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## *Financial Inclusion through Pradhan Mantri Jan Dhan Yojana*

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*Abstract: Financial Inclusion is the requirement of modern era, not only of developing but also of developed countries as half of adults around the world remain unbanked. Access to financial services at affordable costs to disadvantaged and low income groups helps to overcome poverty, reduces income disparities and leads to economic growth. The study has special relevance for developing countries such as ours, where resources after meeting subsistence needs are meagre which can afford neither frittering away of resources nor loss of time in achieving the objectives set for programme. Pradhan Mantri Jan-Dhan Yojana, the biggest financial inclusion initiative in the world was rolled out to end financial untouchability and bring India's poor into financial mainstream and free them from the clutches of usurious moneylenders while giving them a modicum of insurance cover. The paper discusses about the concept of financial inclusion. The paper also talks about Pradhan Mantri Jan-Dan Yojana its benefits, implementation strategy and current performance of the programme. The challenges ahead and criticism of the programme been analysed. The paper concludes that ultimate success of the programme lies cannot be achieved only by chasing target numbers but strict regulation and supervision is needed. The study can be of best use to the Government, financial institutions, researchers and public at large. The Government and financial institution can introduce changes in the programme accordingly. The researchers with further research can spread more awareness among public about the benefits of the programme.*

*Keywords: Financial inclusion, Findex, Inclusive growth, Financial services, Business correspondent, Financial untouchability.*

### I. INTRODUCTION

Global Findex database shows that 50 percent of adults worldwide have an account at a formal financial institution after surveying 148 economies of the world. The share of adults in high incomes with an account at a formal financial institution is more than twice in developing economies. Around the world, men and more educated, wealthier and older adults make greater use of formal financial services (Demirguc and Klapper, 2012). Well functioning inclusive financial systems are highly needed to pull the poor out from the clutches of abject poverty in developing countries like India. Access to affordable financial services would lead to increasing economic activities and employment opportunities for poor people with a possible multiplies effect on the economy. Financial inclusion is an innovative concept, which make use of alternative techniques to promote banking habits of people. It refers to delivery of financial system of an economy to its members. Financial inclusion 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 (Rangarajan committee, 2008)

Pradhan Mantri Jan Dhan Yojana (PMJDY) is a National Mission for Financial Inclusion to ensure access to financial services. i.e. banking, savings and deposits accounts, remittance, credit, insurance and pension in an affordable manner. It is the biggest financial inclusion initiative in the world. This financial inclusion campaign was announced by Prime Minister Shri Narendra Modi on 15<sup>th</sup> August 2014 from the ramparts of the Red Fort and launched by him on 28<sup>th</sup> August 2014 across the country. He had referred to the ancient Sanskrit verse : Sukhasya Moolan Dharma, Dharmasya Moolan Artha, Arthasya Mollam

Rajyam – which puts the onus on the state to involve people in economic activity. Guinness Book of world Records recognized the achievements of PMJDY by giving certificate stating that the most bank accounts opened in one week (i.e., 23<sup>rd</sup> to 29<sup>th</sup> August 2014) under Financial Inclusion Campaign by the efforts of Department of Financial Services, Government of India.

### **Limitation of the study**

Due to non availability of data the study could not be extended to analyse the performance of insurance and pension plans of the Government associated with this programme.

## **II. LITERATURE REVIEW**

C. Paramasiven and V. Ganesh Kumar (2013) in their research paper “Overview of

Financial Inclusion in India” recommends two key tools i.e. Branch density and literacy to achieve high level financial inclusion. Inclusive growth is possible only through proper mechanism which channelizes all resources from top to bottom. This paper is an attempt to discuss the overview of financial inclusion in India.

Research Article of “Financial Inclusion in India” by Dr. Laila Memdani and K.

Rajyalakshmi (2013) discusses evolution and progress of financial inclusion achieved so far. The article concludes that banks and other financial institutions need to synchronise all their energies towards financial inclusion because development of economy depends to a large extent upon it. The article compares financial inclusion in India with U.S., U.K., Germany, Russia, Brazil and China.

“A Study on – Financial Inclusion – Role of Indian Banks in Reaching Out of the

Unbanked and Backward Areas” by Srikanth. R (2013) states that well functioning inclusive financial system is pre-condition for accelerating growth and income disparities and poverty. The paper has suggested some policy choices for successful implementation of policy of financial inclusion for sustainable growth of Indian economy.

