

# Impact of Pradhan Mantri Jan-Dhan Yojan (PMJDY) on Financial Inclusion in India: An Overview

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**Abstract:** *Financial inclusion promotes economic development of a country. An efficient financial system in a country includes well developed commercial banks. The country's structure of financial system plays a crucial role in smooth and efficient functioning of the economy as well. A financial system involves set of multiple segments and is associated with institutions, agents, practices and markets. Economic development through a network of banking institutions helps to mobilize savings and investment in the economy for productive purposes. The financial literacy camps organized for the purpose have created awareness among the masses regarding facility of savings provided by banks to the public at large. The literacy drive highlighted the need for a bank account for crediting various government entitlements to bank account in rural and semi urban area. PMJDY is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisages universal access to banking facilities with at least one basic bank account for every household, a strong financial literacy drive, access to credit, insurance and pension facility. In order to reduce the degree of "financial untouchability", and achieve the mega financial inclusion plan with the objective of covering all households in the country with banking facilities along with inbuilt insurance coverage, the "Pradhan Mantri Jan-Dhan Yojana" has been flagged off by the Government which, if effectively implemented, shall accelerate savings, investment and economic growth, fight against the poverty effectively and financially empower each individual of Indian economy.*

**Keywords:** Financial Inclusion, Financial System, Banking Facilities & Economic growth

## 1. Introduction

*"Exclusion from the banking system excludes people from all benefits that come from a modern financial system. In this (Pradhan Mantri Jan Dhan Yojana) mission, households will not only have bank accounts with indigenous RuPay Debit cards but will also gain access to credit for economic activity and to insurance and pension services for their social security". - Shri Narendra Modi*

It has been a concern that people despite the vast expansion, modernization and diversification of financial institutions, a large number of vulnerable groups remain excluded from the opportunities and services provided by the financial sector. Such excluded groups include women, artisans and small entrepreneurs, people in the unorganized sector, the self-employed and the pensioners. Financial inclusion is a subject of national priority for the Government and regulators of the Indian financial system. Successive Governments have made efforts to achieve this long-held goal. The Pradhan Mantri Jan Dhan Yojana (PMJDY) is arguably the largest financial inclusion drive in the world. As of February 28, 2015, a total of 136.8 million accounts had been opened within just six months after the announcement of the scheme. An affirmation of this by the "Guinness Book of World Records" is a feather in cap of the Department of Financial Services, the implementing arm of Ministry of Finance. "Financial Inclusion" can be called as a movement, initiated by various committees of Reserve bank of India, to achieve the goal of bringing the low-income and disadvantaged groups of economy into the ambit of banking and financial services. As part of the National Mission on Financial Inclusion, the Pradhan Mantri Jan-Dhan Yojana (PMJDY) is an integrated approach of Government of India to bring „universal access" to banking

facilities to every house hold, improve financial literacy, access to credit, insurance & pension facilities to every individual. A similar approach was launched in 2011 by the government, which was named "Swabhimaan", to achieve socio-economic equality by bringing the under-privileged segments into formal banking. The focus of "Swabhimaan" program was towards provision of banking facilities to rural areas. The Bank Sathi and Bank Mithra model enabled the rural households to receive government subsidies and benefits directly. But PMJDY created a comprehensive approach of including every individual and every household of the country, into the banking fold.

### *The objectives of the study*

The objective of the "Pradhan Mantri Jan-Dhan Yojana" (PMJDY) scheme is to eradicate "financial untouchability", which will eventually help to accelerate growth, fight against poverty effectively and bring about social transformation in country. The main objectives of the present article are;

- 1) To study the implication and impact of PMJDY scheme on financial inclusion.
- 2) To understand the role of government and banks in implementation of PMJDY scheme.
- 3) To overview on financial inclusion and other financial inclusion schemes in India.

**Research Methodology:** The sources for this article used from secondary research works, includes extensive reference to RBI reports & journals, research articles, and relevant websites.

