without *RuPay card* not to get other benefits

Conclusion

“Pradhan Mantri Jan Dhan Yojana (PMJDY)” implemented in large scale requires determination and attitude towards success path. Very well said, root cause is ‘financial untouchability’ to eradicate poverty. Managing a bank account and insurance coverage does not demand the person should be educated, it only required the basic knowledge which could be explained by anybody else. Financial Inclusion requires sustained efforts over many years and emphasis on quality rather than quantity should be the priority. Government should review the speed at which it is currently targeting to achieve the goal of covering the whole India with bank accounts. Certainly with a firm intent and infrastructural network of institutions the dream of financial services for all can be realized in the near future. A bold step in indeed required to withstand the heat of economic down surge and fight poverty, and the PMJDY is definitely a good fighting mechanism to check the poverty in India.

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