



## Progress of financial inclusion through Pradhan Mantri Jan Dhan Yojana

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**Abstract:** Financial inclusion is the delivery of financial services to the unbanked sections at an affordable cost. Despite tremendous growth in the banking sector, a large section of Indian population continues to remain unbanked. Financial inclusion is a concept which enables the alternative techniques to promote the banking habits and acts as an enabler in reducing the poverty and the launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) by Government of India is in that direction. This effort will certainly go a long way in promoting economic growth and reducing poverty, while mitigating systematic risk and maintaining financial stability. Under this scheme, every household with a bank account gets access to banking and credit facilities. This scheme will help the poor to come out of the grip of moneylenders, manage emerging financial needs, and get benefits from a range of financial services. This paper is an attempt to discuss the overview of financial inclusion using PMJDY in India with specific reference to select banks and their progress over a period of eight quarters starting from 31.12.2014 to 30.09.2016.

**Keywords:** *Financial Inclusion, PMJDY, Financial Services, Inclusive Banking Practices*

### Introduction:

Financial Inclusion aims at having access to financial services in a convenient way and also at an affordable cost to vast sections of disadvantaged and low income group population. Financial Inclusion enables the customer to have an access to a wide range of formal financial services. A committee on Financial Inclusion was formed under the Chairmanship of Dr C. Rangarajan which termed Financial Inclusion as, "The process of access to financial services, and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". India is a country where most of the population reside in rural areas and are engaged into agriculture and its allied activities. Most of these people are poor and they do not have access to any formal

financial services. The prime objective of financial inclusion is to extend the financial services to such people.

World Bank Group in October 2013 postulated the global goal of universal access to basic transaction services as an important milestone toward full financial inclusion—a world where everyone has access and can use the financial services and to capture opportunities and reduce vulnerability. This Focus Note is organized in three sections. The first section describes the extent to which poor households typically live and work in the informal economy and explores the implications of this for how access and use of financial services can benefit them. The second section summarizes recent empirical impact evidence at the microeconomic, local economy, and macroeconomic levels. The third section

tees up two areas in which inclusive, low-cost financial systems can generate additional, indirect benefits for other public-sector and private-sector efforts.

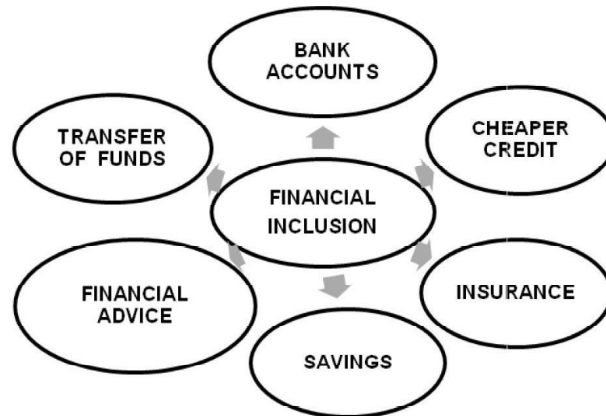


Figure 1: Process of Financial Inclusion

To achieve greater financial inclusion various steps were taken up by the Government and RBI over the period of time. Some of them are:

**No-Frill accounts:** RBI had come up with the option of opening savings accounts in the bank with zero balance. These accounts are further entitled for insurance, pension and other schemes based on the usage of the account.

**Usage of Regional language:** RBI had directed the banks to use the various application forms used in the bank to be in the regional language. This helps the local people to have better awareness of the activities undertaken by the bank for their prosperity.

**Simplified KYC norms:** There are some relaxations given by RBI for opening the accounts. Some of them are - Single document for proof of identity and proof of address, No separate proof of address is required for current address, Relaxation regarding officially valid

documents (OVDs) for low risk customers, Those persons who do not have any of the 'officially valid documents' can open 'small accounts' with banks. A 'small account' can be opened on the basis of a self-attested photograph and putting her/his signature or thumb print in the presence of an official of the bank. KYC verification of all the members of Self Help Groups (SHGs) is not required while opening the savings bank account of the SHG and KYC verification of only the officials of the SHGs would suffice. No separate KYC verification is needed at the time of credit linking the SHG.

