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Pradhan Mantri Jan Dhan Yojana : Financial Inclusion

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Abstract

The Prime Minister launched the National Mission on financial inclusion known as Pradhan Mantri Jan Dhan Yojna on August 28, 2014 is a landmark initiative to link the hitherto excluded poor with the bank and a policy to help them join economic mainstream by removing financial untouchability. Inclusive growth becomes impossible without financial inclusion. Financial inclusion is the key factor for inclusive growth. The focus of financial inclusion in India there for has overwhelming by been on delivering credit through microfinance channels, state owned banks and through state promoted self help groups. The PMJDY has completed these efforts by the previous efforts of the RBI of promoting financial inclusion through facilitating opening of bank accounts. However, the present Indian Government has packaged it in a mission mode with a big bang action plan which is popularly known as “Pradhan Mantri Jan Dhan Yojna”. The scheme is a landmark initiative to bring the poor people into economic mainstream through linking the neglected poor strata with the banking system. This scheme will help the poor to come out of the grip of money lenders, manage emerging financial needs and get benefits from a range of financial services. The present paper endeavor to study the recent trends in financial inclusion in India with special reference to PMJDY highlights the need of financial inclusion, pillars of the PMJDY and performance of this scheme.

Keywords : Financial inclusion, Pradhan Mantri Jan Dhan Yojna, Inclusive growth, Banking system.

1. INTRODUCTION

Pradhan Mantri Jan Dhan Yojna (PMJDY) is a social upliftment scheme which aims to bring the million of excluded Indian people in the main financial stream though financial inclusion. With the slogan “Mera Khata-Bhagya Vidhata”. The Pradhan Mantri Jan Dhan Yojna scheme is an ambition financial inclusion scheme covering all household in the country with banking facilities, ensuring a bank account for each household was a “national priority. It’s an innovation step in the right direction that will address the biggest national challenge-eradication of poverty through financial inclusion.

Prime Minister on his Independence Day speech on 15th August 2014 declared “PRADHAN MANTRI JAN DHAN YOJNA” scheme which intended to accomplish financial inclusion by providing

basic banking accounts with a debit card, with insurance. This scheme was launched on 28 August 2014 with target of 1 Crore banks account on first day itself. The scheme ends to target 7.5 Crore families which are financially excluded. At present only 58.7% of the total population comes under financial inclusion. This scheme tends to boost the confidence of unbanked population by providing banking faculty and bad to economic growth of country. This scheme will help in ending financial untouchability Prime Minister aims to complete the scheme by providing banking faculty to a target population of 7.5 Crore by 26 January 2015.

2. OBJECTIVE OF THE STUDY

- To study the need for financial inclusion in India.
- To study the progress made under the PMJDY.

- To identify the proposed strategies for successful implementation of this scheme of national poverty.

3. METHODOLOGY

The present paper is primarily based on secondary sources of data consisting of government publication, research articles published in Journal and available on websites.

4. NEED OF FINANCIAL INCLUSION THROUGH PMJDY IN INDIAN CONTEXT

The Rangrajan committee (2008) on financial inclusion, of Government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost.

Financial inclusion connotes the delivery of financial services to the disadvantaged and low income sections of the society at affordable cost i.e., low interest rates. The main underlying principle for launching PMJDY is that according to the 2011 Census, of the 250 million households in the country, only about 145 million, or about three-fifths of the total had access to basic banking services. Thus, about two-fifths of the households (105 million) do not have access even to basic banking services. The former Deputy Chairman Planning Commission, Government of India

has reported to the Parliament that poverty is the major concern for the country and over 62% of the total population comes under the Below Poverty Line. Despite various measures for financial inclusion, poverty and exclusion continue to dominate socio-economic and political discourse in India after six decades of post economic independence era. 100% financial inclusion is still a dream project. PMJDY launched on 28th Aug, 2014 shows the nation hope of light. The prime objective of financial inclusion in developing countries like India is the access and availability of banking and payments services to the entire population at the reasonable cost and without any discrimination.

That is why there is an urgent need to implement effectively PMJDY by virtue of financial inclusion as all other development activities are hindered by this single disability. This is an important step towards converting Indian economy into a cashless and digital economy.