## **III. OBJECTIVES**

This paper aims to have understanding of the concept of financial inclusion. How does PMJDY promotes financial inclusion? The paper also lists out performance of PMJDY till now and criticism of this programme. Various challenges ahead have also been discussed in the paper.

## **IV. THEORETICAL BACKDROP**

The efforts to include the financially excluded segments of the society into formal financial system in India are not new. The concept was first mooted by Mr. K.C. Chakraborty, Chairman in 2005, in India. Mangalam Village became the first village in India where all households were provided banking Facilities. KYC norms were also relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. In January 2006 RBI permitted commercial banks to use non-governmental organizations (NGO/SHGs), micro-finance institutions and other civil society organizations as intermediaries which can be used as business facilitators or business correspondents (BC). In 2011, Government of India gave a serious push to programme by undertaking the “Swabhimaan” campaign to cover over 74,000 villages, with population more than 2000 (as per 2001 census), with banking facilities. But desired benefits could not be achieved due to limited approach of this campaign in terms of reach and coverage. Illiteracy and low income savings and lack of bank branches in rural areas are main hindrances in the way to financial inclusion.

Access to formal financial institutions has improved gradually but thousand of villages still lack a bank branch; less than 10 per cent of all commercial bank credit goes to rural areas, where around 70 per cent of the total population lives (Sahoo, 2014, p

30). Data from RBI show that only 46,126 out of 6,40,867 villages in India were covered by banks in March 2014 (Rama Kumar, 2014). Thus, the need for financial inclusion is beyond question.

## V. PRADHAN MANTRI JAN DHAN YOJANA (PMJDY)

This programme is Prime Minister Narendra Modi's first block-buster social upliftment scheme. It is aimed at improving the lives of millions of India's poor by bringing them into the financial mainstream. The vision is to end "financial untouchability".

This programme topped up each account with life insurance cover of 30,000, adding to the Rs. 1 lakh accidental insurance benefit already available under the account that will come bundled with a RuPay debit card. In next phase micro-insurance and pension etc. will also be added.

Account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet. KYC 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 issued under MGNREGA. Even if address mentioned in the document is different from current residence of the applicant, a self-declaration will suffice. For those who do not have any copy of above mentioned proofs, a „small account“ could be opened with a self-attested photograph alongwith signature or thumb impression in the presence of bank official.

## VI. BENEFITS OF PMJDY

- 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.

## VII. SIX PILLARS OF PMJDY

### 1. *Easy access to banking facility*

The country will be divided in subservice areas (SSA), each with 1000-1500 households.

One banking outlet (branch or BC) will be provided within a distance of five km from every SSA by August 2015.

### 2. *Basic bank account topped with other facilities*

One bank account will be ensured for every household by August 2015, along with a RUPAY debit card and an accident cover worth Rs. 1,00,000. If credit history is satisfactory during the first six months, the account holder will become eligible for an overdraft worth Rs. 5000/-.

### 3. *Programme of Financial Literacy*

These programmes will be integral part of the mission to spread awareness about financial services.

### 4. *Creation of Credit Guarantee Fund*

This fund will be created before August 2018 to cover potential defaults in overdrafts.

### 5. *Provision of Micro-Insurance*

All willing and eligible persons will be provided Micro-Insurance by August 2018.

**6. Unorganized sector Pension Schemes like Swavalamban**

Pension payments under Swavalamban Yojana Scheme for workers in the unorganized sector will be paid through bank accounts by August 2018.

**VIII. THE IMPLEMENTATION STRATEGY**

In order to achieve this plan phase wise and state-wise targets have been set up for banks for the period 15<sup>th</sup> August 2014 to 14<sup>th</sup> August 2015. Department of the Central Government, State Governments, RBI, NABARD, NPCI and others have been indicated. Gram Dak Sewaks in rural areas are proposed as Business Correspondent of Banks. Department of Telecom has been requested to ensure that problems of poor and no connectivity are resolved. About 50,000 villages out of 5.93 lakh inhabited villages (as per 2011 census) are not covered with telecom connectivity (Keshavamurthy, 2014).

