

## An analysis of Pradhan Mantri Jan Dhan Yojana

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### Abstract

India today is one of the fastest growing economies and is amongst the top 10 economies of the world with estimated GDP of USD 2.1 trillion (Nomura 2014) and fourth biggest when measured in terms of purchasing power. In spite of such a strong position on world economic map it suffers from the problem of poverty and poor financial inclusiveness. According to 2011 census only 58.7 percent of the households have access to banking services. To take care of this situation and to increase the financial connectivity of all households so as to improve their economic conditions and free them from exploitative practices of landlords and agents helping them to collect government payments the Government of India on 28 August, 2014 launched Pradhan Mantri Jan Dhan Yojana (PMJDY) with a target of opening at least one bank account to each household across the country, covering 75 million households by 26 January 2015. It was a general opinion that opening a bank account is not a big achievement but converting these account into active accounts will indeed be a challenge and only time will tell to what extent the scheme has been successful in achieving the objective of promoting financial inclusion or will it be only be yet another scheme with huge promises but little success. The paper focuses on analyzing the progress made by PMJDY, challenges faced and to come up with suggestive measures in order to make this scheme a real success, and be regarded as a premier scheme towards promoting financial inclusion.

**Keywords:** poverty, financial inclusion, banking services, active accounts

### 1. Introduction

As per census 2011 around 58.7 percent of the households were able to have access to banking services. Further to it as on 31 March 2014 there stood a bank network of 1,15,082 branches and ATM network of 1,60,055 units. Of these 38.2 percent branches and only 14.58 percent of ATMs are working in rural areas. Though access to formal financial institutions has improved over time but still thousands of villages not have a bank branch and less than 10 percent of all commercial bank credit goes to rural area which is the dwelling area for around 70 percent of the total population of India. RBI data, March 2014, suggests that only 46,126 out of 640,867 villages in India are covered by banks which are even less than 10 percent. Out of the 210 million total households around 95 million households do not have access to any banking services. In order to cater these 95 million households and bring them into the ambit of financial services and to achieve almost near to 100 percent financial inclusion the scheme Pradhan Mantri Jan Dhan Yojana has been introduced from 28 August 2014, targeting opening of 75 million accounts in phase I till 26 January 2015. This was in November 2015 revised to 100 million bank accounts.

### 2. Review of Literature

Rajeshwari M. Shettar (2016) <sup>[4]</sup> in his paper titled "Pradhan Mantri Jan Dhan Yojana: Issues and Challenges", revealed that PMJDY scheme is fully helpful to rural and urban area people in getting directly the benefits of government schemes. The study concluded that, PMJDY scheme has created an impressive result in the banking sector with regard to eradication of financial

untouchability in the country. The paper also put forward the point that mere opening of bank accounts may not fulfill the aim of the scheme, but there should be continuous operation of bank accounts to give the real success of the scheme.

Vinit Kumar (2015) <sup>[3]</sup> in paper titled, "Pradhan Mantri Jan Dhan Yojana (PMJDY): Financial Inclusion and Inclusive Growth in India", explained that Pradhan Mantri Jan Dhan Yojana is a scheme for comprehensive financial inclusion launched by the Prime Minister of India and is based on "Sab ka sath sab ka vikas" i.e. inclusive growth. The main objective of this scheme is to ensure universal access to banking facilities with at least one basic bank account for every household. This research paper focused on financial inclusion, inclusive growth, threats and strategy of the scheme.

Sudhir Singh Chowhan and J.C. Pande (2014) <sup>[1]</sup> in their paper titled "Pradhan Mantri Jan Dhan Yojana: A Giant Leap Towards Financial Inclusion", focused on the importance of financial inclusion and to mitigate this long drawn financial sufferings Prime Minister Narendra Modi announced a new scheme in his Independence Day speech on 15th Aug 2014, and called it as the National Mission on Financial Inclusion (NMFI) for weaker section and low income groups. The paper focused on the importance of financial inclusion and the impact Pradhan Mantri Jan Dhan Yojana (PMJDY) on all stakeholders in our country

### 3. Objective

The objective of the paper is:

- To understand Pradhan Mantri Jan Dhan Yojana (PMJDY).

- To understand the implications of Pradhan Mantri Jan Dhan Yojana.
- To focus on the threats posed before success of Pradhan Mantri Jan Dhan Yojana.
- To suggest measures for successful progress of Pradhan Mantri Jan Dhan Yojana and through it promoting financial inclusion drive.

**4. Pradhan Mantri Jan Dhan Yojana –Fact Sheet**

The main objective of Pradhan Mantri Jan Dhan Yojana (PMJDY) to facilitate each family with at least with one bank account, this means opening 75 million bank accounts by 26 January 2015 for those who are totally deprived of any source of formal banking facilities. 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.

