Pradhan Mantri Jan-DhanYojana – A Game Changer for the Economy

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ABSTRACT

Financial inclusion is a national priority as it is an enabler for inclusive growth. It is important to take banking services to the unbanked and under banked areas, and to the people who are hitherto excluded and left to fend for themselves for their financial needs. In order to provide the much needed thrust to financial inclusion, a flagship programme called the ‘PradhanMantri Jan-DhanYojana’ (PMJDY) was announced by Honourable Prime Minister on 15th August 2014. This paper presents an overview of the scheme. An analysis of views of 50 customers covered under the scheme of State Bank of India is summarized, followed by concerns raised and the way forward.

Keywords: PradhanMantri Jan-DhanYojana, RuPay Card, Micro Insurance, Direct Benefit Transfer, Savings Bank Deposit Account.

1.0 Introduction

The motive behind nationalisation of banks was to permit the masses to have access to banking services. However, even after 69 years of independence, a large section is still out of the ambit of our banking sector. The objective of financial inclusion is to reach out to the excluded section and to extend financial services to the large hitherto un-served population of the country.

Table 1 reveals that out of 41 per cent of the total households in the country not having bank accounts, about 46 per cent of them are rural households and 32 per cent of them are urban households; who are deprived of any banking facility. This 41 per cent of the total households are to be made associated with the banks for their active participation in the financial system. They is a huge untapped market for banking industry. It is with this objective PradhanMantri Jan Dhan Yojana (PMJDY), was officially launched on 28th August, 2014.

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Table 1: Households Availing Banking Facilities – as per 2011 Census
(Nos. in lacs)

<table>
<thead>
<tr>
<th>Type of Households</th>
<th>Total Number of Households</th>
<th>Households Availing Banking Facilities</th>
<th>Percentage of Households Availing Banking Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>1,678</td>
<td>914</td>
<td>54.46</td>
</tr>
<tr>
<td>Urban</td>
<td>788</td>
<td>534</td>
<td>67.76</td>
</tr>
<tr>
<td>Total</td>
<td>2,466</td>
<td>1,448</td>
<td>58.71</td>
</tr>
</tbody>
</table>


The objectives of this paper are:

a. To give an overview of PMJDY scheme, a national mission on financial inclusion of all households in the country.
b. To study the impact of PMJDY on customers.
c. To review various concerns raised under the scheme and the opportunities it offers for the banks.

2.0 Overview of the PMJDY Scheme

PMJDY is National Mission for financial inclusion to ensure access to financial services, namely banking, insurance, pension in an affordable manner. The idea of Jan Dhan Scheme is based on *six pillars* which drive this project to establish reality in financial inclusion. These pillars are explained below.

*Pillar I: Universal access to banking* - PMJDY focuses on coverage of households as against the earlier plan ‘swabhimaan’ which focused on coverage of villages. It focuses on coverage of rural as well as urban areas. Earlier plan targeted only villages above 2000 population while under PMJDY whole country is covered by extending banking facilities in each Sub-Service Area (SSA) consisting of 1000-1500 households, such that facility is available to all within a reasonable distance, say about 5 Km. Each SSA must be covered either with a brick or mortar branch or fixed location Business Correspondent (B.C). The fixed location BC means a BC Agent with uniform who should be available 3-4 days in a week at one fixed location. In the remaining days of the week, he shall move to other attached villages with that SSA for providing banking services to the villagers. At the fixed location, a sign board / banner must be available and the BC Agent must have machine with inter-operable facility.

*Pillar II: Providing basic banking accounts* - All the households in the village / wards allotted to the bank must have one bank account, Passbook and RuPay Card is to be provided to these customers invariably.
**Pillar III: Financial Literacy Programme** - To be extended to block level from the district level

- Program is proposed to be implemented through a wide rule of Lead District Managers. They should conduct financial literacy program at the block level and Panchayat level to educate the people and make them aware of the advantages on access to formal financial system.
- BC Agents / Individual BCs / VLEs / Kiosk operators to impart awareness to the villagers in camp mode and make the people aware of their dos’ and don’ts while dealing with the corporate BC Agents / Individual BCs / VLEs / Kiosk operators.

**Pillar IV: Micro Credit availability & Creation of Credit Guarantee Fund for coverage of defaults in such accounts**: Facility of an overdraft up to 25,000/- to accounts opened under PMJDY in each household on completion of financial literacy training.