**FACTS AND FIGURES - IMPLEMENTATION OF PMJDY**

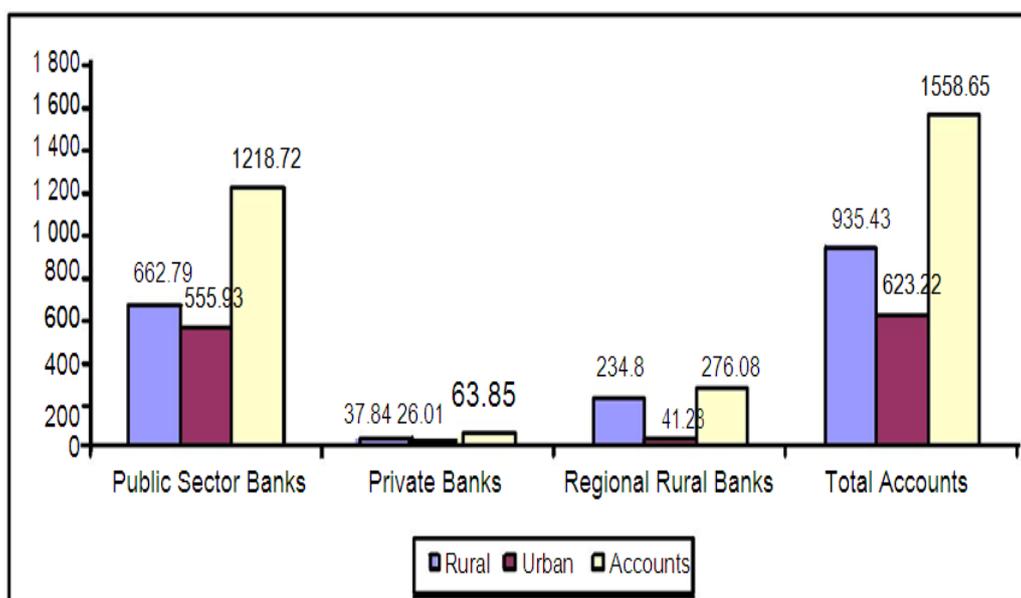


Chart 1 Bank Accounts – Rural/Urban opened under PMJDY as on 13.05.2015

Source :[http://en.wikipedia.org/wiki/pradhan\\_mantri\\_jan\\_dhan\\_yojana](http://en.wikipedia.org/wiki/pradhan_mantri_jan_dhan_yojana)

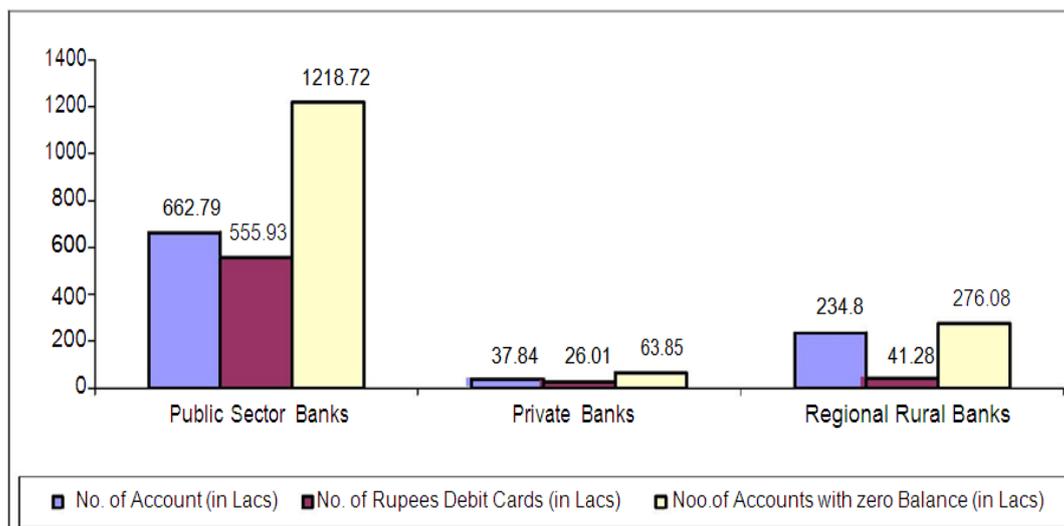


Chart 2: Banks Accounts opened under PMJDY as on 13.05.2015

Source :[http://en.wikipedia.org/wiki/pradhan\\_mantri\\_jan\\_dhan\\_yojana](http://en.wikipedia.org/wiki/pradhan_mantri_jan_dhan_yojana)

