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# Ensuring Economic Empowerment through Pradhan Mantri Jan Dhan Yojana: Retrospect and Prospect

Dr. Satya Bhan Yadav, Associate Professor of Economics, BSR Govt Arts College, Alwar (RAJASTHAN) 301001.

Abstract

Prahan Mantri Jan Dhan Yojana (PMJDY) is a national mission for financial inclusion to ensure access to financial services namely banking, savings and deposit accounts, remittance, credit, insurance and pension in an affordable manner. This financial inclusion scheme was introduced in August 2014 and it envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility in the country. The study finds that new accounts have been opened by women, small and marginal farmers, and rural people with no formal education. The present study has been undertaken to examine the extent of financial inclusion through PMJDY, reasons for financial inclusion/exclusion under PMJDY and to give suggestions to strengthen the financial inclusion through PMJDY.

The present paper also endeavours to study economic empowerment through financial inclusion in India with special reference to Pradhan Mantri Jan Dhan Yojana (PMJDY), highlighting its key areas and suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas.

**Keywords:** Common Service Centres, business, Demonetization, Financial Inclusion, Financial literacy, RuPay Card, Self-Help Groups.

## Introduction

Financial Inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups - rural customer. The Financial Inclusion Plan aims at providing easy access to financial services to those sections of the society who are deprived of it so far at affordable cost thereby bringing them into the mainstream financial sector. Financial development through a network of banking institutions helps to mobilize savings and investment in the economy for productive purposes. The Government of India along with the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) has been making concerted efforts to enhance financial inclusion in India. These measures include expansion of formal financial services, licensing new banks, increasing number of branches of banks, increasing banking outlets, extension of ATM services, promoting SHGs-Bank linkage, encouraging Micro Finance Institutions

(MFIs), use of Business Facilitators and Correspondents, easing of 'Know-your - customer' norms, electronic benefits transfer, use of mobile technology, opening of 'no-frill accounts' and emphasis on financial literacy. Implementation of Financial Inclusion is not a new concept for Bank.

## Background

Financial Inclusion activities are being implemented by Bank since inception through various government sponsored programmes, lending to the poorest of the poor, lending to the minority communities, lending to SC/ST, lending to priority sectors, etc. It will enable the Government to provide social development benefits and subsidies directly to the beneficiary bank accounts, thereby drastically reducing leakages and pilferages in social welfare schemes. Further, expanding the reach of financial services to those individuals who do not currently have access would be an objective that is fully consistent with the people-centric definition of inclusive growth which attempts to bridge the various divides in an economy and society, between the rich and the poor, between the rural and urban populace, and between one region and another. Thus, financial inclusion could be an instrument to provide monetary fuel for economic growth and is critical for achieving inclusive growth.

However, the RBI formalized the concept of Financial Inclusion in 2005, when it permitted rendering of banking services through Business Correspondent (BC) channel. It has been defined, by the Committee on Financial Inclusion, 2008, as 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 at an affordable cost. It primarily represents access to a bank account backed by deposit insurance, access to affordable credit and the payments system. It then advised all commercial banks in the year 2010 to submit Board approved Plan for providing banking services in rural unbanked areas under Financial Inclusion. In the year 2011, the Government of India gave a serious push to the programme by undertaking the "Swabhimaan" campaign to cover over 74,000 villages, with population more than 2,000 (as per 2001 census), with banking facilities. Because of the RBI's drive for financial inclusion, the number of bank accounts increased by about 100 million during 2011-13.

Financial inclusion is a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups in particular, at an affordable cost, in a fair and transparent manner, by regulated, mainstream institutional players (GOI, 2008). The objective of financial inclusion is to transform the lives of vulnerable people, mainly poor, by providing them access to banking finance and enabling them to generate stable income (Reddy, 2017). Financial Inclusion helps vulnerable segments of the society and is concerned with financial needs of people requiring financial services like saving accounts, credit on easy terms, insurance, asset-leasing, and pensions.

