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Financial Inclusion Through Jan Dhan Yojana: Its Prospects and Challenges

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Abstract-*PRIME MINISTER JAN DHAN YOJANA is an ambitious scheme for comprehensive financial inclusion launched by the Prime Minister of India, Sri. Narendra Modi on 28th August, 2014 in his first Independence Day speech. It has been realized that the country cannot progress if the lowest rung of society cannot get loans at an affordable rate. The 2011 census reveals that 41% of the 246.7 million houses across India have no access to banking services. The financial inclusion status when compared to other countries reveals the fact that India is setting back in this particular perspective. So, this scheme has been launched to bring the poor and vulnerable into the formal financial system. But this aggressive initiative is bound to have challenge. Some of these challenges are infrastructural issues pertaining within India, ability to keep the accounts live, lack of technological literacy amongst the masses, duplication of account, managing the eco system of business correspondents and the economic burden of stakeholders and keeping these accounts active. There is a need for effective measures to tackle these challenges efficiently for its successful implementation.*

Key Words – Jan Dhan Yojana, Financial Inclusion, Bank Account, Rupay Cards.

The Indian Economy is the fastest growing economy of the world with the acceptance of globalization the major drivers of growth acceleration are greater domestic and international competition, sharp increase in total factor productivity, blossoming of entrepreneurship etc., If this is the brighter side of the coin, the other part is dark – where we find increasing inequalities in distribution of income and wealth. Even today about 400 million people accounting for more than 36% of the population still live below the poverty line.

Financial Inclusion is considered to be an important determinant for economic and social inclusion of poor and vulnerable. These people are excluded from the benefits that come from modern financial system. Financial Inclusion is a national priority of the governments. It is an enabler for inclusive growth. It is important as it provides an avenue to the poor for bringing their savings into the formal financial system.

REVIEW OF LITERATURE

1. Financial Inclusion is considered to be an important determinant for social inclusion of poor and vulnerable. It is infact, one of the essential conditions for reduction of poverty and socioeconomic inequalities in the society. (Rangarajan ,2008)
2. A broad working definition of financial inclusion in Indian context as defined in Rangarajan Committee (2008) is "Financial inclusion may be defined 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."
3. Sarma (2008) constructed the Index of financial inclusion based on three dimensions of an inclusive banking system-banking penetration, availability of the banking services and usage of the banking system. The computed financial inclusion index for India is 0.194 and belong to Medium Financial Inclusion countries with banking penetration Index (0.185), availability of banking (0.096) and usage of financial system (0.186).
4. According to a report by the Institute for Financial Management and Research (IFMR) (Kapoor et al.,2011), more than 90% of the population surveyed held bank accounts. To be able to participate in chit funds, a person should hold a savings account wherein cheques can be deposited — almost everyone in the states surveyed have savings accounts. However, according to an RBI study, 87% of these accounts in a particular district were inactive. Banks have

little incentives to promote the use of such savings accounts. The RBI had promoted the use of no-frills bank accounts which require a low minimum balance, and banks perceive such accounts to be less than desirable. It was also found that Chit Funds are the preferred mode of savings for over 40% of members, with 11% of the overall population preferring them for loans due to lower interest rates compared to banks.

OBJECTIVES OF THE STUDY

The main objectives of this study are

1. To compare India with other countries for analyzing the financial inclusion status.
2. To analyse the achievements of the scheme after one year of its implementation
3. To identify the specific challenges faced for its effective implementation
4. To give few suggestions to face the challenges

METHODOLOGY

The study is based on secondary data. Various central and state government survey reports were used for the statistical data collection. National and international journals, working papers and books were referred for the additional information. Other than this special articles and editorials of standard newspapers and experts opinions are considered for the study.

INTRODUCTION

The financial inclusion index is calculated in most of the countries to identify the financially excluded vulnerable people and to take proper measures to bring them within the formal financial system. A table showing the comparative status of India with other countries along with the selected indicators of financial indicators is given below.

SELECT INDICATORS OF FINANCIAL INCLUSION – CROSS COUNTRY ANALYSIS

Select Indicators of Financial Inclusion – Cross Country Analysis

Country	No. of Branches	No. of ATMs	Bank Credit	Deposits
	Per 1 lakh Adults		as percentage of GDP	
India	10.91	5.44	43.62	60.11
Brazil	13.76	120.62	29.04	47.51
France	43.11	110.07	56.03	39.15
US	35.74	173.75	46.04	53.14
Korea	18.63	250.29	84.17	74.51
Afghanistan	2.25	0.5	11.95	21.4
Philippines	7.69	14.88	27.57	53.02

Source :- World Bank, Financial Access Survey 2012

The figures in the table reveals the fact that India has a long way to go to bring poor and vulnerable within the purview of formal financial system. But it is also true that the efforts to include the financially excluded segments of the society in India are not new. The concept was first introduced by the RBI in 2005 and the branchless banking through banking agents called Bank Mitr (Business correspondent) was started in the year 2006. 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 the population more than 2,000 with banking facilities.