5. FINANCIAL INCLUSION

Data from Census, 2011 estimates that only 58.7 percent of the households have access to banking services. The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 43,962 branches (38.2 percent) and 23,334 ATMs (14.58 percent) are in rural areas.

Exhibit 1 : Availability of Banking Services

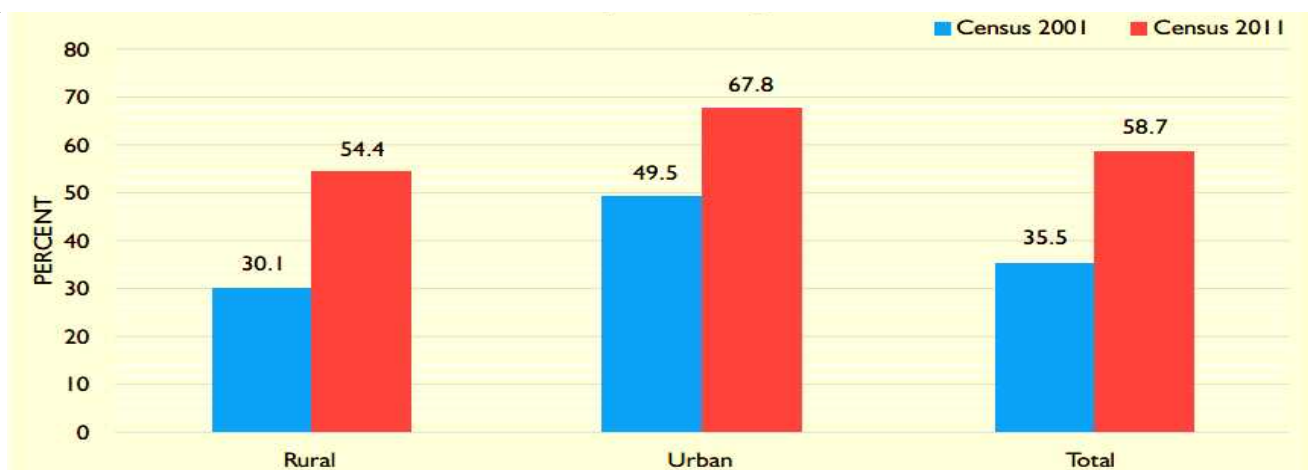


Table 2 :
Summary Progress of All Banks Including Regional Rural Banks (RRBs) (Period - 2010 to 2014)

Particulars	Year Ended 2010	Year Ended 2011	Year Ended 2012	Year Ended 2013	Year Ended 2014
Banking Outlets in Villages					
a) Branches	33,378	34,811	37,471	40,837	46,126
b) Villages covered by BCs ²	34,174	80,802	1,41,136	2,21,341	3,37,678
c) Other modes	142	595	3,146	6,276	--
d) Total	67,674	1,16,208	1,81,753	2,68,454	3,83,804
Urban Locations through BCs	447	3,771	5,891	27,143	60,730
Basic Saving Bank Deposit A/c- branches					
a) No. in millions	60.19	73.13	81.20	100.80	126.00
b) Amt. in billions	44.33	57.89	109.87	164.69	273.30
Basic Saving Bank Deposit A/c- BCs					
a) No. in millions	13.27	31.63	57.30	81.27	116.90
b) Amt. in billions	10.69	18.23	10.54	18.22	39.00
OD facility availed in BSBDA's account					
a) No. in millions	0.18	0.61	2.71	3.92	5.90
b) Amt. in billions	0.10	0.26	1.08	1.55	16.00
KCCs (No. in millions)	24.31	27.11	30.24	33.79	39.90

Source: Table IV.7, RBI Annual Report, 2013-14

¹Source RBI. "Rural" areas are defined as those centres which have population of less than 10,000.
USSD- Unstructured Supplementary Service Data proposed to be launched by NPCI
²One BC can cover more than one village

According to World Bank Findex Survey (2012) only 35 percent of Indian adults had access to a formal bank account and 8 percent borrowed from a formal financial institution in last 12 months. Access to formal financial institutions has improved gradually but thousand of villages still lack a bank branch; less than 10 percent of all commercial bank credit goes to rural areas, where around 70 per cent of the total population lives. Data from the RBI show that only 46,126 out of 640,867 villages in India were covered by banks in March 2014.