## Review of Literature

In the context of India, several studies have been conducted on issues related to banking the unbanked population. In fact, contrary to general belief, historically, India is a pioneer in financial inclusion. The Cooperative Credit Societies Act, 1904 gave an impetus to cooperative movement in India (Roy, 2011).2 The objective of cooperative banks was to extend banking facilities, mainly availability of credit on easy terms compared to money lenders who were well know to charge high rates of interest. In India, financial inclusion exercise explicitly started with nationalization of State Bank of India in 1955. In 1967, there emerged a debate on social banking and consequently 14 private sector banks were nationalised in 1969 to serve unbanked population, mainly weaker sections of society as well as rural areas. Financial inclusion promotes savings, particularly in rural areas and it brings vulnerable groups into formal banking services. The concept of priority sector lending became important by 1974 which implied directed lending to unbanked areas, and in 1980, eight more private banks were nationalised to extend banking in rural and remote areas. Since then, there has been considerable reorientation of bank lending to accelerate process of development, especially of the priority sector, which had not previously received sufficient attention. In the previous decades, few initiatives were undertaken as discussed above, but formal thrust came from 2008 after adoption of recommendations of Report of the Committee on Financial Inclusion (GOI, 2008). RBI's cautious policy on financial inclusion had been to ensure a balance between equity and efficiency as well as ensuring financial health of banks and preserving their lending capacities. RBI had adopted a bank-led approach and has been neutral to the use of technology by individual banks. With the aim of making door step banking facilities available to the unbanked population, RBI during 2010-2013, identified villages with a population of more than 2,000 and allotted them to different banks for extending coverage through various modes of banking like branch banking, BC, ATMs, mobile vans etc. Consequently, according to the RBI, in January 2013, banking facility had reached more than two lakh villages with nearly 80 per cent out-reach through business correspondents, and nearly 10 crore savings bank deposit accounts, including erstwhile no-frill accounts, were opened during 2010 to 2012. In the second phase starting from 2013, close to 5 lakh unbanked villages with population lower than 2,000 were similarly allotted to various banks.

## Objective for the Study

Financial inclusion is initiated by RBI in year 2005 and new government has actively resumed it in August 2014. In literature review we found that many researchers has evaluated financial inclusion schemes and its support from private players but awareness related studies are not done rigorously. All the objectives and features of new financial inclusion scheme PMJDY are striking compare to old scheme of Swabhimaan, but unless and until the end-users would not be aware and educated about all these schemes of financial inclusion they could not contribute effectively.

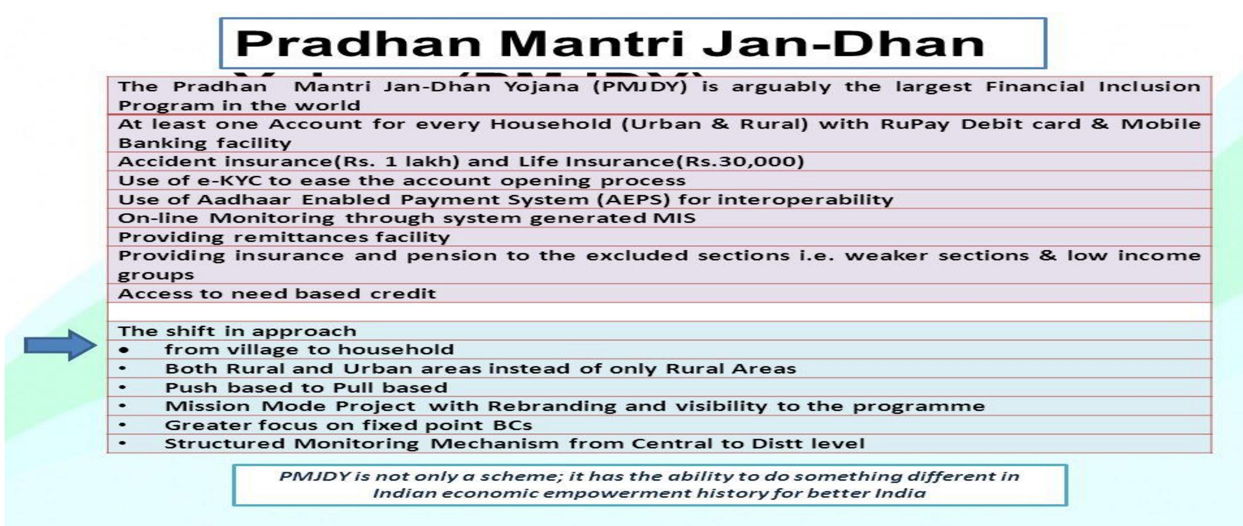
Following are the objectives:

1. To study salient features of new financial inclusion scheme and its current status.
2. To study the awareness about financial inclusion schemes among rural customers.
3. To examine the benefits enjoyed form PMJDY by account holders and to collect feedback from beneficiaries of PMJDY on expectations from PMJDY.
4. To study the changing trends in financial inclusion with special reference to Pradhan Mantri Jan Dhan Yojana
5. To study various challenges and impediments in implementing PHJDY among rural customers.

## Pradhan Mantri Jan- Dhan Yojana: Conceptual Analysis

The Pradhan Mantri Jan-Dhan Yojana (PMJDY) was launched on August 28, 2014 by the Prime Minister in the national capital with a vision to bring unbanked section of the society into mainstream banking. The Scheme was initiated to provide bank account and banking services to each household in the country so as to have comprehensive financial inclusion. So far, as on 29th June, 2016, more than 22.29 crore new bank accounts have been opened under the Yojna with a total deposits of over Rs 39,251.57 crore in these accounts, and overdraft facility has been availed in about 20 lakhs accounts. Out of all the accounts opened under the scheme, 61% are in rural areas and more than 52% are women account holders. As on 29th June, 2016, 10.39 crore of the accounts opened under PMJDY are seeded with Aadhar numbers. In addition to this, 18.22 crore *Rupay Cards* have been issued under PMJDY. Out of all the accounts opened under PMJDY, the zero balance accounts are now left almost one fourth only, that is 25.29 percent, which means people have started doing transactions in their accounts. The progress report of PMJDY claims 316 million beneficiaries. As informed by banks, as on 28.2.2018, 31.20 crore accounts

Fig.1: PMJDY and Its Features



have been opened under Pradhan Mantri Jan-Dhan Yojana (PMJDY), and of these, 25.18 crore (81%) Jan Dhan accounts are operative.

The PMJDY enabled the citizens with universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility. With Rs 30,000 to be provided as life insurance cover for all the first time bank account holders. It not only paved the way for financial access, but also channelize all the government benefits (from Center / State / Local Body) to the beneficiary's accounts.

PMJDY is a comprehensive financial inclusion plan to provide banking services to all households in the country with a strong focus on the use of technology. It was realized that exclusion from the banking system excludes people from all benefits that come from a modern financial system. Hence, with this Mission, households will not only have bank accounts with indigenous RuPay Cards but will also gain access to credit for economic activity and to insurance and pension services for their social security. The main features of PMJDY include Rs. 5,000 overdraft facility for Aadhar-linked accounts and a RuPay debit card with inbuilt Rs. 1 lakh accident insurance cover. In addition, for accounts opened between August 15, 2014 and January 26, 2015, a Life Insurance cover of Rupees 30,000 is available to the eligible beneficiaries. Additionally, one of the salient features of PMJDY was that after remaining active for 6 months, the account holder will become eligible for an overdraft of up to Rs 5,000. In recent years, after launch of PMJDY in August 2014, the reach of banking sector has been extended to nearly 95 percent of households. As on June 2016, 4,52,151 such villages have been provided banking services as of June 2016, with majority being covered through BCs.

## Need of financial inclusion

To analyse further, it would be interesting to understand the basics of and need for financial inclusion. The committee on financial inclusion of government of India in 2008 defined financial inclusion as 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, at an affordable cost. Thus, financial inclusion can be expected to provide universal access to a wide range of financial services beyond banking, such as insurance and equity products.

So, why is it necessary that the country like ours should pursue financial inclusion? This is for many reasons. First, a bank account provides dignity to the holder. It is not only the pride of having a bank account which is important but much more important is the fact that a bank account implies availability of financial resources, some for livelihood purposes, at reasonable rates of interest. This implies that the bank account holder cannot be exploited by the greedy money lender and discourage productive activity by high rates of interest. It is precisely for this reason that the government has been making efforts since the beginning of planning era to ensure that a large number of people are covered under various schemes of financial inclusion.