- The customer enrolled should be provided suitable credit facility and monitored properly
- Overdraft of maximum Rupees 5,000 will be sanctioned in one account of the household.
- Accounts should have satisfactory operation with proper credit balance for last six months.
- The base branch should take up with the concerned BC for proper follow up and ensure that the accounts do not slip into becoming a Non Performing Asset (NPA)

**Pillar V: Micro Insurance** - The fifth pillar of PMJDY is to provide micro-insurance to the people. Insurance Regulatory and Development Authority of India (IRDAI) has created a special category of insurance policies called micro-insurance policies to promote insurance coverage among economically vulnerable sections of society. A micro-insurance policy can be a general or life insurance policy with a sum assured of Rs. 50,000 or less.

**Pillar VI: Unorganized Sector, Pension Schemes like Swavalamban**: The sixth and final pillar of PMJDY relates to old age income security. To encourage workers in the unorganized sector to save voluntarily for their old age, an initiative called “Swavalamban Scheme” a co-contributory pension scheme was launched on 26th September, 2010, wherein the central government would contribute a sum of Rs. 1,000 per annum in each National Pension Scheme (NPS) account opened and having a saving of Rs.1,000 to Rs.12,000 per annum for a period not exceeding five years. The scheme runs up to F.Y. 2016-17. Under the scheme, Government will contribute Rs. 1,000 per year to each NPS of eligible subscribers opened in the year 2009-10, 2010-11, 2011-12 and 2012-13. They will get the benefit of Government co-contribution for five years.
Subsequently, the benefit of Swavalamban Scheme reduces to four, three, two and one year to the subscribers enrolled during F.Y. 2013-14 to F.Y. 2016-17.

2.1 Timeline for financial inclusion plan

The target is to achieve the comprehensive financial inclusion of the excluded sections by 14th August, 2018 in two phases as under:

- Universal access to banking facilities in all areas except areas with infrastructure and connectivity constraints like parts of Himachal Pradesh, Uttarakhand etc.
- Providing Basic Banking Accounts and RuPay Debit card which has inbuilt accident insurance cover of Rupees One lakh Aadhaar number will be seeded to make account ready for Direct Benefit Transfer (DBT) payment.
- Financial literacy programme.

Phase II (15th August, 2015 – 14th August, 2018)
- Overdraft facility up to Rs. 5,000/- after six month of satisfactory operation / credit history.
- Creation of credit guarantee fund for coverage of defaults in accounts with overdraft limit up to Rs. 5,000/-
- Microinsurance
- Unorganized sector pension schemes like Swavalamban

Some of the Phase II activities will also be carried out in Phase I. Additionally, in this phase; households in hilly, tribal and difficult areas would be covered. This phase would focus on coverage of remaining adults in the households and students.

2.2 Key benefits available under Jan Dhan Yojana

(i) **Life Insurance coverage of Rs. 30,000/-** for first time accounts opened in PMJDY, during the mega launch of the scheme on 28th August, 2014 in New Delhi, with the RuPay card for all those who subscribe to a banks account for the first time during the period 15th August, 201 to 26th January, 2015. The scheme aims to provide security to those families who cannot afford direct insurance, under any social security scheme.

(ii) **Accidental Insurance Coverage of Rupees 1,00,000/-**: This is linked with RuPay card to get the benefit. No premium is charged to the beneficiary – National Payment Corporation of India (NPCI) will pay the premium. At present, the premium is Rupee 0.47 per card. NPCI has signed MOU with HDFC Ergo for providing accidental insurance coverage.
(iii) **Overdraft upto Rupee 5000 in PMJDY scheme**: It is a general purpose loan to provide hassle-free credit to low income group / under privileged customers to meet their exigencies without insistence on security, purpose or end use of the credit.

### 2.3 Financial Inclusion in India: Present Status

“The number of new Basic Savings Bank Deposit Accounts (BSBDAs) rose considerably during 2015 on account of the government’s initiative under PMJDY. BSBDAs reached 441 million for the period ended September 2015. The total number of banking outlets went up 567,530 branches, as at end-September, 2015. Business Correspondence-Information and Communication Technology (BC-ICT) transactions in BSBDAs showed steady progress, with 836 million recorded, till September, 2015.