**4.1 Features of the Scheme**

Account holders will be provided zero-balance bank account with RuPay debit card, in addition to accidental insurance cover of Rs 1 lakh (to be given by 'HDFC Ergo').

- Those who open accounts by January 26, 2015 over

and above the Rs.1 lakh accident cover, account holders will be given life insurance cover of Rs. 30000(to be given by LIC).

- Once the bank account has been active for 6 months and has been linked to account holders Aadhar identity, they would become eligible for an overdraft of up to Rs 2500 which would further be enhanced by the bank to Rs 5000 over time.
- 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 so far.Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.
- A Credit Guarantee Fund will be created before August 2018 to cover potential defaults in overdrafts.
- All willing and eligible persons will be provided with micro-insurance by August 2018.
- Pension payments under the Swavalamban Yojana scheme for workers in the unorganised sector will be paid through bank accounts by August 2018.

**Table 1:** Report Card of Pradhan Mantri Jan Dhan Yojana (As on 31 January, 2015) (In million)

Sl. No.		No. of Accounts			No. of Rupay Debit Cards	Balance in Accounts	No. of Accounts with Zero Balance
		Rural	Urban	Total			
1	Public Sector Banks	53.30	45.14	98.44	91.23	81746.30	65.54
2	Regional Rural Banks	18.49	3.30	21.79	14.97	15994.81	15.94
3	Private Banks	3.23	2.01	5.24	4.59	7255.15	2.99
	Total	75.02	50.45	125.47	110.79	104996.26	84.47

Source: <http://www.pmjdy.gov.in/account-statistics-country.aspx>

**5. Progress of PMJDY**

The basic purpose of launching PMJDY was to open at least 75 million bank accounts, which was revised to 100 million accounts in November 2014 based on the initial success of the scheme, in order to bring all the households under the coverage area of banking services by 26th January 2015, seemed to be a very daunting task, and created interest to see to what extent this mission could be achieved. Going through the data in the table 6 it was heartening to witness that the commitment of the government resulted in opening of 125.473 million of account as on 31 January, 2015, that is more than what was planned for the first phase, actually the target of opening 100 million bank accounts was achieved a month before the January 26 deadline. The result of such a successful drive has been that 100 percent of the eligible households have now been covered and are said to be financially included. Add to it what was encouraging to note was that of the total accounts opened almost 60 percentage of accounts were opened in rural areas. But the point that needs to be taken care and may be a matter of concern is that around 67 percent of the total accounts opened are Zero Balance Accounts. The challenge before the Government will be how to convert these accounts into active accounts in times to come

**5.1 Dormant Accounts- The Biggest Challenge**

No doubt that the PMJDY has been a great success beyond expectations as far as opening of a minimum of 100 million bank accounts was concerned. At the same time it should always be kept in mind that almost 67 percent of the total bank accounts opened are zero balance accounts. The challenge before the government is to initiate measures that could build confidence among rural poor that the banks are the ultimate source of funds at times of need else the accounts will only be categorized as ornamental accounts with having no transactions other than receiving and withdrawing the transfer money. Creating new account is not a challenge but increasing transaction per account is a challenge.

**6. Achievements under the Scheme**

**6.1 Reducing Percentage of Zero Balance Accounts**

Most of the accounts opened under the PMJDY and initially been dormant have due to positive and committed efforts of the government such as enforcing all payments to be remitted through banking channels worked as a blessing for the poor masses as now they have no choice other than to make use of accounts and thereby develop banking habits and understand the importance of savings through banking channels. Most of the account activity is due to higher government

subsidies flowing in, said bankers who continue to conduct their monthly financial literacy and training programs in rural areas. While cooking gas subsidies, pensions, scholarships and wages for the rural jobs

scheme are currently routed through these bank accounts; new customers are also making small deposits, besides availing loans and insurance facilities.

**Table 2:** Status of Total Accounts Opened and Zero balance Accounts under PMJDY (In million)

As on	Rural	Urban	Total	No of Rupay Cards	Balance In Accounts	% of Zero Balance Accounts
31st January 2015	75.00	50.45	125.47	110.79	104996	67.32
24th February 2016	128.70	81.30	210.00	174.60	330749	28.88
19th April 2017	169.70	114.10	283.80	221.50	639601	23.80

*Source:* <http://www.pmjdy.gov.in/account-statistics-country.aspx>

The share of zero-balance accounts—which indicates lack of activity—has fallen. According to data on the PMJDY website, as on 31 January 2015, 67 percent of the 125.47 million Jan Dhan Accounts were zero-balance accounts. As on February 24, 2016, only 28.88% were zero-balance accounts, even as the total number of Jan Dhan accounts increased to 210 million. The status of zero balance accounts of the total 283.80 million accounts opened under the Pradhan Mantra Jan Dhan Yojna stands at 23.80 percent as on April 19, 2017. This rising trend of activeness in accounts shows that people have started recognizing the importance and benefits of transacting through banking channel, which is a healthy sign towards confidence building on banking system.

