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PRADHAN MANTRI JAN DHAN YOJNA: AN AMBITIOUS PLAN FOR FINANCIAL INCLUSION

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ABSTRACT

Even after 68 years of independence, around 600 million people in India are out of formal banking system. Financial exclusion is not confined only to rural population but even urban population especially migrant workers in informal sector and urban poor also lack basic financial services like saving, credit and insurance facilities. Since it is predominantly concentrated among low-income groups it has strong linkages with poverty. Financial inclusion, thus, is important for achieving inclusive growth, which is the crux of the12th Five Year plan. Without financial inclusion, we cannot think of achieving development goals because large chunk of population remains outside the growth process. In this backdrop, present paper is an attempt to analyze currently introduced Pradhan Mantri Jan Dhan Yojna, which is prime minister's ambitious plan of financial inclusion for all by 2018. This is not the first major initiative to promote financial inclusion hence the paper discusses previous initiatives on financial inclusion as well besides analyzing other key areas, institutional and infrastructural bottlenecks and suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked population.

Key Words: Pradhan Mantri Jan Dhan Yojana (PMJDY), Financial Inclusion (FI), Banking System, Sustainable Economic Growth, Business Correspondent (BC).

In the post – liberalization era banking sector has grown tremendously due to various initiatives taken by the Reserve Bank of India (RBI) and the Government like expansion of bank branch network, lead bank scheme, establishment of co-operative credit structure and Regional Rural Banks (RRBs) ,opening of no-frills accounts, relaxation in the know-your-customer (KYC) ,use of technology etc. In spite of all these efforts financial exclusion is still very high – around 42% of the total population is out of the formal banking system and depend on usurious moneylenders and other such informal credit supports to fund their needs. In India, financial penetration is lower not only than the developed world but also than the developing world. According to the World Bank Survey 2012, only 35% of Indian adults had access to a formal bank account; in developing countries worldwide, the average is 41%.

Bringing every household within the grasp of banking system has been key policy concern for policy makers ever since the nationalization of banks in 1969. However, the present government has packaged it in a mission mode with Finance Minister as mission head and made it an achievable target. In order to end "financial untouchability" of hitherto excluded segments of the society in India our honorable Prime Minister Shri Narendra Modi has come up with a big bang action plan on 28th August 2014 which is popularly known as "Pradhan Mantri Jan Dhan Yojna". This new revamped financial inclusion program would bring all poor households in the country into the banking fold. The term financial inclusion

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has been defined by the Committee on Financial Inclusion 2008 as the process of ensuring timely delivery of banking services such as saving accounts, loans, remittance and payment services at an affordable cost to the poor and weaker sections of the society.

Our Prime Minister has categorically declared the end of 'financial untouchability' in India with the opening of an estimated 15 million bank accounts across the country on the inaugural day, which is an exercise unprecedented in scale in economic history. The initial target of the PMJDY was to cover 75 million unbanked households by January 26, 2015.

The Jan Dhan Yojna is to be implemented in two phases. In the first phase (15 August 2014 to 14 August 2015) the aim is to provide universal access to banking facilities through a bank branch or business correspondent; basic banking accounts with overdraft facility of Rs 5,000 based on the performance during the first six months; and RuPay debit card with inbuilt insurance cover of Rs 100,000. Bank accounts opened between 28 August 2014 and 26 January 2015 would also get life insurance cover worth Rs 30,000. There will also be a financial literacy program. In the second phase (from 15 August 2015 to 14 August 2018) micro insurance and pension schemes for the unorganized workers would also be provided. Besides it some of the other special benefits under the PMJDY are- interest on deposits, no minimum balance requirement, easy transfer of money across India, direct benefit transfers in these accounts, access to insurance &pension products etc. This program for financial inclusion is based on six pillars:

1. For wider geographical coverage, the country will be divided into a number of sub-service areas (SSA), each with 1000-1500 households. One branch or BC will be established within a distance of 5 km from every SSA by August 2015.
2. By August 2015, Financial Literacy Program will be expanded to spread awareness about financial services.
3. A Credit Guarantee Fund will be created before August 2018 to cover potential defaults in overdrafts.
4. Under the Swavlamban yojna pension payments for workers in the unorganized sector will be made through bank accounts by August 2018.
5. A minimum payment of Rs 5000 is provided for each of the BCs who are direct link between the account holders and the concerned bank.
6. RuPay debit card is provided with inbuilt insurance cover provided RuPay card is used at least once in 45 days.