6. PRADHAN MANTRI JAN DHAN YOJNA

The scheme aims to provide at least one bank account to each household across the country, with a target of covering 75 million households by 26th January

2015. Targeted at those who have never had a bank account in their lives, the scheme has simplified the whole process of opening an account. The KYC (know-your customer) rules to open a bank account have been simplified; the only document required is either Aadhar card, voter's identity card, driving license, PAN card, or card issue under MGNREGA. Even if the address mentioned in the document is different from the current residence of the applicant, a self-declaration will suffice. For those who do not have any of above mentioned identity proofs, a small account could be opened with a self-attested photograph along with signature or thumb impression in the presence of the bank official. The PMJDY is being implemented in two phases. In the first phase (till August 14, 2015) every account holder will receive a Rupay debit card, and will be able to use basic mobile

banking services, such as balance enquiry. Further, every account holder under the scheme will get an accident insurance cover of Rs.1 lakh. Bank accounts opened between 28th August 2014 and 26th January 2015 would also get life insurance cover worth Rs. 30,000/-. These accounts are also eligible for over draft facility of Rs.5,000/- based on performance during the first six months. There will also be a financial literacy programme, expansion of Direct Benefit Transfer under various schemes through the beneficiary's bank accounts, and issuance of Rupay Kisan Card. In the second phase (from August 2015 to 14th August 2018), micro insurance and unorganized sector pension schemes would also be provided. Bank accounts opened after 26th January 2015 would be eligible for life insurance cover and micro insurance in this phase. 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.

7. ACTION PLAN FOR IMPLEMENTING PMJDY

Two phases of this scheme has been determined in which the objective of financial inclusion of weaker section of the society is supposed to be achieved.

(a) Phase-I of PMJDY : The first phase of this scheme starts from August 15, 2014 to August 14, 2015 which focuses on the followings :

- All households across the country should have access to banking facilities with at least one
- Basic Bank Accounts with a bank branch or a fixed point Business Correspondent (BC).
- All households should have been issued a RuPay Debit Card with Rs. 1 lakh inbuilt accident insurance cover after opening the bank account.
- If bank account is operated satisfactorily for 6 months, Rs. 5000 overdraft facility will be granted to only Aadhaar enabled accounts.
- All types of Govt. sponsored benefits should be directly credited to the account of beneficiaries through Direct Benefit Transfer

scheme.

- The existing Kisan Credit Card is proposed to be issued as RuPay Kisan Card to the farmers.
- Financial literacy programme under the scheme will be implemented up to village level.

(b) Phase-II of PMJDY : The second Phase starts from August 15, 2015 to August 14, 2018 putting focus on the following :

- Micro insurance will be brought within the reach of all willing and eligible people by 14 Aug, 2018 and then on an ongoing basis.
- Swavlamban unorganized sector pension scheme is to be proposed through the Business Correspondents.
- Households in hilly, tribal and difficult areas will be covered in this phase.
- This phase would focus on coverage of remaining adults in the households and students.

8. SIX PILLARS OF PRADHAN MANTRI JAN DHAN YOJNA

The programme for financial inclusion under the PMJDY is based on six pillars :

(a) Universal Access to Banking Facilities : The foremost pillar of the PMJDY is to provide access to banking facilities and services to ensure financial inclusion of the underprivileged section of the society. Almost 6 lakh villages in the country are to be covered through Sub Service Areas. Banks are required to provide one fixed point banking outlet as a either branch or Business Correspondent (known as "Bank Mitra") to cater services to 1000 to 1500 households within a short distance of 5 kms. Technological services like internet connectivity, mobile telephone services etc will be key element for effective financial inclusion.

(b) Providing Basic Banking Accounts : 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.