Brick-and-mortar branches are an integral component of financial inclusion and for increasing banking penetration. Hence State Level Bankers committee convener banks have been advised in December, 2015, to identify villages with population more than 5000 without a Scheduled Commercial Bank (SCB). The opening of bank branches under a roadmap is scheduled to be completed by 31st March, 2017”. (Economic Survey 2015-16, Vol. II, p.57.)

### 3.0 Methodology of the Study and Findings

In order to closely monitor and study the impact of PMJDY on customers of Public Sector Banks (PSBs) and to see the real picture from ground zero, it was required to focus on a sizable bank. State Bank of India (SBI) is the major bank in opening accounts under PMJDY scheme and is playing an important role in initiating the scheme.

A structured close ended questionnaire was distributed to the 50 customers covered under PMJDY from Jogeshwari to Vile Parle, Mumbai, Maharashtra to find their views. The sampling design was designed by taking into account age, educational qualification and occupation of the customers. The data was collected based on 24 parameters. The selection of the sample was on the basis of convenience technique based on non-probability sampling method.

The findings were as follows:

(i) The distribution of 50 respondents based on their age was – 24 per cent belonged to 18-30 age, 26 per cent belonged to 30-40 age group, remaining 50 per cent belonged to age group 40 and above.

(ii) 34 per cent respondents were males, while 66 per cent respondents were females.
(iii) The educational level of customers revealed that, 32 per cent respondents were with secondary education, 26 per cent were S.S.C., 24 per cent were H.S.C. while 18 per cent were graduates.

(iv) The distribution of the sample respondents according to their occupation revealed that 16 per cent were students, 8 per cent were self-employed, 24 per cent were housewives, 34 per cent were rendering service, while 18 per cent respondents were retired.

(v) All the 50 respondents had opened the saving account under PMJDY scheme, all had got RuPay Debit card and their account was linked with Aadhar Card.

(vi) About the awareness of the scheme, 60 per cent said that they came to know about the scheme from friends, 12 per cent from family members, whereas 22 per cent and 6 per cent said that they came to know about the scheme from the banker and advertisements about the scheme respectively.

(vii) All the 50 respondents felt that documentation process was easy.

(viii) 74 per cent respondents said that their PMJDY account was in operation mode, whereas 26 per cent said that it was not in operating mode.

(ix) 64 per cent respondents were aware about the overdraft facility available to them, whereas 36 per cent respondents said that they were ignorant about the overdraft facility.

(x) The direct benefit tax was received by 84 per cent respondents, while 16 per cent had still not received.

(xi) 70 per cent respondents said that they were using RuPay Debit card for withdrawal purposes, while 30 per cent were not using it.

(xii) All the 50 respondents said that no credit had been provided by the bank to them, nor had they yet received any insurance policy or any pension.

(xiii) Regarding awareness about facilities provided under PMJDY, 40 per cent respondents said that they knew they will receive ration subsidy, 12 percent were aware about pension, 48 per cent, knew about the insurance coverage, but none of them were aware about money transfer facility.

(xiv) 84 per cent of the respondents had got money transferred into their accounts for gas subsidy; remaining 16 per cent had not applied for it.

(xv) With respect to financial literacy 70 per cent respondents were using ATM services, remaining 30 per cent were not using, due to lack of access to technology. 44 per cent, respondents were using a cash kiosk machine for depositing cash, while 56 per cent where not using, again due to lack of access to technology. Only 32 per cent respondents for mobile banking and SMS alerts.
None of the 50 respondents were using internet facility, nor had they got registered for internet banking through Adharcard.

(xvi) Only 30 per cent respondents said that they got some benefit from PMJDY, while 70 per cent pointed out that the scheme did not benefit them.

(xvii) 24 per cent respondents said that PMJDY was helpful to the society, while 76 per cent said that yojana needs to be improved.

To sum-up, awareness of the PMJDY, is mostly through friends of the respondents. It has been observed that 100 per cent respondents have opened the saving account under PMJDY, but 26 per cent of the respondents don’t have account in operating mode. As per the benefits stated in the yojana, they are fulfilling the criteria, but still there is a question relating to the insurance and pension benefits. It has also been observed that core banking facilities are ignored by the respondents, as they don’t know how to access it. About the benefits got from PMJDY 30 per cent respondents said that they are getting benefits, while 70 per cent expressed that, they has not got any benefits.