IMPORTANCE OF FINANCIAL INCLUSION:

Timely delivery of banking services and at an affordable cost along with easy accessibility of financial institutions has positive impact on growth and employment with a possible multiplier effect on the economy. It could enable a higher disposable income in the hands of the rural households, which will lead to greater savings and a wide deposit base for banks and other financial institutions. Many studies in developing countries of South Asia and India show that the access to formal banking has positive impact on savings. Further financial inclusion reduces inequality by providing an opportunity of availing credit from formal financial institutions to the poor who largely depend on money lenders and other such informal credit supports in the absence of collaterals. The provision of an overdraft facility under the PMJDY would further expand the poor's access to credit. There is enough literature

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and evidence (Levine2005; Bauchet et al.2011, Banerjee and Duflo 2013) which shows that access to financial services has a positive impact on household consumption, self employment, poverty and overall wellbeing among lower income groups.

In addition to these economic benefits, PMJDY would also help the government to take the delivery system to most people and with lower transaction costs by transferring benefits and subsidies directly into the beneficiary bank accounts which would drastically reduce leakages and pilferages in social welfare schemes. Moreover, when various welfare benefits will be transferred into these accounts under Direct Benefit Transfer (DBT) scheme the possibility of these accounts lying unused or dormant will be reduced because with the increase in government payments inflows account holders will be impelled to use the accounts for withdrawal and deposits. This will definitely bring the unbanked into the fold of formal financial system. Further this program of ending “financial untouchability” is consisted with the people centric definition of inclusive growth as envisaged in 12th five year plan which attempts to bridge the gap between the rich & the poor and between the rural & urban population. Thus financial inclusion could be an important tool to provide monetary fuel for economic growth and is critical for achieving inclusive growth. [1]

PREVIOUS INITIATIVES ON FINANCIAL INCLUSION

The PMJDY is not the first major initiative to include the financially excluded segments of the society into formal financial system. After India embarked on the path of planned economic development the first major initiative on financial inclusion was launched in July 1969 when 14 large privately owned banks were nationalized with the view to transform “class banking” into “mass banking”. These newly nationalized banks took the banking services to the farmers, laborers, artisans, small entrepreneurs who were neglected due to location of banks in metropolitan and urban areas. The focus of these nationalized banks was on large-scale geographical expansion and functional diversification of the banking system. With this view, only RRB$_s$ were set up in 1970$_s$. Because of all these efforts share of rural branches in total branches of scheduled commercial banks increased from 18% in 1969 to around 58% in 1990. Similarly, share of rural deposits in total deposits also increased from 3% to 16% in the same period. Thus, rapid expansion of branch network in unbanked locations and mobilization of savings from the rural and remote areas were two most important features of Indian banking, which took place within a span of two decades.

In contrast to the 1970$_s$ and 1980$_s$, in 1990$_s$when banking sector reforms were initiated there have been continuous decline in agricultural credit and the number of bank branches in rural India. According to RBI statistics, the share of rural branches declined from 57.16% in1994 to 37.18% in 2013. Consistent with this there has been steady decline in agricultural credit from 30% to 18% during the same period. The RBI took keeping in view the adverse developments another initiative towards FI in 2005 when Branchless Banking through Banking Agents called “Bank Mitr” (Business Correspondent) was started. A serious push to this program was given by the Government in 2011 through “Swabhimaan” campaign, which would cover nearly 74,200 villages with more than 2,000 populations with one banking outlet. Because of RBI’s drive for financial inclusion, 7459 new branches were opened in the rural areas in three years during 2010-13. According to RBI’s annual report for 2013-14, nearly 248,000 BC agents had been deployed by banks as on March 31, 2014, which is