## 6.2 Rising Deposits in Accounts

The above table highlights the fact that the total deposits in these accounts as on February 24, 2016 stood at Rs.330749 million which has increased more than thrice within a period of 13 months from Rs.104996 and further to Rs. 639601 on April 19, 2017, This means the average balance in each account that is not classified as zero-balance is about Rs.2958. This shows the build-up of confidence which the government has succeeded to develop among the poor.

## 6.3 Plugging Leakages from Subsidy

Routing subsidies and welfare payments through the Jan Dhan scheme has helped plug leakages in subsidy transfer. According to the Economic Survey for 2015-16 leakages in LPG subsidy transfers fell 24% and the exclusion of beneficiaries had been greatly reduced, due to forced banking infrastructure created by Jan Dhan Accounts, Aadhaar and Mobile networks, the combination named as JAM trinity. Besides, these new account holders, however, are not just receiving benefits from the government under the Jan Dhan scheme; they have also started using the accounts to make deposits and avail credit.

## 7. Challenges before PMJD Yojana

### 7.1 Internet Connectivity Problem

The greatest challenge before proper operation of the scheme is related to inadequate infrastructure base for internet facilities basically in tribal and hilly areas thus making it difficult for Business Correspondents to actually deliver the required basic banking services, which can dent the confidence and faith of the rural poor on banking services.

### 7.2 Diversion of Funds for Overdraft Facility

The overdraft facility that the Jan Dhan scheme commits could be valuable for the poor but clarity has still not emerged on where the funds would be diverted from to finance it. Some news reports suggest that the overdraft facility will be guaranteed by an Rs 1,000 crore fund from NABARD. But this may not be sufficient if the overdraft facility really takes off. Assuming one account each for 75 million households, an overdraft facility of Rs 5000 each amounts to Rs 37,500 crore. Even if one is to assume a risk proportion of 20-25 per cent, it would imply a minimum of Rs 7,000 crore loss to the banking sector. The question is who will bear this loss.

### 7.3 Increasing Cost of Business Correspondents

The costs of running this banking correspondent model will be tested even more as the financial inclusion scheme reaches deeper into rural India. If one wants these accounts to be functional and not remain dormant then the density of banking correspondent has to be increased, which will increase the cost of delivering the banking services, This also needs to be tested if the cost of delivering exceeds the banking business who is going to be blamed. To ensure the success of this scheme, the Finance Ministry has also decided to increase the salary payments for BCs to Rs. 5000 per month. If we assume a BC force of 5 lakh persons, then the annual salary bill for the banks will be around Rs. 3,000 crore. Now, the moot question is whether the PMJDY accounts will earn sufficient returns to offset the increased BC salary payout for the banks.

### 7.4 Managing Multiple Saving Bank Accounts

It is assumed that around 20 percent of the total bank accounts opened in the last week as part of Prime Ministers Jan Dhan Yojana have been opened by individuals who already have savings bank accounts in other banks. Many of the new enrollments under PMJDY have opened accounts with an eye on benefiting from the Rs. 1 Lakh accident insurance and overdraft which can be availed in six months' time. Thus the challenge before the Government and banks is to identify such accounts and initiate strict actions against those involved. As per norms PMJDY is only for those who do not have any bank account either in public or private sector banking setup.

### 7.5 Retrieval and Collection of Loans

One of the major limitations that PM Jan Dhan Yojana

may come across is the retrieval and collection of loans. The borrowers are primarily going to be low amount borrowers and would often come from unorganized segments of society and profession. It might be a little difficult for the banks and the system to keep a track of the borrowers and thus they may end up in losses. It is however yet to be seen how banks cope up with this opportunity and still be a source of the right financial change, as aspired by the Yojana.

### 7.6 Defaults in Loan Repayment

Though the Jan Dhan Yojana has extended the facility of overdraft to the account holders based on their good track record for the last six months, still one cannot deny the possibilities of default in repayment by these poor sections of society. Nothing has been clarified regarding the recovery machinery except that the provision on credit guarantee fund will be maintained for such sort of default. To what extent this fund will be able to cater the default situations is yet to be seen. Further by whom the liability of default will eventually be shared is a big question.