Policy makers have articulated these objectives in the conviction that financial inclusion can help the financially excluded population improve their lives and spur economic activity. But there are few bottlenecks in the implementation of the process. Some of them are Gender issues, Age factor, Legal Identity, Limited literacy, Place of living, Psychological and



cultural barriers, Bank charges, Level of income, Type of occupation, Attractiveness of the product etc. which affect the access to the financial services to the financially excluded population. Connectivity at difficult areas, Infrastructural issues, Telecom connectivity etc. also plays a vital role in the success of the scheme.

**Objective of the study:**

- To understand the concepts of Financial Inclusion and PMJDY.
- To discuss the salient features and basic pillars of PMJDY.
- To study the progress of Financial Inclusion through PMJDY from 31.12.2014 to 30.09.2016 of select banks.

**Study area:** Out of the available banks few banks were selected for the study. The criterion for selecting the banks is on the number of accounts opened by the banks and their sponsored RRBs. Financial inclusion is the need of the hour in the rural areas and the RRBs are vital in improving the progress and at the same time to reach the rural people through their available branch and BCs network. The banks identified under the study are State Bank of India, Punjab National Bank, Central Bank of India Bank of India and Bank of Baroda. These five banks are considered in the study as these constitute more than 50% of the activity undertaken in the PMJY. The performance of these banks in implementing the mission of Financial Inclusion through PMJDY are analysed during the period starting from 31.12.2014 to 30.09.2016. This period is further broken into 8 quarters namely 31.12.2014, 31.03.2015, 30.06.2015, 30.09.2015, 31.12.2015, 31.03.2016, 30.06.2016 and 30.09.2016.

**Methodology:** The present paper is primarily based on secondary sources of data. Published sources include Government publications, and other publications like research articles published in journal and available on various websites are considered.

**Pradhan mantri jan dhan yojana:**

Pradhan Mantri Jan-Dhan Yojana (PMJDY) which was launched in August 2014 is National Mission for Financial Inclusion to ensure access to financial services like opening of Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension and other banking services in an affordable manner. This scheme is open for all the eligible citizens of the country irrespective of their area of residence.

Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet. PMJDY accounts are being opened with Zero balance. However, if the account-holder wishes to get cheque book they have to fulfil minimum balance criteria.

**Some of the Key Elements of PMJDY are as follows:**

It is aimed at revolutionizing the traditional banking system in the country by providing the banking opportunities and insurance coverage to all the poor. The purpose of the scheme will benefit the overall economy of the country and the scheme provides few lucrative benefits which need to be availed. The accounts under this scheme are opened with zero balance.

The account holders can avail a loan of Rs 5000 from the bank after six months



of opening the account and also satisfactory operations of the account. Though the amount may look minimal on the outside but will be highly influential as the scheme is directed towards the population who are below poverty line. The loan benefit can be a scintilla of hope for those who could utilize the loan amount and invest it in a more profitable manner.

Another valuable feature of this scheme is that the account holders can avail Government subsidies by electronic transfer directly into their bank accounts which are linked to Aadhaar number.

#### ***Benefits under PMJDY Scheme***

- No minimum balance is required.
- Interest is paid on deposit.
- Easy Transfer of money across India.
- Accidental insurance cover of Rs.1.00 lac.
- Life insurance cover of Rs.30,000/-.
- 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 upto Rs.5000/-. This option is available for only one account per household preferably lady of the household.
- Access to Pension, Insurance Products.
- Accidental Insurance Cover is applicable when RuPay Debit Card is used at least once in 45 days.

#### **Documents required for opening an account under the PMJDY Scheme:**

- If Aadhaar Card / Aadhaar Number is available then no other documents is required. If address has changed, then a self-certification of current address is sufficient.
- If Aadhaar Card is not available, then any one of the following Officially Valid Documents (OVD) is required: Voter ID Card, Driving License, PAN Card, Passport or NREGA Card. If these documents also contain your address, it can serve both as Proof of Identity and Address.
- If a person does not have any of the "Officially Valid Documents" mentioned above, but categorized as 'low risk' by the banks, then an account can be opened by submitting any one of the following documents:
  - Identity Card with applicant's photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks and Public Financial Institutions;
  - Letter issued by a gazette officer, with a duly attested photograph of the person.