## 2. Review of the Literature

- 1) Dr. Kaur & Singh, (2015) have positioned financial inclusion as a business opportunity to banks and the launch of PMJDY strengthens the resolve that when coordination, dedication, commitment trust, satisfaction and continuity is provided by all constituents and stakeholders, a frame work of construct is created which acts as a dominant force for accomplishment of the mission.
- 2) G. Madhukar, (2015) have find out that, PMJDY is a mission to eradicate poverty and it is expected to bring financial inclusion, financial stability and financial freedom to the poor and underprivileged people in rural, semi- urban and urban areas.
- 3) Harpreet Kaur &Kawal Nain Singh, (2015) suggested strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas using PMJD.
- 4) SonamKumariGupta, (2015) analyzed the performance of PMJDY and found that, of the accounts opened at public sector banks and private sector banks only 28% were active.
- 5) United Nations (2016), in its blue book titled "Building Inclusive Financial Sectors for Development", defines financial inclusion as the "access to the range of financial services at a reasonable cost for the bankable people and farms". Basic financial services include savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.

**Pradhan Mantri Jan Dhan Yojana (PMJDY):** Pradhan Mantri Jan Dhan Yojana (PMJDY) is a nationwide scheme launched by Indian government in August 2014 and its core lies at the development philosophy of 'Sab Ka Sath Sab Ka Vikas'. The basic objective of "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" is ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections (weaker sections) & low income groups. This deep penetration at affordable cost is possible only with effective use of technology. This PMJDY Yojana was implemented in the identified districts mainly by the public sector commercial banks and the Regional Rural Bank of the area. Private Sector commercial banks had a very limited role in urban areas. The rural and semi urban area were organized in Sub Service Area on the basis of number of households, about 1000-1500. The responsibility was allocated in urban areas on the basis of ward. Cooperative banks were not allocated any responsibility for coverage of any Sub Service Area or ward under the Yojana. In the light of the addition of Co-operative banks (Urban and Rural) in the PMJDY, Lead Banks may relook at the reallocation of sub-service areas / wards to these banks.

### **Main Features of PMJDY Scheme**

The Scheme foresees universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance, and pension facility. Also, the account holders would get RuPay Debit card having inbuilt accident insurance cover of Rs. one lakh. The scheme is also aimed at cashless payment modes by

ensuring the government benefits directly being transferred to the beneficiary account, in the process eliminating corruption and diversion of funds. Account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet. PMJDY accounts are being opened with Zero balance. However, if the account-holder wishes to get cheque book, he/she will have to fulfill minimum balance criteria. Mainly includes these services in this scheme, interest on deposit, accidental insurance cover of Rs. one lakh, no minimum balance required, the scheme provides life cover of ₹.30,000/- payable on death of the beneficiary, subject to fulfillment of the eligibility condition, easy transfer of money across India, beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts, after satisfactory operation of the account for 6 months, an overdraft facility will be permitted, access to pension, insurance products and overdraft facility up to Rs.5000/- is available in only one account per household, preferably lady of the household.

**Implication of PMJDY Scheme:** Under this scheme, account holders will be provided zero- balance bank account with Repay debit card and in addition an accidental insurance over of one lakh rupees. Those who open accounts by January 26, 2015 over and above the one lakh rupees' accident, they will be given life insurance over of 30,000 rupees. Six month of opening of the bank account, holders can avail Rs.5000 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.

**Financial Inclusion Schemes in India:** Over last three years, government has launched various flagship social security schemes with an objective of broadening financial inclusion in India. This was done to make financial services such as banking, insurance, and others available to the Indian citizens especially from the low & middle class category at an affordable cost and make them financially secure. And lots of efforts are being taken to increase the subscribers under each of these schemes. So let's check out the various financial inclusion schemes in the form of insurance, pension, savings account and others which were launched.