### 7.7 Tackling Unaccounted Money Deposited During Notebandi

After the announcement of Demonetization of high value noted of Rs.500 and Rs.1000 losing their legal tender status from mid night of 9<sup>th</sup> November 2016, there was a rush of people to get deposit their unaccounted black money in the Jan Dhan account holders treating these accounts as surrogate accounts. The result of this act was huge surge in deposits in such accounts. Government agencies confirmed that as on November 16, 2016 Total deposits in 255 million Jan Dhan accounts have increased to Rs 642521 million, with Uttar Pradesh leading the chart with Rs 106706.2 million deposits followed by West Bengal and Rajasthan. Deposits in Jan Dhan accounts rose sharply by around Rs 272000 million in just 14 days after the announcement of demonetization. The challenge before the government is how to tackle this tricky situation to punish the guilty and save the poor account holders as though as on April 19, 2017 there are 283.8 million Jan Dhan accounts with a total deposit of Rs. 639601 million which is less than what was on November 16, 2016, indicating that the black money holders who have used these accounts of poor people to park their funds have succeeded in withdrawing Rs. 2920 million, thereby denting the government's effort to dent the black money.

### 8. Suggestions

Opening bank accounts may not be immediately viable but over a period of time with payments from Governments under Direct Benefit Transfer schemes can improve viability, following strategic actions by banks can contribute to improve viability and effectiveness of the Jan Dhan Yojana towards attaining the true financial inclusion objective.

- Both the Government and banks have to work in coordination towards launching massive campaign programmes regarding better understanding of PMJDY among the poor households and also focus

on improving the level of financial literacy and education that can help them recognize the benefits they can avail under the scheme and the responsibilities associated with it.

- Banks should owe the responsibility of creating customer friendly systems that could develop an element of confidence among these new account holders and motivate them for operating bank accounts and keeping operative with flow of transactions rather than letting these accounts as dormant. For this a personal touch on the part of bank employees is important so as to remove an element of fear from poor rural masses. Though remarkable progress has been done in this direction still it is suggested that there should not be any let off till 100 percent financial inclusion is achieved.
- Banks under the PMJDY need to ensure that beneficiary uses overdraft facility to acquire assets, pursue economic activity, generate income and ultimately convert it into loan in due course. This calls for concern, commitment and accountability of all stake-holders under the PMJDY to make it result-oriented.
- The network of post offices which spread across the nation even in the remotest areas can be utilised for effective implementation of the Jan Dhan Yojana. It is suggested that if there is no bank in nearby locality then an extension counter beside the post office counter can be established and the post master or even bank employee assigned for the task can be given targets and responsibility for proper counselling of people and providing necessary basic banking services to the satisfaction of the account holder.
- Like the "Post Office on Wheels", which provides a variety of postal services through a mobile van in the country, the mobile van banking is another credible delivery model which could be used to serve large customers located in the far-flung rural areas at regular intervals.
- It is imperative that the policy focus should shift from the quantity of inclusion to the quality of inclusion. The success of the JDY should not be measured only on the basis of the number of new accounts opened. The measure of success should also include clearly-defined targets for usage and transactions.
- In a rural setting, a mini-branch (consisting of two staff persons) can easily serve four-to-five villages and provide a full range of banking services. This would ensure that the villagers will no longer have to take substantial travel and expense to visit a mini-branch. A mini-branch linked to the nearest large branch could function as a hub-and-spoke system. In Andhra Pradesh, for instance, the HDFC bank has recently established several mini-branches and found it to be a commercially viable model to offer full banking services to the rural people.
- Internet has become a trusted source of information for vast number of users. So there is a need of building an interactive internet based system by which the banks could able to understand the queries

of people living in rural areas. It can also play an important role in simplifying procedures and reducing transactions costs for banks and their clients.

- It is recommended that internet connectivity and speed should be increased in tribal and hilly areas so that the confidence and ease of doing banking transactions can be entertained.
- Efforts should be made by Reserve Bank of India to identify those Jan Dhan Accounts which have witnessed high value transactions during note ban period resulting in sudden spurt in the balances and take stern legal actions against influential and rich people who have lured poor account holders to allow them to park their unaccounted money in these accounts. Stringent action is needed if the government really wants to convey that no one will be spared at whatever position he/she might be if the authority is misused, and to bring smiles back on the faces of such poor people who could not resist the dominance of rich class and been victimised.

## 9. Conclusion

The situation as regard to financial inclusion is concerned has started showing signs of improvement and more so because of the successful implementation of Pradhan Mantra Jan Dhan Yojna. The commitments level and firm determination on the part of government, policymakers, banks and all those associated with the scheme, made sure that the accounts opened under the scheme do not lay as dormant accounts but be a legal active account, which has been a great achievement for the scheme. However still 100 percent financial inclusion has not been achieved in true sense but by taking care of the implementation problems, there is no doubt soon that the day will come when we can proudly say that yes our country is financially included cent percent and ready to govern the world as real economic power.

## 10. References

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