**The basic pillars of PMJDY are as follows:**



1. **Universal access to banking facility:** The focus is on bringing all the households into the banking fold. For this to happen the banking network has to be increased such that it reaches all the financially excluded.
2. **Providing Basic Banking Accounts with overdraft facility and RuPay Debit card to all households:** Through the branch or the Business Correspondents, all the financially excluded should have Basic Saving Bank Deposit Account. These accounts are normally zero balance accounts. These accounts should be facilitated with Rupay debit card and later with overdraft facility upon the satisfactory operations in the account.
3. **Financial Literacy Program:** The Government and the Banks are taking so many initiatives for the betterment of the poor people. The schemes taken for their financial betterment needs to be known to the people. For this Financial Literacy centres need to be established to promote financial literacy among the excluded sections of the society.
4. **Creation of Credit Guarantee Fund:** This is aimed at covering the defaulters in the overdraft accounts. This is proposed to be part of the National Credit Guarantee Corporation (NCGC).
5. **Micro Insurance:** This is aimed at providing micro insurance facility to all the eligible persons of the country at the earliest. There is wide scope for further development of the scheme. Insurance Regulatory and Development Authority (IRDA) has created a special category of insurance policies called micro- insurance policies to promote insurance coverage among economically vulnerable sections of society.
6. **Pension schemes for unorganized sector:** The Government has launched this pension scheme in 2010 to encourage the workers in the unorganised sector to save their income which in turn will help them in their old age.

#### **Bottlenecks to the scheme**

There is possibility of opening account under PMJDY by those who might already have an account. There is no check while opening the account whether they are existing account holder or not. There is possibility of delay in issue of debit card as they are issued from a central location. In the rural areas ATM network is less and people may not be well versed in using the ATM. There is no clarity whether the existing account holders are eligible for accidental insurance coverage and also whether the Rupay card will be issued to the existing account holders. Some of the benefits of the scheme are linked to the usage of Rupay card. Even the cost of overdraft



facility, and thereafter the recovery process are not clear. In case of default, who would be taking the burden is not mentioned. Creating new account is not a challenge but increasing transaction per account is a challenge.

**Data interpretation of select banks over the select period of time**

Figure 2: Progress of Bank of Baroda over eight quarters

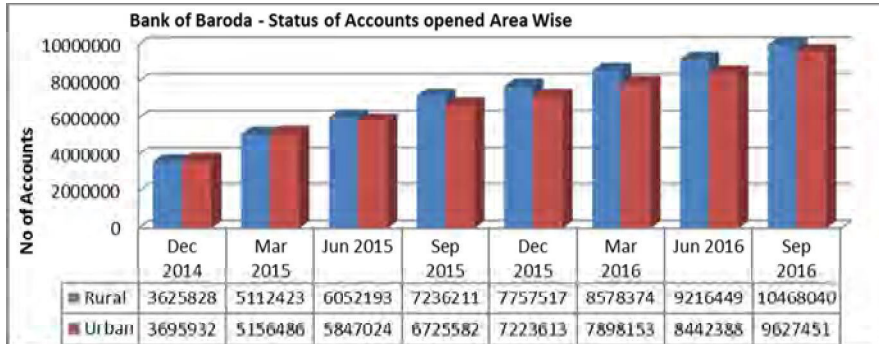


Figure 2 shows the progress of accounts opened through Bank of Baroda from Dec 2014 to Sep 2016. It shows that there is a continuous growth in the number of accounts opened. There is growth in both the rural and urban areas. Though in terms of the number there is difference in the accounts opened in rural and urban areas, in terms of the percentage values

the accounts opened in the rural areas is more when compared to the urban area accounts. The highest growth was visible in Mar 2015 with around 40% growth in both the rural and urban areas. It is also observed that there is increase in the percentage of account opened and the same momentum is not carried out in all the quarters equally.

Figure 3: Analysis of Zero balance Accounts opened and Rupay cards issued by Bank of Baroda.