Most importantly, financial inclusion enables improved and sustainable economic and social development of the country. The objective of financial inclusion is to ensure easy availability of financial services which allows maximum investment in business opportunities, education and savings for retirement, insurance against risks and the like by individuals and firms located in rural areas. The household access to financial services includes access to contingency planning and credit. Access to contingency planning would help in consumption smoothing and future savings such as retirement savings and insurable contingencies, and access to credit includes emergency loans, housing loans and consumption loans.

Finally, the fast growing Indian economy can only ensure the growth process to be equitable and sustainable if different sections of the society, especially the vulnerable and poor, are included in the growth process. The existence of a bank account can facilitate the government to provide assistance and resources directly to the needy, eliminating intermediaries.

## Contextualising Jan Dhan Yojana

Contrary to general belief, India is a pioneer in financial inclusion. The financial inclusion exercise started in India in 1995 when the State Bank of India was nationalised, followed by more nationalisation of private sector banks in 1969 and 1980. The objective of nationalisation was precisely to extend banking activities to the unbanked population, both in the rural and urban areas.

Table.1: Pradhan Mantri Jan-Dhan Yojana(Accounts opened as on 12.01.2015)

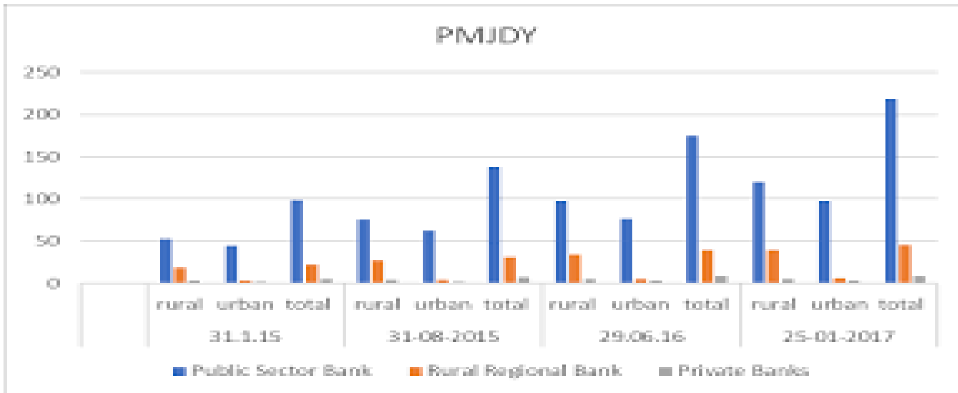
Pradhan Mantri Jan - Dhan Yojana (Accounts Opened As on 12.01.2015)

Disclaimer: Information is based upon the data as submitted by different banks/SLBCs

| S.No | | No Of Accounts (In Lacs) | | | No Of Rupay Debit Cards (In Lacs) | Balance In Accounts (In Lacs) | No Of Accounts With Zero Balance (In Lacs) |
|---|---|---|---|---|---|---|---|
| | | Rural | Urban | Total | | | |
| 1 | Public Sector Banks | 479.58 | 405.18 | 884.76 | 801.9 | 687477.33 | 635.9 |
| 2 | Regional Rural Banks | 167.02 | 29.56 | 196.58 | 111.97 | 137598.95 | 147.95 |
| 3 | Private Banks | 18.66 | 16.42 | 35.08 | 26.88 | 50932.99 | 23.12 |
| | Total | **665.26** | **451.16** | **1116.42** | **940.75** | **876009.27** | **806.97** |

Table.1 shows that more than 1116.42 lacs accouts were opened up to 12th January, 2015 by public sector banks, Regional Rural Banks and private sectors bank in India. The important thing which is remarkable is that more opened were more in rural area than urban area. However, 806.97 lacs accounts were with zero balance accounts of the total number of opened accounts by all banks. Many economists observed that PMJDY has played a very significant role towards banking literacy after independence in India.