Despite various measures for financial inclusion, poverty and exclusion continue to dominate socio-economic and political discourse in India even after six decades of post economic Independence era.

FINANCIAL INCLUSION THROUGH PRADHANA MANTRI JAN DHAN YOJANA

Pradhan Mantri Jan Dhan Yojana is an ambitious scheme for comprehensive financial inclusion launched by the Prime Minister of India, Narendra Modi on 28 August 2014. He had announced this scheme on his first Independence Day speech on 15 August 2014.

The benefits extended under the scheme :-

- Zero Balance Account

- Insurance Cover of Rs 1 Lakh along with RuPay Cards
- Pass Book and Cheque Books
- Direct Benefit Transfers
- Overdraft / Loan

Identified Banks: - Some of India's large Nationalized banks
1. Bank of Baroda 2. Bank of India 3. Canara Bank 4. Corporation Bank 5. IDBI Bank
6. Indian Bank 7. Punjab National Bank 8. Union Bank of India 9. State Bank of India & it's affiliates.
10. Oriental Bank of Commerce

Top Private-sector banks: -
1. Axis Bank 2. Federal Bank 3. HDFC Bank 4. ICICI Bank 5. Indus Ind Bank 6. ING Vysya Bank 7. Karnataka Bank 8. Kotak Mahindra Bank 9. YES Bank 10. Dhanalakshmi Bank

The following identification proofs can be used to open a new bank account: a. Voter id card b. Driving license c. Passport d. PAN Card e. Aadhaar Unique ID f. NREGA Job card attested by State Government Official.

IMPORTANCE OF THE SCHEME

This scheme is a mega financial inclusion plan. The country cannot progress if the lowest rung of society cannot get loans at an affordable rate. It will provide an insurance scheme which will provide an insurance cover of Rs.1,00,000 to crores of people .

The scheme vastly reduces the amount of black money which can circulate in the economy. These accounts can be used for cash transfers, handing out subsidies and so on. They will minimize the leakage and ensure that subsidies reach the beneficiaries.

The scheme has been started with a target to provide 'universal access to banking facilities' starting with "Basic Saving Bank Account" with an overdraft upto Rs.5000 subject to satisfactory operation in the account for six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and providing social security schemes i.e., Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)& Atal Pension Yojana (APY).

Empowering the poor and the vulnerable section of society by offering them choice and opportunity

MILESTONES ACHIEVED UNDER PMJDY

The scheme celebrated its first anniversary in August 2015. Below are mentioned the achievements and accomplishments of the scheme.

- Banks have opened 17.74 Crore accounts under PMJDY with deposit of more than 22000 crores.
- Aadhaar has been seeded in 41.82% of account opened under PMJDY.
- To ensure universal banking access more than 1.26 lakhs Bank Mitras have been deployed with on- line devices capable of e-KYC based account opening and interoperable payment facility.
- 131012Mega Financial Literacy camps were organized by banks under PMJDY 'in coordination with various agencies and
- 89876 Financial Literacy counters, to spread awareness on PMJDY, use of RuPay cards etc.
- 147418 students in 2567 schools/collage were imparted training on financial literacy from September 2014 to April 2015(Source: Banks).
- More than 10 lakhs accounts have been found eligible for Overdraft facility. Out of this overdraft facility has been availed by 164962 account holders.
- 847 Claims of Life cover of Rs.30000 and 389 Claims of accident insurance cover of Rs. 1 lakh have been successfully paid.
- As on 22nd August, 2015, 8.17 crore beneficiaries have been enrolled under the Pradhan Mantri Suraksha Bima Yojana and
- 2.76 crore have been enrolled under Pradhan Mantri Jeevan Jyoti Bima Yojana.
- 6.83 lakh account holders have been enrolled under Atal Pension Yojana.
- Zero balance accounts in PMJDY have declined from 76% to 45.74% from September 2014 to 19th August 2015

Accomplishments

Jan Dhan Yojana features in Guinness Book of World Records: Guinness World Records recognized the achievements made under PMJDY for opening 18,096,130 accounts by Banks in a week (from 23 to 29 August, 2014) as a part of Financial Inclusion Campaign.