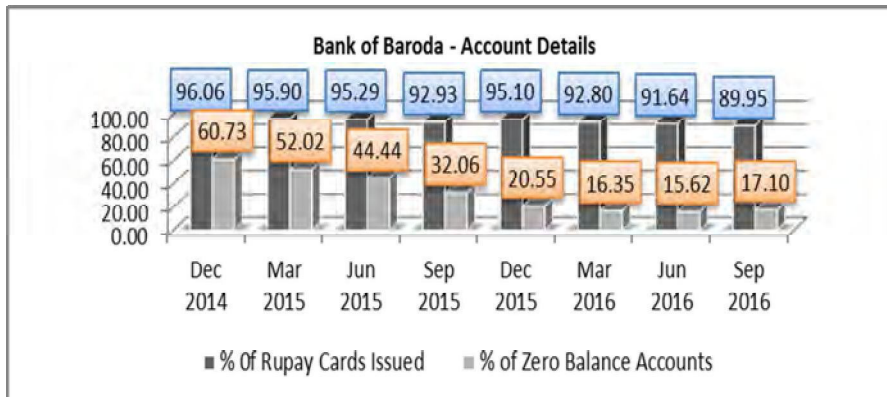


Figure 3 shows the trends of Rupay cards issued and the Zero balance accounts opened by Bank of Baroda over the period of time. There is a decline in the

percentage of Rupay cards issued. There is a continuous decline in the Zero balance accounts opened. This can be treated as a positive signal which implies





that there are transactions being operated in the accounts and the account holders are maintaining balances in their accounts. By Sep 2016 only 17% of the accounts are not maintaining any balances in their accounts.

Figure 4: Progress of Bank of India over eight quarters

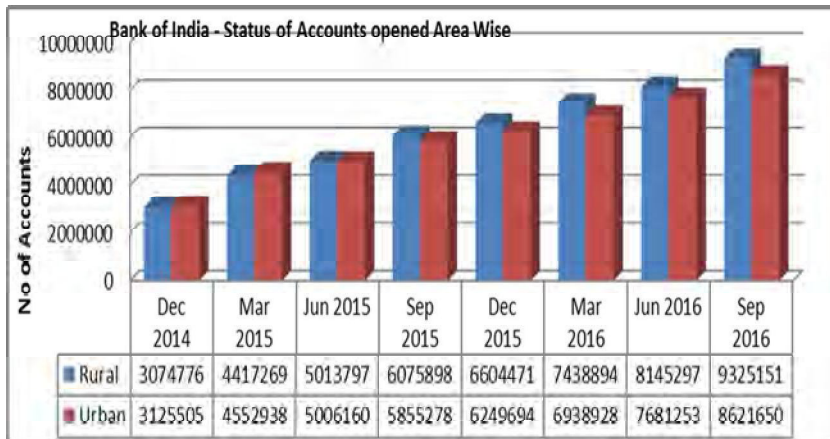


Figure 4 shows the progress of accounts opened through Bank of India from Dec 2014 to Sep 2016. It shows that there is a continuous growth in the number of accounts opened. There is growth in both the rural and urban areas. Though in terms of the number there is difference in the accounts opened in rural and urban

areas, in terms of the percentage values the accounts opened in the rural areas is more when compared to the urban area accounts. The highest growth was visible in Mar 2015 with around 45% growth in both the rural and urban areas. Same trend as that of Bank of Baroda is visible in Bank of India also.

Figure 5: Analysis of Accounts opened and Rupay cards issued by Bank of India.

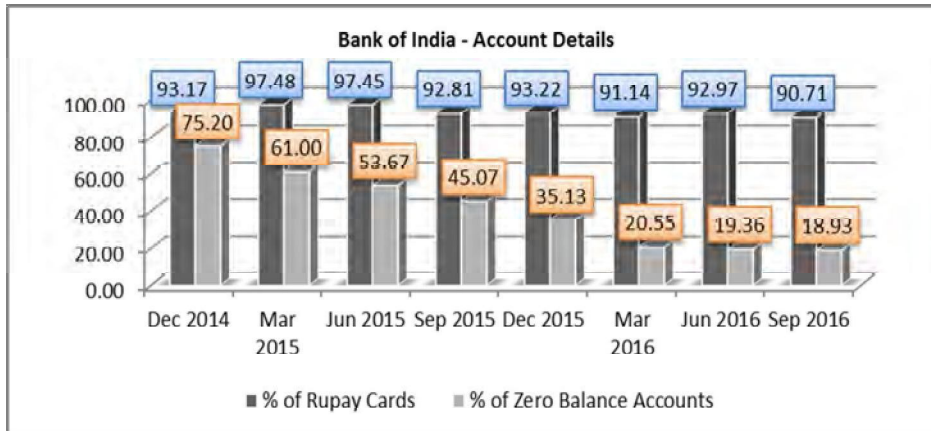


Figure 5 shows the trends of Rupay cards issued and the Zero balance accounts opened by Bank of India over the period

of time. There is a decline in the percentage of Rupay cards issued. There is a continuous decline in the Zero



balance accounts opened. This can be treated as a positive signal which implies that there are transactions being operated in the accounts and the account holders are maintaining balances in their accounts. By Sep 2016 around 19% of the

accounts are not maintaining any balances in their accounts. The Rupay cards are issued to 90% of the account holders which is vital for the success of PMJDY scheme.

