

PRADHAN MANTRI JAN DHAN YOJANA: A NATIONAL MISSION ON FINANCIAL INCLUSION IN INDIA

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Abstract : The Prime Minister launched the National Mission on financial inclusion known as Pradhan Mantri Jan Dhan Yojana on August 28, 2014. The prime objective of the PMJDY is to ensure financial inclusion of the poor and rural population giving them dignity, financial freedom and financial stability. This scheme is a national mission on financial inclusion . It has the objective of covering all households in the country having a bank account and other banking facilities. This scheme is a landmark initiative to bring the poor people into economic mainstream through linking the hitherto neglected poor strata with the banking system.

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. Initially, every account holder gets a RuPay Debit Card with a Rs. 1 lakh accident insurance cover. This paper highlights the need for financial inclusion, main features and pillars of the PMJDY and performance of this scheme.

Keywords:Financial inclusion, Commercial bank, Business correspondent, Micro insurance, Overdraft facility, Debit card.

INTRODUCTION

Even after 45 years of nationalisation of banks in 1969, a large section of country's population and most of the rural areas still remains unbanked leading to financial instability. As the poor and lower income groups have no access to financial products and services, the issue of financial inclusion has emerged as new paradigm of economic growth in India. The main objective of financial inclusion in India is to promote sustainable development, generate employment and alleviate poverty in rural areas by supplying various financial services to the poor people.

Only 6.82 crore out of the total 19.9 households have access to banking facilities and financial services like savings, credit, insurance, subsidies and other banking services. In rural areas, out of 13.83 crore households, only 4.16 crore rural households have access to basic banking services. In urban areas only 49.52% of total households have access to banking services. It is expected to cover all the households in rural and urban areas with a bank account.

OBJECTIVES OF THE STUDY

- To study the need for financial inclusion in India.
- To discuss the salient features and basic pillars of PMJDY.
- To assess the progress made under the PMJDY.
- To make some suggestions for smooth functioning of this scheme.

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

websites are referred.

Financial Inclusion

Financial inclusion connotes the delivery of financial services to the disadvantaged, hitherto neglected and low income sections of the society at affordable cost i.e., low interest rates. In India, about 320 million working population have no access to any type of financial services provided by the banks and financial institutions. The prime objective of financial inclusion in developing countries like India is the access and availability of banking and payments services to the entire population at the reasonable cost and without any discrimination.

Need for Financial Inclusion

Financial inclusion is necessary in rural areas due to the following reasons.

Inculcating the Savings Habits

Lack of savings makes the poor and low income people a vulnerable class so that they have to often live under the financial stress. Expansion of banking facilities in these unbanked areas will inculcate saving habits among the rural people. As savings of the rural and semi-rural people is mobilised by commercial, cooperative and rural banks, capital formation in the country is bound to increase. In this way, financial inclusion creates a platform for cultivating the habit to save and also to channelizing the savings.

Providing Banking Credit

In the absence of banking facilities in rural areas, farmers, rural people are vulnerably dependent on informal sources of credit like friends, relatives and moneylenders. Poverty and indebtedness sometimes lead to farmers' suicides especially in rain fed areas. Formal banking system provides adequate, transparent and low cost credit to farmers and rural people. Thus, supply of bank credit not only relieve the farmers from the clutches of money lenders, but also boost the output, income and prosperity of all the people living in rural areas. Micro finance is the recent example to provide easy, adequate and affordable credit to the vulnerable sections of the society.

Direct Cash Transfer to Beneficiaries Accounts

Government gives subsidies to farmers, consumers and weaker sections on food, fertilisers, and LPG gas. However, a considerable amount of money kept for giving the subsidy for the poorest people hardly reach them due to leakages and corruption at different levels in government bureaucracy. To avoid this, government has decided to make direct cash transfers to beneficiaries through their bank accounts. The intention of the government is to ensure transparency, eliminate corruption, reduce expenditure on subsidy, and provide subsidy to the real beneficiaries.

Action Plan for Implementing PMJDY

There are two phases of this scheme in which the objective of financial inclusion of the poor people is to be achieved.

Phase-I of PMJDY

The first phase of this scheme starts from August 15, 2014 to August 14, 2015 which envisages the following:

- (a) All households across the country have access to banking facilities with at least one Basic Bank Accounts with a bank branch or a fixed point Business Correspondent (BC).
- (b) All households have RuPay Debit Card with Rs. 1 lakh inbuilt accident insurance cover.
- (c) If bank account is operated satisfactorily for 6 months, Rs. 5000 overdraft facility will be granted to only Aadhaar enabled accounts.
- (d) Direct Benefit Transfer facility of various government schemes will be provided through bank accounts to the beneficiaries.

- (e) The existing Kisan Credit Card is proposed to be issued as RuPay Kisan Card to the farmers.
- (f) Financial literacy programme under the scheme will be implemented up to village level.