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providing services through more than 333,000 BC outlets and around 117 million zero-balance accounts have been opened up by the BCs. In spite of such impressive numbers of BC outlets and bank accounts the desired benefits could not be achieved because Swabhimaan campaign was limited in its approach in terms of reach and coverage. It was criticized for lacking various aspects of comprehensive financial inclusion like limited geographical coverage and absence of micro-credit, insurance and pension benefits. Besides it, large number of bank accounts remained dormant, which defeats the very purpose of financial inclusion. On the other hand, banks are also not interested in zero-balance accounts due to low balances and few transactions. Instead, they view it as a corporate social responsibility that undoubtedly is not a viable business opportunity.

Progress of PMJDY

The scheme was launched with initial target of opening 7.5 crore accounts. Over 80,000 camps were organized in 600 districts across the country on the day of the launch and a record 1.5 crore bank accounts were opened across the country on the same day. Moreover target of 7.5 crore was achieved in just 2.5 months. Such overwhelming response of the public led the government to further revise the target to 10 crore to be achieved by 26 January 2015 but now the Government is claiming that record 11.5 crore accounts have been opened across the country till 17 January 2105 bringing 99.74 % families into the formal banking system. According to Finance Minister Shri Arun Jaitly this scheme will be a “game changer” for the economy and help poor families by transferring Rs 33,000 crore of LPG subsidies and other social benefits under various schemes like MANREGA.[2] As regards LPG subsidy around Rs 1757 crore has already been transferred in these accounts. According to Finance Minister Kerala, Goa, Chandigarh, Lakshadweep, Pondicherry and 3 districts of Gujarat- Gandhi Nagar, Mehasana, and Porbandar have covered all households under PMJDY with at least one bank account. According to government statistics till 21 January,2015 ,1179.38 Lac accounts have been opened across the country out of which 703.08 Lacs(60%) were in urban areas and 476.30(40%) were in rural areas(Table-1).Of the total accounts around 68% accounts have been opened with zero balance. As regards performance of different banks PSBs are at the top followed by RRBs and PBs in terms of number of accounts opened, number of RuPay Debit cards issued and balance in accounts opened as is evident from the table.

TABLE-1

Details of Accounts Opened under PMJDY as on 21.1.2015

Sectors	Rural	Urban	Total No. of Accounts (in Lacs)	No.of RuPay Debit Card (in Lacs)	Balance in Accounts (in Lacs)	No.of Accounts with Zero Balance (in Lacs)
Public Sector Banks(PSBs)	503.64	426.72	930.36	861.12	788152.7	620.8
Regional Rural Banks (RRBs)	174.45	31.1	205.55	140.8	150215.58	152.12
Private Banks (PBs)	24.99	18.48	43.47	36.71	60308.28	27.5
Grand Total	**703.08**	**476.30**	**1179.38**	**1038.63**	**998676.56**	**800.42**
Percentage Contribution of PSBs	71.63	89.59	78.88	82.91	78.92	77.56
Percentage Contribution of RRBs	24.81	6.53	17.43	13.56	15,04	19.01
Percentage Contribution of PBs	3.55	3.88	3.69	3.53	6.04	3.44

Source: Compiled from the website www.pmjdy.gov.in

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Issues and Challenges in PMJDY