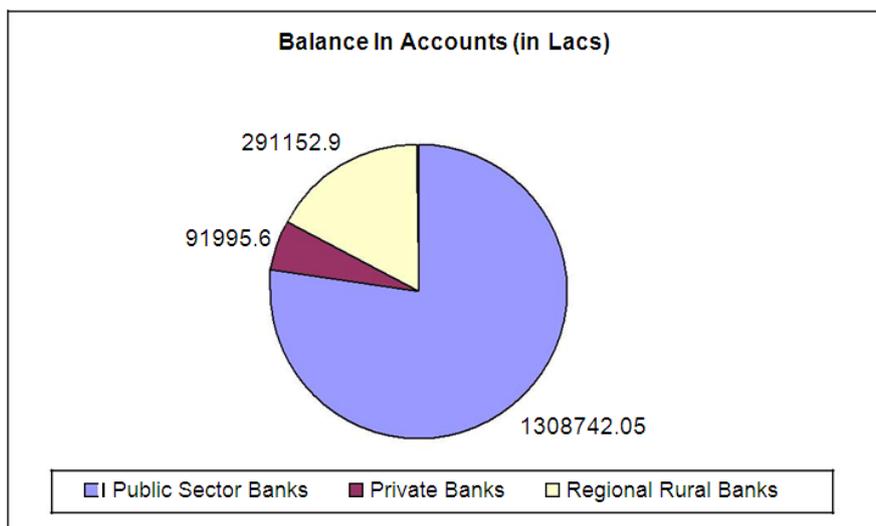


Chart 3: Sector wise Account Opened as on 13.05.2015 Balance in Accounts (in Lacs)

Source :[http://en.wikipedia.org/wiki/pradhan\\_mantri\\_jan\\_dhan\\_yojana](http://en.wikipedia.org/wiki/pradhan_mantri_jan_dhan_yojana)

### IX. CRITICISM

JDY has been criticized by many experts from banking sector because it has increased work-burden on the public sector banks. Congress alleged that it is not Modi's new programme, but it was started by UPA government. There may be duplication of accounts as people may open new accounts as lured by insurance covers and overdraft facilities. Secret conditions were not shown in TV advertisements of the scheme such as very few people are eligible to get life insurance worth Rs. 30,000 with a validity of just five years; it is quite unlikely that many people would get this facility as the bank would avoid potential NPAs. RuPAY card holders have got no legal paper for any such accidental insurance, so the claimed accidental insurance has also proved to be a non-existing scheme.

### X. CHALLENGES AHEAD FOR PMJDY

With deep-rooted corruption and inefficiencies in our system, Jan Dhan Yojana will certainly face many challenges:

#### 1. Inadequate Infrastructure

Indian banking system is not currently equipped enough to provide financial platform to all the people, so banking reach should be increased gradually so that customer base at any time can be serviced well and the system is not pressurized at any time (Sahoo, 2014, p 34).

#### 2. Disadvantages due to use of B.C. Model

There are several factors which act as a barrier in the delivery of banking services through BC Model i.e.

- a) Inordinate delay in issuing smart cards to customers (three to six month).
- b) Limited utility of smart cards, as services such as remittance are not loaded.
- c) Inadequate cash handling limited given to BCs, poor governance, inadequate supervision and lack of trust in BCs.
- d) Poor network connectivity
- e) Back of customer – centric banking products and services
- f) Absence of comprehensive strategy for financial strategy for financial inclusion (Kawaljeet, 2014).

### 3. Duplication of Accounts

There is no check on new accounts. Many individuals who already have bank accounts may open new accounts to get various facilities i.e., zero balance, free insurance and overdraft facility.

### 4. Increase the use of accounts

It is easy to motivate the people to open new accounts but the biggest challenge is to increase the number of transactions in those accounts.

### 5. Default Risk

There are high possibility that facility of overdraft may be misused. There is no clarity about non recovery of overdraft and associated cost.

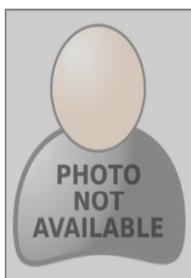
## XI. CONCLUSION

Pradhan Mantri Jan Dhan Yojana is first block-buster social upliftment programme of Modi Government. It may be a game changer for the economy because it has provided platform for Direct Benefit Transfer (DBT) which in time will help in plugging leakages in subsidies. The programme may be a waste if it leads to duplication of accounts or no transactions happens in new account. The success of the programme lies in increasing banking infrastructure and financial literacy; strict regulation and supervision is must so that programme does not go off the track.

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