Figure 6: Progress of Central Bank of India over eight quarters

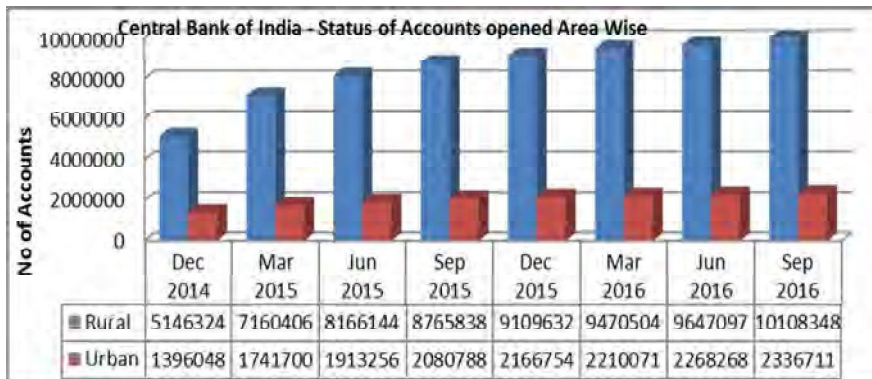


Figure 6 shows the progress of accounts opened through Central Bank of India from Dec 2014 to Sep 2016. It shows that there is a continuous growth in the number of accounts opened. There is growth in both the rural and urban areas. In contrast to Bank of Baroda and Bank

of India, Central Bank of India had opened more accounts in the rural areas. The highest growth was visible in Mar 2015 with around 40% growth in rural and 25% in urban areas. By Sep 2016 the total number of accounts opened is 1.25 crores.

Figure 7: Analysis of Accounts opened and Rupay cards issued by Central Bank of India.

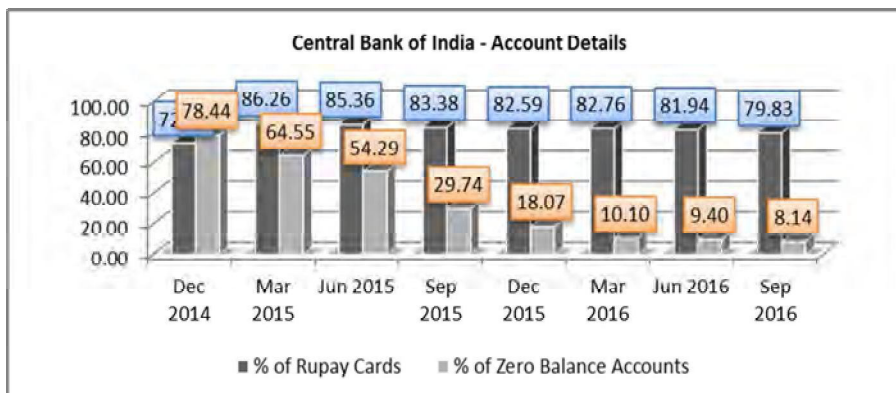


Figure 7 shows the trends of Rupay cards issued and the Zero balance accounts opened by Central Bank of India over the period of time. There is a decline in the

percentage of Rupay cards issued. There is a continuous decline in the Zero balance accounts opened which implies that transactions are performed in the





accounts and the account holders are maintaining balances in their accounts. By Sep 2016 around 8% of the accounts are not maintaining any balances in their accounts. Only 80% of the account

holders are issued the Rupay Cards. This percentage needs to be improved as some of the benefits of the scheme are linked to the usage of the card.

