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PMJDY A Paradigm Shift In Bringing Unbanked Population Into Formal Banking System

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Abstract: *India struggling to bring major rural and deprived population into the mainstream of banking system in spite lot of banking reform activities taken place such as nationalization of banks and expanding banks in rural areas undertaken by previous governments since independence. Recent demonetization activity has tested the Indian banking system in meeting the needs of citizens when cash was in shortage. In spite of significant efforts by Government and RBI in the recent past with the launch of massive financial inclusion drives such as PMJDY (Pradhan Mantri Jan-Dhan Yojana) after which still 19% of the population remains unbanked due to lack of lags in financial sector ecosystem such as last mile connectivity[1]. Although PMJDY builds a platform for the paradigm shift in the Indian banking industry by bringing major deprived and unbanked segment into formal credit system. In the recent past, it is also seen that this is one of the way leakage happened in controlling black money during demonetization exercise. In spite of all this brings accountability and efficiency in the economy by controlling black money and laying down a platform for a cashless economy in the long run. The article brings insights of impact PMJDY brought into the ecosystem by building the backbone of the banking system. The article also attempts to identify impediments while executing PMJDY programme and whether it has achieved the objectives of financial inclusion for which it was started.*

Keywords: *Banks accounts, Financial Inclusion, Jhan-Dhan, PMJDY, Unbanked.*

I. Introduction

The World Bank's Findex shows India as a laggard in financial inclusion with 65% population excluded from formal banking system against China figure of 35% as of 2011[2]. If one looks at banking evaluation in India there has been efforts from previous governments with many experiments such as wholesale nationalization of banks in 1969 and 1980 and the creation of a vast branch network with over 100,000 branches and 1.1 million (9)employees and persistently trying to improve banks, branches, ATM networks, POS terminals and mobile apps but not bank accounts. National Mission for Financial Inclusion to ensure access to financial services, namely Banking Savings & Deposit Accounts, Remittance, Credit, Insurance, and Pension in an affordable manner has financial inclusion campaign by the prime minister on 28 August 2014 and opened bank accounts of 15 million on the first day when it is announced. The scheme was started with the objective of providing universal banking access facilitates by opening basic bank accounts by enabling with the overdraft facility of Rs.5000 after six months and RuPay Debit card in accident insurance cover of Rs.1 lakh and RuPay Kisan Card by including micro insurance and pension in next phase. Since then the progress has been good enough with 265 million accounts until January 2017.

II. Objectives

- To study the changing trends in financial inclusion with special reference to Pradhan Mantri Jan Dhan Yojana (PMJDY).
- To study the present scenario of Pradhan Mantri Jan DhanYojna (PMJDY).
- To examine the progress of Financial Inclusion Initiatives in India.
- To anticipate the problems and challenges associated with this PMJDY and trying to suggest the best possible way to move forward for achieving the objectives.

III. Progress Report

A large number of accounts opened in the Prime Minister Jan Dhan Yojana (PMJDY) offers an opportunity get the benefit of insurance and pension coverage over a period of time. In the medium term, this will bring about a paradigm shift from supply- to demand-side subventions in development and welfare programs. In the long run, this will be in strengthening the formal banking system and brings self-reliance in Indian people and particularly reduce the vulnerabilities of the poor and the disadvantaged in the drought districts by covering with the formal credit system.

The mission mode objective of the PMJDY consists of 6 pillars. During the 1st year of implementation under Phase I (15 August 2014- 14 August 2015), three Pillars namely

1. Universal access to banking facilities
2. Financial literacy Programme and
3. Enabling basic banking accounts on satisfactory operations for six month,
   a) With an overdraft facility of Rs.5000/- at a rate of interest of 12% pa,
   b) RuPay Debit card with inbuilt accident insurance cover of Rs.1 lakh and
   c) Kisan Credit Card (KCC) as RuPay Kisan Card, will be issued.
   d) The benefit of conditional Accidental Insurance Cover of Rs.1 lakh will be enabled on use of RuPay Debit Card for once in 90 days for beneficiaries of age 18 to 70years. Apart from this DBT transfers of government subsidies will be enabled for these PMJDY accounts [3].

   Phase II of PMJDY, beginning from 15 August 2015 up to 15 August 2018 will address [3]
4. Creation of Credit Guarantee Fund for coverage of defaults in overdraft A/Cs.
5. Microinsurance and
6. Unorganized sector Pension schemes like Swavlamban.