Banking system definitely has to face sum serious financial and operational problems during the implementation of multifarious PMJDY. One of the main features of PMJDY is the provision of zero-balance bank accounts with overdraft facility of Rs 5000 per household after satisfactory operation of the account for six months. It means banks have to provide overdraft facilities to 11.5 crore-bank accounts to the extent of Rs 57500 crore within the next four years or so. The financial implications of this are definitely going to pose serious problems, so how effectively overdraft facility feature of PMJDY is implemented is yet to be seen. Moreover, banks view zero-balance accounts as a social obligation rather than a viable business option so most of the banks have taken some money for opening accounts. In a random survey of few Scheduled Commercial Banks of Lucknow city it was found that accounts have been opened not with zero balance but with the initial amount of Rs. 500 taken from the account holder. If this is the state of affairs in the state capital it can be very well imagined what will be the scenario in the villages where most of the population is illiterate and unaware of the provisions of the Yojna

Keeping in view huge geographical coverage of the PMJDY banks have to open up huge number of branches in an around unbanked villages. The RBI has already identified 4, 90,000 unbanked villages each with a population of less than 2000 and allotted them to various banks for coverage during 2013-16. Given the 1:6 ratio between bank branches and BC outlets (based on the distance between a BC outlet and the base bank branch) about 4.90 lakh villages would require over 80,000 additional rural branches. According to RBI's Annual Report 2012-13 in the past three year's total 7, 459 bank branches were opened which is one-tenth of the number of branches required. Thus, goal of setting up huge number of branches in and around unbanked villages seems impossible task at least in nest 3to4 years.[3]

The PMJDY relies heavily on the BC model for expanding the banking network in both rural and urban areas. In the past low remuneration of Rs. 2000-3000 per month to the BCs was found to be the most important reason for their unsatisfactory performance. Under the PMJDY remuneration of the BCs have been increased to Rs. 5000 per month which is a welcome move but there are certain other problems associated with BCs like lack of trust and inadequate supervision of BCs, lack of integrated link between BCs outlets and bank branches, inadequate cash handling limit given to BCs etc. which needs to be addressed effectively. Besides it to make BC model successful new TCT based BC outlets and low cost mini brick-and –mortar branches comprising of at least two persons between the BC outlets and base branches are required. Physical branches will increase people's confidence and acceptability among the rural poor. This will also ensure close supervision of BCs & provide timely support to BC outlets. Several mini-branches of HDFC bank in Andhra Pradesh are successful examples of viable BC models.

Poor telecom connectivity in rural and hilly areas has posed another big challenge in the mission of 100% coverage of households in the country. The use of information and technology (ICT) for banking transactions is must especially because this new mission is heavily depending on huge network of BC outlets across the country. According to RBI's Annual Report 2012-13 the proportion of ICT accounts to total accounts increased from 25% to 45% during 2010-13 and as far as use of ICT BC outlets is concerned although it is

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increasing but percentage is very low when compared with the manifold increase in the number of accounts. One most important reason for low ICT transactions is poor electricity supply in remote villages. Such infrastructural gaps need to be filled for quality financial services and integrated link between bank branches and ICT based BC outlets. Many developing countries of the world today are adopting ICT based financial services for inclusive banking. Africa is one such example where physical infrastructure is poor but telecommunication's reach is relatively high and accordingly financial inclusion is very deep. Similarly, in Kenya there is an electronic money transfer service using mobile network called M-Pesa, which has millions of registered users who were previously outside the banking fold. Such cash transfers via mobile phones help reduce corruption, duplication and reduce burden on the national exchequer. The use of mobile technology can help overcome the lack of branches in India as well. It is reported that the PMJDY is providing simplified mobile banking where using the service code "*99#" customers can transfer funds and check their account balance on even the most basic mobile phone.

The rising number of accounts under PMJDY and its vast coverage is definitely going to put pressure on banking infrastructure and more so because ATMs are not spread equally all over the country or in rural areas. Currently there is network of 160,055 ATMs of which 23,334 is in rural areas. Thus 70% of the India's rural population has to work with less than 15% of the country's ATMs. The PMJDY has been emphasizing the importance of Aadhar-enabled Direct Benefit transfer (DBT) of social welfare benefits through RuPay debit cards for which ATM network assumes significance which has been weak in rural and semi urban areas as shown in Table-2.