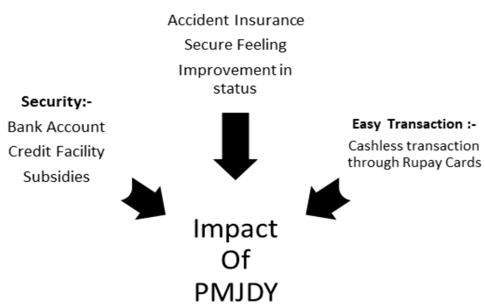
- Launch of dedicated website for Pradhan Mantri Jan Dhan Yojana by Secretary (FS) ON

27.10.2014: website for PMJDY (www.pmjdy.gov.in) which is available in both English& Hindi versions. The website consists of Information on administrative structure with contact details of Central/State/District level mission directors/nodal officers monitoring implementation of PMJDY, information of latest events & latest circulars issued under the Scheme.

- Payment of wages under MNREGA: More than Rs 4273 crore have been routed through these accounts till June 2015 towards payment of wages under MNREGA. (Source: MNREGA, Ministry of Rural Development).
- DBTL transactions: - Transfer of subsidy of more than Rs 17446 crore through Jan Dhan accounts from November 2014 to 31st July 2015. (Source: Ministry of Petroleum& Natural Gas).

IMPACT OF THE SCHEME ON HOUSEHOLDS

The effective and successful implementation of the scheme will have positive impact on the households.



CHALLENGES IN IMPLEMENTATION OF THE SCHEME

The issue is that there is a big difference between vision and details. Therefore the difference between big picture and outcome is execution and Jan Dhan may be visionary but challenge is in execution. The challenges are:

1. Infrastructural issues :- An aggressive initiative of such a large scale is bound to have challenge . It is believed that the key challenges like infrastructural issues could impede the success of PMJDY. Lack of physical and digital connectivity in hinterlands and hilly areas such as the Northeast, Jammu & Kashmir, Uttarakhand, and Bihar pose a major hurdle in achieving complete Financial Inclusion. Technological issues that affect the banks range from poor connectivity, network outage, power shortage and bandwidth problems to managing costs of maintaining the infrastructure. This leaves us with an impending question of 'Whether our Banks Infrastructure is ready to provide banking facilities to the ever-growing population of India?' As per the 2011 census, only 46,000 out of the six lakhs villages in India have bank branches. Only 14 per cent of the 160,000 ATMs are in rural India. Electricity is a basic requirement for operationalization of banks, running ATMs and network connectivity, but large parts of the country suffer from limited or no access to electricity. According to the Census of 2011, only 55 per cent of all rural households had access to electricity. Most ATMs in rural India either run out of cash or remain shut due to power outage. Infrastructural constraints means that it takes seven-eight working days to repair faulty machines in remote locations, against 8 hours in urban areas.
2. Less Transactions: -Under the scheme for every ATM transaction, the bank will pay NPCI 40 paise. For every sales transaction, NPCI will get 60 paise. Some of the finer points of the scheme does not look that good. The insurance cover is linked to the transaction history of the account holder. RBI promoted NPCI will bear the insurance cost, not the government, from the income generated from the transactions on the Rupay platform. But, most probably, although the volume of accounts will increase for banks, the same cannot be said about transactions.
3. Increase in NPAs:- On the asset quality , the Indian banking system is probably going through the most challenging time on the whole NPA side. According to estimates, recast loans at about rs.3.5lakh crores constitute nearly 6% of the total banking system. The gross NPA of the banking sector rose to 2.40 lakh crore at the end of March 2015 from rs 1.75 lakh crore at the end of the previous year.
4. Keeping the accounts 'LIVE':- One of the biggest challenge that previous inclusive banking initiatives such as; Swabhimaan and No-frills account faced was limited number of transactions in the newly opened accounts, which led to the account converting to dormancy. The current

statistics also show that increasing transactions per account is a major challenge. As per the official PMJDY website, 67 per cent of the 12.58 crore accounts opened until 2 February 2015 had zero balance.7 Villagers are reluctant to travel to far located branches for depositing a small amount of money. It costs half of their day, time and loss of a full day's earnings. This is a serious concern to ponder upon. On the other side, Banks have to spend INR 100- 150 per account on the necessary paper work, cost of holding camps and the commission paid to Business Correspondents who are authorized to open accounts. Unless transactions per account increases via technology or Business correspondents, it is financially unsustainable for the Government to run this scheme.