As on 8th September 2017 around 30.60 crore beneficiaries banked under this scheme holding around Rs.67,687/- crore balance in beneficiary accounts[4]. At the time of demonetization, these PMJDY accounts acted as a catalyst to push the economy towards cashless resulting in doubling of cash deposits in PMJDY and reaching around Rs.87000 in 45 days post demonetization.[5]

(All figures in Crore)

Bank Category	Total Beneficiaries	Beneficiaries at rural/semi-urban centre bank branches	Beneficiaries at urban/metro centre bank branches	No. of RuPay cards issued to beneficiaries	Balance in beneficiary accounts
Public Sector Bank	24.43	13.35	11.09	18.3	52874.07
Regional Rural Bank	4.86	4.12	0.74	3.6	11721.43
Private Banks	0.97	0.59	0.38	0.91	2010.52
Total	30.26	18.06	12.21	22.81	66606.01

Table1: Disclaimer: Information is based upon the data as submitted by different banks (https://www.pmjdy.gov.in/account)

Another interesting development in this period shows that around four million PMJDY accounts have been closed without out any reason from November 30th to December 28th 2016. Some of the reasons informed for these accounts is due to excluding dormant accounts, data cleanup happened due to the error is reported in the initial period and technical glitch.

Bank	Nov-16	Dec-16	Difference
UCO Bank	7,653,413	5,437,436	-2,215,977
Canara Bank	7,769,692	6,245,707	-1,523,985
State Bank of India (RRB*)(Regional Rural Bank)	7,904,265	7,282,588	-621,677
Axis Bank	636,287	493,032	-143,255
J&K Bank	1,263,395	1,201,182	-62,213

Table2:https://qz.com/882108/the-curious-case-of-4-5-million-jan-dhan-accounts-that-were-closed-during-the-demonetisation-chaos

With demonetization basically aiming to target rich with unaccounted money but to the surprise of the policymakers it is been observed that PMJDY accounts might be holding physical money deposited after demonetization or these might be benami deposits wherein rich converted unaccounted physical cash into a white money making poor rich for these segment population. Post demonetization most of the accounts which have never seen even first transaction since two years since the time they are opened has seen getting cash deposits above Rs.50000/- as PM Modi stating that up to 2,50000/- does not come under the scanner of Income Tax department.

IV. Methodology

The study is based on secondary sources of data/ information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. The study attempts to examine the impact of PMJDY programme on laying banking platform in India.

V. Why PMJDY Is Needed

One of the main problems India is facing is that of not able to bring the large population into formal credit system is basically due non-availability of financial address to these segment of the population forcing them to depend on informal sources for meeting their needs including credit. The main motive behind PMJDY is that of financial inclusion which makes growth more inclusive for which there is a need to have a financial address for accessing formal banking system. PMJDY enables to give financial address by opening bank account linked to Aadhaar with zero balance. PMJDY accounts, in the long run, could allow new capital to come into the formal banking system by means of new deposits, relaxing the capital constraints. This would allow banks to increase lending to their clients.

- Increasing efficiency and greater access to credit will have an impact on growth as well, not in the short run, but definitely in the long run. PMJDY enables eco-system with financial address bringing access to formal credit and accountability.
- Increasing the size of national cake alone does not matter even its distribution needs to be taken into consideration as it is becoming a cause of concern lately as the growth has not trickled down to the poor. It's the poorest of the poor who needs to be included in financial inclusion mission for bringing growth more inclusive which has become a cornerstone of every public policy.
- Further, PMJDY gives an opportunity for differential banking, allowing new entrants to innovate without the legacy constraints which older banks are facing. It also envisioned that PMJDY would account for social security errors and remove the problem of asymmetric information via cashless payments for tackling black money [6].

VI. Impact Of PMJDY

1) **Financial inclusion tool**: India is a country which has the biggest chunk of people from rural and underprivileged who are unbanked and forced to keep the physical money. If these segment comes into the mainstream and starts savings, deposit, and access formal credit system then, in the long run, both accountability and efficiency will be arrive and long-term problem of hoarding black money and evading tax can be controlled.
2) **Direct Transfer of Cash Benefits (DBT) a tool for Plugging gaps and leaks in public subsidies and welfare programmes:** By making Aadhaar mandatory for identifying beneficiary and transferring the money directly into their account removed corruption but also made all stakeholders accountable for subsidies disbursed as these are transferred through bank accounts directly into the user account. There has been a lot of impact with the launch DBT resulting in removing corruption, ghost and duplicate beneficiaries from the system which has impacted in the reduction in claims of subsidy by beneficiaries in ration shops LPG consumers (DBTL)[7], removal of ghost beneficiaries in pensions and NREGA etc. Even the changes can be seen at macroeconomics level also wherein the policy of subsidies open to all is going to end and purchases will be done at the deregulated market price as the persons who are eligible for the subsidy will receive differential amount directly in their account .
3) **Moving towards cash-less economy**: With demonetization effect leading to a cash crunch in the economy was an ideal situation for the country to move towards a cashless economy. With PMJDY laying the backend financial address for the unbanked segment and evolving of digital payment options like BHIM, AEPS, Unified Payments Interface (UIP), Credit & Debit cards has drastically reduced dependence on physical cash. Even the government started encouraging digital mode payments by a mix of monetary incentives, waiving of taxes and transaction fee which reduced the use of physical cash. With all digital transactions happening in white money leads to efficiency, accountability in the system and lot of other things comes under control in long run such as tax evasion, black money, big-ticket purchases etc.
4) **Rolling-Out of Populist Pension and Insurance Schemes:** Now by establishing these accounts government strategically want to use them for extending pension, insurance and credit facilities to those segment population who were excluded from benefits earlier. The two schemes recently launched - Pension Scheme and Insurance Scheme, are definite win-win for both the account holders and the government. Atal Pension Yojana (APY) Pension Scheme asks for around Rs.42/- monthly per account for 18 years old (for a pension of Rs.1000), and PMSBY asks for Rs.12/- per person per year. By launching populist insurance schemes such as PMJJBY (Pradhan Mantri Jeevan Jyoti Bima Yojana) & Pradhan Mantri Suraksha Bima Yojana (PMSBY) government has safeguard deprived segment of the population who are always prone to the risk of financial instability after the death of the bread-winner and dependable monthly financial assistance for the aged population.