Table-2
Number of ATMs

Population Group	2013	Percentage share	2014	Percentage share
Rural	11,564	10.1	23,334	14.6
Semi-Urban	27,710	24.3	43,200	27.0
Urban	36,111	31.7	47,641	29.8
Metropolitan	38,629	33.9	45,880	28.7
Total	1,14,014	100.0	1,60,055	100.0

Source: RBI's Report on trend and Progress of Banking in India 2012-13

Some critics have questioned the financial feasibility of the multifaceted PMJDY where diverse functions will result in high transaction costs. But affordable banking services could be provided to the poor households through the low cost smart phones as has been done in Kenya (M-PESA), Zambia (Celpay) and Philippines (Gcash). Moreover in the year 2012-13 operating expenses of Indian banks were Rs 1566 Billion and estimated operating cost of PMJDY is Rs 150 Billion which is just one-tenth of the total operating cost. Can't Indian banking system bear Rs 150 Billion to serve its poor when it can bear huge losses due to bad loans given to big corporate willful defaulters?[4]

SUGGESTIONS

Now that the PMJDY has been launched the focus should shift from criticism to implementation issues. A small survey of various hutments and low income groups in Gomti Nagar and Alambagh locality of Lucknow shows that customers enrolled under PMJDY

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already had zero-balance accounts in another bank to receive LPG subsidy under Direct Benefit Transfer (DBT) scheme. They opened new accounts to avail special benefits of RuPay debit card, insurance covers, overdraft facility etc. Currently most of the banks don't have any system of checking duplication of accounts. Some measures are required to control the duplication of accounts so that the benefits can go to the needy one.

Life insurance cover under the scheme is available only up to the age of 60 years. It is suggested that it can be given for whole life to serve the purpose of giving social security.
Credit facility is available to only one person per household preferably woman of the household after satisfactory operation of the account for 6 months. This facility should be given to all account holders without any exclusion based on their worthiness.

As the Government, data reveals the contributions of PBs and RRBs in the total number of accounts opened is not satisfactory. Private Banks are not highly motivated from the scheme because increased remuneration of BCs and other operational costs associated with the scheme are very high in comparison to the earnings from the float money. Thus for the success of PMJDY some motivation and counseling is required.

The large post office network across the country that has perhaps the deepest penetration should be used to provide banking services in rural areas. This will be easier way to end “financial untouchability” than building and maintaining fresh infrastructure in rural areas, which is very difficult during the short period.

Earlier Swabhimaan scheme is criticized for lack of financial literacy. Now the Government is required to establish number of Financial Literacy Centers (FLC) and mechanism to facilitate branding & awareness on Bank Mitr.

CONCLUSION

Overall, the PMJDY is an ambitious financial inclusion plan. Its multifarious nature which provides zero-balance bank accounts with linked insurance coverage, RuPay debit card and over draft facility etc. to those who are outside the formal banking system will certainly benefit the poor and vulnerable sections of the society and has positive impact on savings, household consumption, employment, poverty and overall wellbeing of the poor. This positive shift from quantity of inclusion to the quality of inclusion could be achieved only when certain impediments are addressed like poor banking infrastructure (in terms of bank branches, BCs and ATMs) and effective monitoring & implementation.

NOTES

For details See “Financial Inclusion and Financial Stability: Are They two sides of the same coin”, speech by H.R.Khan, Deputy Governor of RBI at Chennai, 14 November 2011,RBI Monthly Bulletin,March2012 pp 554-55

See Hindustan,hindi daily,Lucknow edition,21 January2015

See S LShetty and Bipin K Deokar; EPW 30 August 2013.See Kavaljit Singh, Mainstream, Oct. 25, 2014. He has given four reasons in favour of financial feasibility of the PMJDY. One such reason according to him is cost sharing in between banks and various government agencies like levy of transaction fee in the range of 0.5 to 2 % on the value of each payment made to the beneficiary's account.

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