(c) Financial Literacy : For successful implement of PMJDY awareness among the people about the benefits of formal financial system, banks, savings, credit, ATM centre, timely repayment of loans and other services is the key to success. About 718 Financial Literacy Centers have been setup and 2.2 million people have received the benefits of awareness camps, seminars and lectures during 2012-13. Increasing number of FLCs in rural areas will play a vital role in implementing the scheme. It is also planned to make a convergence with the National Rural Livelihood Mission and the National Urban Livelihood Mission and also to take help of NGOs working with NRLM and NULM to achieve the objective of financial literacy.

(d) Credit Guarantee Fund : Creation of a Credit Guarantee Fund (CGF) would be to cover the defaults in overdraft accounts. The CGF is proposed to be created and kept under the National Credit Guarantee Trust. This fund will give a security to banks to provide over draft credit and will bring in discipline in the monitoring mechanism.

(e) Micro Insurance : Micro insurance policy is provided under this scheme for the coverage economically vulnerable sections of the society. This facility will be available in the form of health insurance, personal accident, and insurance of house, livestock, tools, machinery and instruments. The “Bank Mitra” will be the key factor offering micro insurance policies in order to cover the rest of the beneficiaries.

(f) Pension Scheme : Pension payments under the Swavalamban Yojana scheme for workers in the unorganized sector will be paid through bank accounts by August 2018. It encourages them to save income on their own for their old age.

9. SPECIAL BENEFITS UNDER PMJDY SCHEME

- (a) Interest on deposit.
- (b) Accidental insurance cover of Rs. 1 lakh

- (c) No minimum balance required.
- (d) Life insurance cover of Rs.30,000/-
- (e) Easy Transfer of money across India
- (f) Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.
- (g) After satisfactory operation of the account for 6 months, an overdraft facility will be permitted
- (h) Access to Pension, insurance products.
- (i) Accidental Insurance Cover, Rupay Debit Card must be used at least once in 45 days.
- (j) Overdraft facility upto Rs.5000/- is available in only one account per household, preferably lady of the household.

10. PROGRESS OF PMJDY

About 4.18 crore bank accounts were opened up to September 2014. Total accounts opened under this scheme have increased to 12.54 crore till January 2015. Total Rupay debit card issued under the scheme are over 11.07 crore. Further, total amount of deposits collected is 10.49 thousand crore. In this way, India is moving towards a cashless economy thereby eliminating the corruption and strengthening the e-governance policy of the government.

11. CONCLUSION

The PMJDY is superior over the UPA's financial inclusion programme because the earlier programme had no focus on individual households. Effective implementation of Jan Dhan Yojna will reduce the poverty solving most of the financial problems of people. PMJDY, a long felt-need National Mission on Financial Inclusion committed itself for an integrated approach to bring about comprehensive financial inclusion of all the households in the country enabling especially low income group people to get rid of moneylenders, cultivate the habit of saving, and most importantly, benefit from string of financial products and services offered by banking system.

It not only will eradicate poverty and curb corruption at the grass root level but at the same time generate an employment opportunity which in turn improves the living standard of vast section of underprivileged people leading ultimately to vicious cycle of Economic growth. Needful modification in Rupay cards program and life cover has made the scheme more attractive. The progress of all proposed strategies needs to be checked on regular basis and effectively implemented within specified time bound framework.

The present PMJDY has addressed all the existing and possible deficiencies. This programmed is in the sense one of the poverty alleviation programme. Hence this is the mission to eradicate poverty through the financial inclusion programme. The poor and the underprivileged people in rural, semi-urban and urban areas are expected to get all the benefits such as financial inclusion, financial stability and financial freedom through the PMJDY.

12. SUGGESTIONS

Financial inclusion is not a onetime effort; it is an ongoing process. It is a huge project which requires concerted and team efforts from all the stake holders – the Government, financial institutions, the regulators, the private sector and the community at large.

If this is to be achieved, it requires the passionate involvement, dedication and commitment of all stake holders. It requires a major mindset change in the minds of every individual involved – banker, bureaucrat, regulator and creating awareness at all levels.

At the same time, the role of technology in the whole scenario cannot be undermined either. It has to be admitted that today, more than even before, technology plays a vital role in bringing about integration in society of all social and economic classes.

With combined efforts of all the stake holders, viz., policy makers, regulators, banks, NGOs, MFIs and other similar entities, this can be made possible.

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