Figure 8: Progress of Punjab National Bank over eight quarters

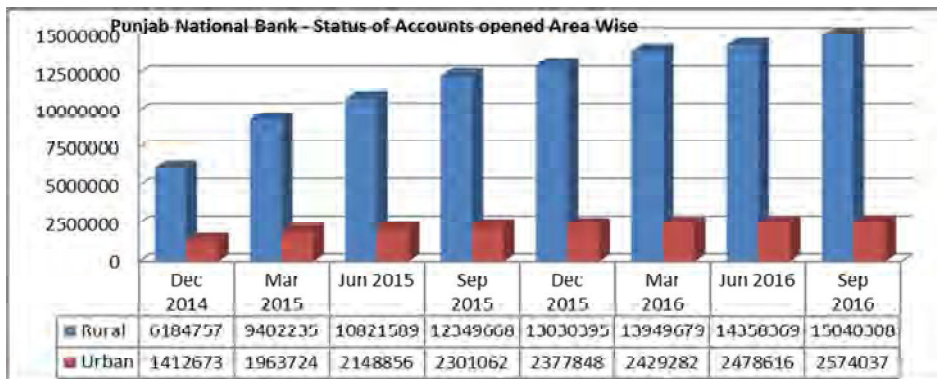


Figure 8 shows the progress of accounts opened through Punjab National Bank from Dec 2014 to Sep 2016. It shows that there is a continuous growth in the number of accounts opened in both the rural and urban areas. But in terms of percentages there is a continuous decline.

Punjab National Bank has more accounts in the rural areas. The highest growth was visible in Mar 2015 with around 52% growth in rural and 39% in urban areas. By Sep 2016 the total number of accounts opened is 1.5 crores in rural areas and 25 lakhs in urban areas. This is the 2<sup>nd</sup> largest bank with the PMJDY accounts. For the last four quarters the increase in the accounts opened in both the rural and urban accounts is less than 5%.

Figure 9: Analysis of Accounts opened and Rupay cards issued by Punjab National Bank.

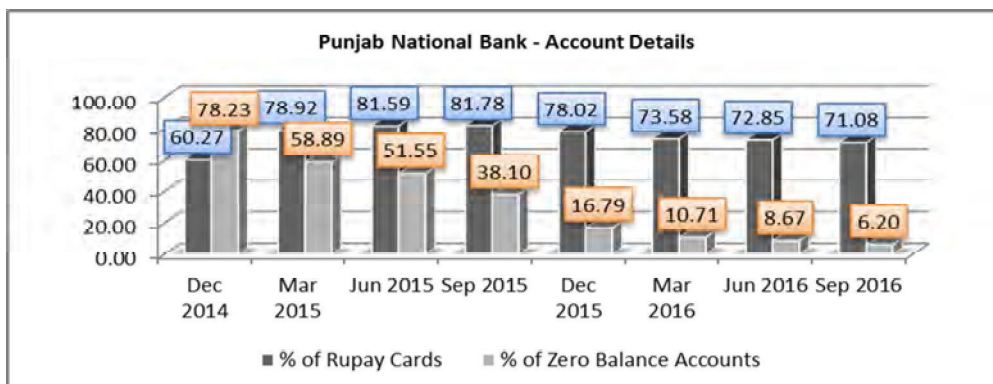


Figure 9 shows the trends of Rupay cards issued and the Zero balance accounts

opened by Punjab National Bank over the period of time. There is a decline in the



percentage of Rupay cards issued. There is a continuous decline in the Zero balance accounts opened which implies that transactions are done in the accounts and the account holders are

maintaining balances in their accounts. By Sep 2016 only 6% of the accounts are not maintaining any balances in their accounts. Only 71% of the account holders are issued the Rupay Cards.

Figure 10: Progress of State Bank of India over eight quarters



Figure 10 shows the progress of accounts opened through State Bank of India from Dec 2014 to Sep 2016. It shows that there is a continuous growth in the number of accounts opened in both the rural and urban areas. State Bank of India has an almost equal number of accounts in both the rural and urban areas. The highest growth was visible in Mar 2015 with around 60% growth in rural and urban areas. In contrast to the banks under consideration State Bank of India has recorded around 20% growth in the Sep 2016 quarter. By Sep 2016 the total number of accounts opened is over 3.7 crores in rural areas and 3.8 lakhs in urban areas. This is the largest bank with the PMJDY accounts. State Bank of India has over 30% of the accounts opened by all the banks under PMJDY scheme.