1. Pradhan Mantri Jan Dhan Yojana (PMJDY)-2014.
2. Pradhan Mantri Suraksha Bima Yojana (PMSBY)-2015.
3. Pradhan Mantri Jeevan Jyothi Bima Yojana (PMJJBY)-2015.
4. Atal Pension Yojana (APY)-2015.
5. Jeevan Suraksha Bandhan Yojana (JSBY)-2015.
6. Sukanya Samridhi Yojana (SSY)-2016.
7. Suraksha Bandhan Scheme (SBC)-2015.
8. Stand Up India Scheme (SIS)-2016.
9. Pradhan Mantri MUDRA Yojana-2015.
10. Pradhan Mantri Vaya Vandana Yojana (PMVVY)-2014.

**Scope and Role of Commercial banks in Financial inclusion:** The PMJDY scheme of the government, with support from all banks and participation of many supporting agencies, is trying hard to bring in the under privileged into the financial inclusion circuit. The major barriers to financial inclusion are lack of financial understanding or information,

poor people's low income and erratic cash flow, lack of suitable products and processes from formal financial service providers that cater to the needs of poor people. Most of the schemes of government for financial inclusion focused on rural areas, but the PMJDY scheme intends to focus on rural as well as urban areas. With the help of bank mitra or business correspondents, banks need to penetrate the services into the urban areas. It is important to note that the inclusion process can be expedited by many more financial literacy programs. In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account or savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc. and all this at a reasonable cost.

**Spreading of Financial Inclusion in India:** Financial inclusion in India has not equal spreading in all states.

- High Financial Inclusion states: Kerala, Maharashtra and Karnataka.
- Medium Financial Inclusion states: Tamil Nadu, Panjab, Andhra Pradesh, Sikkim, Himachal Pradesh and Haryana.
- Low Financial Inclusion states: West Bengal, Gujrat, Uttar Pradesh, Meghalaya, Tripura, Odessa, Rajasthan, Arunachal Pradesh, Mizoram, Madhya Pradesh, Bihar, Assam, Nagaland and Manipur.

#### Main goals of Financial Inclusion

The United Nations defines the goals of financial inclusion as follows:

- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance.
- Sound and safe institutions governed by clear regulation and industry performance standards.
- Financial and institutional sustainability, to ensure continuity and certainty of investment.
- Competition to ensure choice and affordability for clients.

**Benefits of PMJDY on Financial Inclusion:** The PMJDY scheme launched in August 2014, has had a visible impact on the lives of those who were yet to benefit from the rapid rise of the country's financial services sector. Dubbed as the world's biggest financial inclusion drive, with an entry in the Guinness Book of Records to boast, the PMJDY has 30.67 crore beneficiaries. For the first time they were brought under the ambit of formal banking. Three years on, the total balance in their no-frills accounts stands at ₹69,026.72 crores (as on November 22). The scheme also offers a life cover of ₹30,000 to each of its beneficiary. Also, the National Payment Corporation of India (NPCI) has so far issued 23.05 crore RuPay debit cards to the accounts holders. One of the main benefits has come in the form of integration of Jan Dhan accounts with the direct benefit transfers of Government incentives. The distribution of pension and welfare and subsidy related payments are being

done through these accounts. As on today, under the PMJDY Scheme 31.20 crore beneficiary banked so far ₹75,572.09 crore balance in beneficiary accounts and 1.26 lakh Bank Mitras delivering branchless banking services in sub-service areas.

### 3. Conclusion

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all the sections of the society in general and vulnerable groups at an affordable cost in a fair and transparent manner by the main stream institutional players. All the benefits such as financial inclusion, financial stability and financial freedom are expected to get through the PMJDY, to the poor and the underprivileged people in rural, semi-urban and urban areas. Banking on change should inspire and catalyze further action by governments, banks and donors alike to break down the barriers to financial inclusion for poor people. 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 future. A bold step is 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. The growth in deposits due to PMJDY translates into capital formation when channeled as savings and investments. This in effect leads to economic growth in India.

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