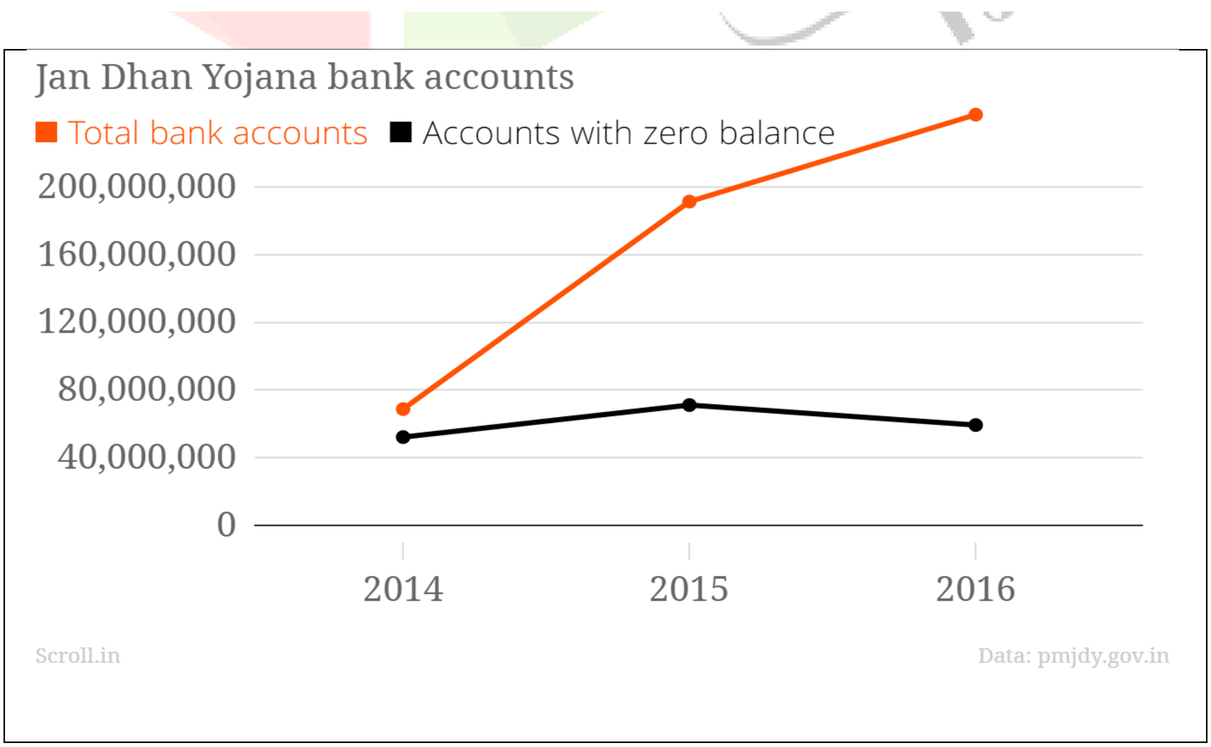
Fig.2: PMJDY and Role of Banks




As early as 1974, India started actively pursuing priority sector lending wherein the laser beam focus was on ensuring availability of credit to weaker segments of the society. Other initiatives included establishing regional rural banks (1975) and adopting service area approach (1989) and self-help group-bank linkage programme (1989, 1990). The Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) have been making concerted efforts in extending banking across the country under which well-known schemes of microfinance initiatives, and business correspondents were launched. To ensure the expansion of account openings, the RBI had also simplified norms on know your customer requirements.

In order to overcome barriers, the banking sector has been making various efforts, including technological innovations such as ATMs, credit and debit cards, internet banking, introducing

Fig.3: Zero Balance Accounts under PMJDY (percentage)



electronic benefit transfer, using mobile technology etc. Although different initiatives of financial inclusion contributed in changing the landscape of banking in India, there were still important factors; such as poverty, low-income levels and distance from bank branches that were restricting vulnerable groups from getting access to the formal banking system. According to Census 2011, only 58.7% of total households in India and only 54.4% households in rural areas had access to formal banking services. The data also revealed that only 24.4 million farmer households (27.3%), out of a total of 89.3 million households had access to credit from institutional sources. In other words, nearly 73% of farm households did not have access to formal credit sources.