5. Shortage of Rupay Cards: -Another issue that is posing a challenge is the effective implementation is the Rupay ATM card, while 5,29,78,557 accounts were opened till September, only 1,78,48,949 Rupay cards were issued. There is a mismatch on a grand scale. Since only one company is producing that Rupay ATM cards to be given to account holders, there is huge shortage of these cards.
6. Unused Accounts: -Another concern that need to be addressed is on an average Rs 45 is spent on opening each account, which becomes huge if one considers the total number of accounts opened and moved go waste if people do not use their accounts properly. Assuming one account each for seventy-five million households, an overdraft facility of INR 5000 and 60 per cent of total households avails this facility, amounts to INR 22,500 crore. Even if we assume a risk weighted percentage of 20-25 per cent, it would mean an amount of INR 4500 crore non-performing asset to the banking sector. With many debt waivers in the past, people may end up treating the loans as freebies. Minimum balance kept in the account and number of transactions carried out per account in a year would decide the economic viability of this scheme.
7. Emphasis on quantity and not quality: -RBI governor Sri.Raghuram Rajan , has pointed out that the haste with which the scheme was launched "we are not allocated enough time and resources to identify actual beneficiaries before the scheme was launched. The beneficiaries were identified after the scheme was announced with the help of Gender Resource Centre workers. This affected the normal functioning of both banks and GRC. The opening of accounts without proper identification of beneficiaries is causing useless duplication. Raghuram Rajan has expressed that the JDY's "target should be universality, not just speed and numbers".
8. Managing the ecosystem of Business Correspondents: - Business Correspondents act as intermediaries and function as representatives of the Banks to provide financial services in un-banked areas. Currently, close to 3.3 lakh villages have banking correspondent agents. However, managing the Business Correspondent ecosystem is a complex and unwieldy task for the banks. Various bottlenecks of the BC model have come to light in the past few years:

- Delay in payout of subsidies and remuneration granted under MNERGA, Direct benefit transfer, pension, etc. to villagers by Business Correspondents.
- Little incentive (only 2 per cent commission) to the Business correspondent leads to demands of commission from illiterate villagers for loan processing, withdrawal of money from account, outside bank's knowledge.
- Inadequate and inconsistent customer service by a Business Correspondent to customers which poses a reputational risk to the banking institution.
- Bank's lack of commitment to monitor the operations of Bank Correspondents.
- Absence of proper training to a Business Correspondent agent regarding financial products and ability to handle customer complaints.
- Lack of effective grievance redressal systems: - There is no effective grievance redressal system established for the rural illiterates to come out and share their problems. No proper information is given to them, so the prime objective of universality of accounts cannot be met.

SUGGESTIONS

1. Reaching the poorest: -It is not economically viable for banks to provide banking services to the unbanked by opening physical branches,

especially in the rural areas. Even when economically viable, it is not feasible due to lack of network connectivity, power backup, lack of electricity supply, among others. Hence, banks are increasingly embracing the use of branchless banking by providing banking services such as opening of bank account, cash deposit, cash withdrawal through a Business Correspondent (BC).

2. Embracement of Aadhaar: -PMJDY should integrate with Aadhaar to leverage on the existing reach and ensure unique financial identities. Banks can act as registrars for Aadhaar enrollments and ensure that the seeding of Aadhaar numbers in accounts should be given priority for Direct Benefit Transfer. In order to increase Aadhaar seeding & enrollment, an enrollment counter should be set-up wherever account opening camps are organized. Other modes of seeding like SMS, ATM, Internet Banking, planned Call / communication to the customers on Aadhaar seeding should also be utilized.
3. Keeping the Account active: -The overdraft facility provided to customers after 6 months of opening the account, will help liberate the poor people from the clutches of the local money lenders. The provision of the overdraft facility will largely depend on the Bank's satisfaction to extend the same. There should be a guidance and mandatory policy by the RBI to the Banks for extending overdraft facility to the customers. Transfer of subsidies to the poor should be routed through these accounts so as to ensure that these accounts continue to have deposits and can remain live, this can reduce the number of dormant accounts. The cost of overdraft facility might not get repaid leading to losses to Banks, hence there is a need for integrating with NREGA and LPG subsidies to ensure direct deposits into these accounts.
4. Sustainable eco system: - The stakeholders like RBI, Central and state government, banks, local bodies, other government agencies like NABARD, NPCI etc., will have to build a sustainable eco system to keep these accounts active. The eco system should include a vibrant technology for active adoption , changes of regulatory and legal framework to push banking activities while protecting the account holder, deployment of innovative technology solutions to make small ticket transactions economically viable and an effective monitoring mechanism for flagging of gaps and quick intervention.

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