There is a decline in the percentage of Rupay cards issued. There is a

continuous decline in the Zero balance accounts opened which implies that transactions are done in the accounts and the account holders are maintaining balances in their accounts. By Sep 2016 36% of the accounts are not maintaining any balances in their accounts. Only 67% of the account holders are issued the Rupay Cards. This percentage needs to be improved as some of the benefits of the scheme are linked to the usage of the card. In contrast to the other banks under consideration, State Bank of India has highest percentage of zero balance accounts.

From Table 1 shows the OD facility extended by the select banks for the account holders. For Bank of Baroda out of 583614 OD eligible accounts 560867 are sanctioned with the overdraft facility. But only 103169 i.e 18.35% of the accounts



Table 1: Total number of Accounts offered, sanctioned and availed for Over Draft.

Bank Name	Total No Accounts Offered For OD	Total No of Accounts OD Sanctioned	Total No of Accounts OD Availed	Amt. of Total OD Availed (In Lacs)
Bank of Baroda	583614	560867	103169	2389.64
Bank of India	117723	117723	27681	800.98
Central Bank of India	746402	746402	227004	603.61
Punjab National Bank	397358	149462	139665	3396.47
State Bank of India	546075	169802	167735	1028.78

have availed the overdraft facility. This percentage is very less. In the case of Bank of India out of 117723 OD eligible accounts all the accounts are sanctioned with the overdraft facility. Out of this only 27681 i.e 23.51% of the accounts have availed the overdraft facility. Central Bank of India has sanctioned OD for all the 746402 eligible accounts but only 227004 which are 30.41% accounts have availed the OD facility. Punjab National Bank has sanctioned OD for 149462 accounts out of 397358 eligible accounts. Out of the sanctioned accounts 139665 which is 93% had availed the OD facility. State Bank of India has offered OD for 546075 accounts and out of this 169802 accounts are sanctioned with OD. Out of the sanctioned accounts 167735 which are 98.7% had availed the OD. From this we can interpret that Punjab National Bank and State Bank of India has highest percentage of OD availed accounts out of the sanctioned accounts.

**Findings & Suggestions:** From the data collected and analysed it is evident that the banks are putting their efforts to open the accounts under this scheme.

- State Bank of India has opened the highest number of accounts under the PMJDY scheme followed by Punjab National Bank, Bank of Baroda, Bank of India and Central Bank of India.

- Out of these opened accounts State Bank of India has highest number of accounts in the rural areas followed by Punjab National Bank, Bank of Baroda, Central Bank of India and Bank of India.

- Rupay cards are issued for 90.71% by Bank of India for the accounts opened under the scheme, 89.95% of accounts by Bank of Baroda, 79.83% by Central Bank of India, 71.08% by Punjab National Bank and 67.85% by State Bank of India.

- The percentage of Zero Balance accounts is 17.10% for Bank of Baroda, 18.93% for Bank of India, 8.14% for Central Bank of India, 6.20% for Punjab National Bank and 36.36% for State Bank of India.

- The balances maintained in these accounts are being continuously improved quarter on quarter. State Bank of India has highest balances being maintained, followed by Bank of Baroda, Punjab National Bank, Bank of India and Central Bank of India.

- Though the accounts are opened under the scheme the number of transactions is very nominal. This needs to be improved as this helps the people to be aware of the various schemes aimed for their betterment by the Government, Banks etc.

- The number of Rupay cards issued to these accounts is hovering around 70% which needs to be improved.



This is because there are various benefits which are linked to the usage of the card.

- The overdraft facility extended to the account holders under this scheme is very nominal. Bank of Baroda, Bank of India and Central Bank of India had almost 100% of their accounts being sanctioned with OD but only 25% of these accounts have availed this facility. In contrast to these banks, State Bank of India and Punjab National Bank around 35% of the accounts are being sanctioned the OD facility. Out of these almost all the account holders have availed the OD from the banks.

- Banks should take up the task of improving the financial literacy levels of the account holders by continuously conducting financial awareness programs.

- The government should route the benefits to the customers through these accounts which will help the customers to make use of the financial services provided to them.

- Biometric authentication systems would be effective in rural areas where the literacy rates are low when compared to the urban areas. Customers no longer have to rely on signatures or filling out documents - they can simply provide their fingerprints to authenticate themselves and access their accounts through specialized biometric teller machines (BTMs).

- The banks should take up the task of educating the account holders about the overdraft facility provided to them. The proper utilization of this will help so many people who feel that this low amount is of vital importance to them.

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