It is in this scenario that the initiatives were taken by the government, especially PMJDY, has to be contextualised. The schemes that followed since then like the Micro Units Development and Refinance Agency (MUDRA) banks aimed to not only achieve financial inclusion but also ensure inclusive growth. MUDRA, launched on April 8, 2015, has already disbursed an amount of nearly Rs 3.7 lakh crore to 8.8 crore borrowers, of which nearly three-fourth are women.

The RBI has already covered 4.7 lakh villages under the banking system with 19,875 villages with a brick and mortar branch, 4.3 lakh villages through business correspondents and 20,902 villages through other modes like mobile vans. The RBI is persistently pursuing financial inclusion through the revised branch authorisation policy, review of unbanked rural centres and undertaking financial literacy drive by setting up centres for financial literacy which are being pilot tested in nine states across 80 blocks in collaboration with NGOs. A national strategy for financial inclusion is being prepared to focus on developing physical and digital infrastructure, regulatory framework, fostering competition, increased financial awareness and grievance redressal mechanism.

## Economic Empowerment: Road Ahead

There is a need to examine some emerging gaps in the drive to achieve financial inclusion. First, there is need to extend financial inclusion to the disabled, including those elderly where locomotor activity, vision and hearing is impaired. RBI directives to banks to be accessible to all kind of disabled have not seen notable progress with very few ATMs and bank branches being disabled-friendly. Traditionally, in India, individuals with any disability are generally considered invisible and therefore policy making ignores such differently-abled persons.

Also, the society nurtured in the philosophy of *karma*, probably also considers that it is the responsibility of the family and the individual to suffer without considering it as a burden, preferably silently, to condone for their past actions. But that attitude is changing. Modern India is on the move and with the rising level of literacy, urbanisation, massive emigration and nuclearisation of families, burden and cost of managing and supporting a family member with a disability are being recognised transparently.

In a welfare-oriented society like ours, it is very important that the government and institutions play an important role in providing for the disabled and sharing the responsibility of facilitating the life of a differently-abled citizen. Interestingly, India, a signatory to the United Nations Convention on the Rights of Persons with Disabilities, in effect from May 2008, has an international obligation to comply with the convention which promotes, defends and reinforces human rights of the disabled.

Field studies have also revealed that demonetisation led many villagers to local money lenders who took advantage and raised the interest rates. Therefore, the reach of ATMs needs to be expanded, probably by having an arrangement with 1.4 lakh post offices in rural areas.

There is potential for more expansion of financial inclusion but for the technological issues like frequent machine breakdowns and lack of connectivity which negatively impact the confidence of customers towards informal banking. The problems with hand-held devices continue to deter financial inclusion. There is a need for facilities like biometric-enabled and multi-lingual hand-held devices which can provide confidence in rural masses. Technological innovations like integrated machines that have the functionality of cash withdrawals and deposits; facility of scanning documents to facilitate new account opening and loan disbursals; voice commands and narration for all available facilities and a multi-language format could help increase banking penetration.

The attrition rate of business correspondents can be reduced by ensuring higher remuneration by permitting to market other financial instruments like pension and insurance schemes, mutual funds and remittances. Similarly, there is scope for providing enhanced incentives for business correspondents operating in remote areas with adverse demographic and income levels where, historically, number of transactions are low.

The instruments offered under financial inclusion also need consideration. There is significant difference in socio-economic background of people living in India and therefore there is a need for flexibility in financial schemes designed for different segments of unbanked population. Illustratively, standard instruments that are offered to salaried segments of society like recurring deposit schemes would need to differ in rural areas depending on cycle of agriculture produce. Irregular and infrequent income spurts do not allow workers in informal sector to maintain savings in recurring deposit accounts.
Finally, to monitor developments regarding financial inclusion, there is a need to assign responsibility to a dedicated financial institution. National Bank for Agriculture and Rural Development probably is the most appropriate institution to be made accountable for furthering progress of financial inclusion.

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