VII. Challenges Of PMJDY

1) **Herculean Task with a cost:** Government has given the task of opening PMJDY accounts within 6 months of announcing the scheme which was a herculean task involving both cost and manpower. State-owned banks have opened 78 percent of PMJDY accounts followed by 19 percent were opened by regional rural banks and a meager 3 percent by private sector banks as per data of PMJDY[8]. On another side, the major cost of opening and maintaining of PMJDY has been taken by public banks in comparison to 3 percent of done by private banks in spite they constitute 23 percent of the banking business.
2) **PMJDY burden banking system:** As these accounts are zero balance accounts they do not add value to the banks on profits apart from this even banks information technology is also burden as these accounts are using the banks resources. Added to this the scheme also enables PMJDY account holder with an overdraft facility of Rs.5000 and to claim life insurance cover of Rs.30000/- on making one successful transaction. The accident cover, according to the scheme, is payable if the debit card holder has performed one successful transaction in a bank branch or an ATM transaction.(3) There is also a cost of opening one 'no frills account' which stands approximately Rs.140/- against the estimated cost of Rs.80/- per account added.[9]
3) **Operational challenges:** Programs like financial inclusion, when executed on a massive scale and in a rushed manner faces major operational challenges such as zero balance, duplication, and dormancy [10]. Zero-balance PMJDY accounts are symptoms of the larger problems of dormancy and duplication indicating a target-led approach which favored numbers over genuine financial inclusion. At best it shows that certain account holders may not need PMJDY accounts as they might already be part of the formal financial system. To manipulate the situation it is also observed that banks have done "one rupee trick" to make accounts active [10]. One should wait and see whether these PMJDY accounts eventually starts conducting genuine financial transactions and slowly transition towards engaging mainstream of business by accepting complex financial products such as insurance and formal credit in long run[10]. However government also trying to promote PMJDY accounts by channelizing the direct benefit transfer (DBT) payments to these accounts, paving the way for them to earn some revenues via commissions. There is also danger with these accounts used for frauds and present bias which has happened in the period of demonization wherein these accounts are used as a catalyst to convert black money into white. Additional features of this scheme remain ambiguous as on date as they still need to take off on a full scale as promises such as overdraft facility is left to the discretion of banks, which creates prejudices as banks still need to maintain performances so as to avoid NPAs which goes against PMJDY promises.

VIII. Conclusion

PMJDY is ongoing work in progress which is to be seen against the long-term objectives. The initial aim of bringing unbanked segment especially vulnerable sections of society and empowering woman into the mainstream has been applauded by all stakeholders for its achievements within the short span of 3 years since its launch[6]. Recent demonetization act by the government shown the impact of PMJDY accounts which played a pivotal role in bringing a large section of the unbanked population under formal banking system. It has also enabled a platform for financial inclusion leading to access of basic formal credit facilities mainly for underprivileged and rural population who are previously eliminated by middlemen. Although it is accepted that financial inclusion is important and adored against the backdrop of economic justice principal but it is also important to evaluate its impact on the overall banking system of the nation.

Several economic theories predict that financial inclusion programmes such as PMJDY can also have broader regional implications by bringing new capital into the formal banking system by means of new deposits and giving formal credit access to these underprivileged segment [11]. Overall, it may be said that PMJDY has served the purpose of financial inclusion to a great extent by enabling formal credit system benefitting lower income households at the micro level through savings, spending, and reduction in transaction costs over a period of time. However, concerted efforts are needed to address the issues relating to Information and Communication Technology (ICT) in banks, BCs, and FLCs so that the tempo gained thus far is sustained and the goal of total financial inclusion is reached in near future.

The PMJDY is certainly one of the most viable scheme to improve financial inclusion. But in long run, these programmes need to pull away from all current financial linked schemes so that these accounts losses arising due to zero balance and dormant accounts are absorbed with the existing trust deficit, the government should focus on financial literacy along with financial inclusion and bring efficiency in the banking system. If we continue to set systems in place, in the long-term benefits of Jan Dhan accounts will unquestionably offset the present concerns over dormant accounts.

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