4.0 Conclusion and the Way Forward

The study done for the Jan Dhan Scheme has resulted in following conclusions:

4.1 PMJDY- Myths and facts

Like any great plans with PMJDY Scheme also there as various myths associated. There are various concerns raised under the scheme, like:

Multiplicity of Accounts: Bound to the association of various public funding schemes and in keeping with the many inheritance benefits accruable to the accounts opened under Jan Dhan, there has been a fiasco of opening new account under Jan Dhan, even by those who are already having accounts. No doubt, at some of the places this events have indeed happened but through the awareness of Banks, they can be prevented. The applicant should be told that the desired facilities can even be availed in the present accounts through RuPay cards. Thus a person will avoid signing up for multiple cards.

Plurality of Dormant Accounts: Past experiences of financial inclusion have shown the opening of a large number of dormant accounts. But, this scheme has been designed in a way which may lead to lower number of dormant accounts. For accidental insurance coverage, there should be atleast one transaction in last 45 days from the date on loss and for overdraft facility there should be successful operation in the account for 6 months. Additionally DBT/DBTL plan, to transfer subsidy directly to the account. The above measures may ensure adequate operations in the accounts.
4.2 Opportunities for banks

Financial inclusion project has done a long journey from obligation to opportunity. Initially looked at as a social responsibility, the project has made banking of class to banking for mass. This shift in paradigm is clearly visible through the shift of banking industry to gain low cost deposit and secure advances under PMJDY. Opening accounts under PMJDY becomes a business opportunity for banks in following forms:

*Low cost deposit:* Bank is paying 4 per cent interest on the saving accounts including those opened under financial inclusion. In comparison to the average cost of funds which is 6.9 per cent, this fund is even cheaper for the bank. Further, these accounts are being served mainly through business correspondents, which reduce the transaction cost of such account. Thus the operational cost is even lesser on the financial inclusion accounts. These account holders are prone to use alternate delivery channel from day 1 which reduce footfall in the branch and increases operational viability.

*Stickiness:* One of the measure attribute of the financial inclusion account is the nature of stickiness. As account holders are no voice account holders and the service area is distributed amongst the banks on exclusive bases; there is fair opportunity of monopolistic business. Further, the bank will also be able to maintain a long term relationship with such customers.

*Cross selling of products:* Another business opportunity attached with the financial inclusion customers is the presence of a huge untapped market. There is a demand-side pull due to PMJDY scheme, as the customers will be entitled for following benefits through his/her account.

a. Life insurance / micro insurance
b. Social security pension
c. DBT for various government schemes, including monthly remittance for LPG / Kerosene subsidy.
d. Overdraft: Small overdraft upto Rs. 5000/- is to be given on 12 per cent rate of interest. This advance is secured through credit guarantee fund, and the limit will be sanctioned after satisfactory operations of 6 months in the account.

*Operational accounts:* One of the major change brought in to the financial inclusion project is issuance of RuPay card where in Rs. 1,00,000/- accidental insurance is inbuilt. While this additional benefits creates demand for the account, it further ensures balance as well as regular transactions in the account (In order to be entitled for accidental insurance, there should be atleast one transaction in last 45 days of the accident). These features will not only bring in stable funds in the account but also drastically reduce the non-operational accounts, which were a prime concern over the years.
Thus PMJDY is a major project for entire banking industries, by providing an opportunity to expand the customer’s base of the bank, acquire first time customers for longer relationship and increase profit with lower operational cost by bringing about a perfect mix of risk and business expansion.

4.3 Contribution of PMJDY to Indian economy
The major contributions of financial inclusion initiatives towards Indian economy are:

- Regulation of unbanked and underbanked sectors of the country.
- Reduction in unorganized financial sectors like moneylenders.
- Help in reduction of poverty.
- Generates employment opportunity.
- Tapping leakage of government fund by removing ghost beneficiaries.

Financial inclusion has broken the barrier between a plethora of financial services offered by organized financial institutions at the bottom of the pyramid. Concept of inclusive growth is no longer just policy choices, but are policy imperatives, which would determine the long-term financial stability and sustainability of the economic and social order, going forward.

References


Web References


http://pmjdy.gov.in/scheme