Phase-II of PMJDY

The period of Phase II is August 15, 2015 to August 14, 2018 which focuses on the following:

- (a) Micro insurance will be provided to the people.
- (b) Swavlamban-an unorganised sector pension scheme is to be proposed through the Business Correspondents.
- (c) Households in hilly, tribal and difficult areas will be covered in this phase.
- (d) This phase would also cover the remaining adults and students in households.

Salient Features and Basic Pillars of PMJDY

The salient features and basic pillars of PMJDY are explained as under:

Universal Access to Banking Facilities

The first basic pillar of the PMJDY is to provide access to banking facilities and services to ensure financial inclusion of hitherto neglected segment of the society. All the more than 6 lakh villages in the country are to be organised into Sub Service Areas and allocate to banks. Banks are required to provide one fixed point banking outlet as a either branch or Business Correspondent (known as 'Bank Mitra') to cater services to 1000 to 1500 households. Besides, Mobile Telephone services would be effectively utilised to deepen financial inclusion.

Mobile BCs covers only bigger villages, while fixed point BCs ensures uniform access and uniform coverage. All the villages and habitations in the country will get access to banking services within a short distance of 5 kms. Some parts of J&K, H.P., Uttarakhand, North East and 82 Naxalists affected districts are now excluded from this plan due to constraints of infrastructure and telecom connectivity but these areas are to be covered by August 2016.

Providing Basic Banking Accounts

Total households in India are 24.67 crore out of which 14,48 crore households have access to banking services. About 13.14 crore rural households are allotted to PSBs and RRBs out of which 7.22 crore households have been provided banking services till march 2014. These banks have to achieve the target of opening of 7.5 crore new bank accounts, comprising 6 crore rural and 1.5 crore urban uncovered households, by March 2015. The target may not be achieved in difficult area where connectivity constraints are existed. To achieve this target, camp approach, modern technology, e-KYC, Aadhar numbers and call centres, etc, will be efficiently used. Accounts of SHGs and Joint Liability Groups will also be opened. The National Payments Corporation of India recently launched Indigenous debit card called as RuPay Debit Card which is India's own card system. Further, the Kisan Credit Card is also to be provided with the RuPay Card. This card covers an accidental insurance benefits of Rs. 1 lakh and life insurance of Rs. 30,000.

Financial Literacy

Before implementing any programme like micro finance and SHGs, it is necessary to create awareness among the people about the benefits of formal financial system, banks, savings, credit, timely repayment of loans and other services. About 718 Financial Literacy Centres have been setup and 2.2 million people have received the benefits of awareness camps, seminars and lectures during 2012-13. However, such type of FLCs have not been established in rural areas. It is, therefore, proposed to set up FLCs at the block / taluka level and financial literacy cells will be created in all rural bank branches.

It is also planned to make a convergence with the National Rural Livelihood Mission and the National Urban Livelihood Mission and also to take help of NGOs working with NRLM and NULM to achieve the objective of financial literacy. The knowledge regarding basic financial literacy, operating an ATM card, benefits of timely repayment of loan and overdraft due, etc, will be imparted in the awareness camps and camps conducted for opening of bank accounts.

Credit Guarantee Fund

It is proposed to create Credit Guarantee Fund under this plan. The CGF will be created and kept under the National Credit Guarantee Trust. This fund will give a security to banks to provide over draft credit and will bring in discipline in the monitoring mechanism. It is estimated that about Rs. 8500 crore corpus will be required. Out of total CGF, half of the amount will be contributed by banks in terms of guarantee fee and rest of the amount of fund will be given by the government.

Micro Insurance

Micro life and general insurance policy is given under this scheme to provide insurance coverage to the poor and economically vulnerable sections of the society. The general insurance can be provided to an individual or a group which comprises health insurance, personal accident, and insurance of house, livestock, tools, machinery and instruments. A life insurance policy is a term insurance contract, endowment insurance policy or a health insurance policy.

The existing 'Aam Aadmi Bima Yojana' is also a micro insurance policy with the coverage of only 4.6 crore against the target of about 12 crore beneficiaries. The 'Bank Mitra' mechanism will offer micro insurance policies in order to cover the rest of the beneficiaries.

Provision of Pension Scheme

The central government has launched a co-contributory pension scheme in 2010 known as 'Swavlamban Pension Scheme' to encourage workers in the unorganised sector to save income on their own for their old age. Under this scheme, National Pension Scheme account is open in a bank and Rs 1000 to Rs. 12,000 are deposited per annum for a period of five years. The government has to contribute Rs. 1000 per annum in each NPS account. The Pension Fund Regulatory and Development Authority was set up by the government to implement the NPS and 79 Aggregators are appointed by the PFRDA to operate the NPS.

Progress of PMJDY

About 4.18 crore bank accounts were opened up to September 2014. Total accounts opened under this scheme have increased to 12.54 crore till January 2015. Total RuPay debit card issued under the scheme are over 11.07 crore. Further, total amount of deposits collected is 10.49 thousand crore. In this way, India is moving towards a cashless economy thereby eliminating the corruption and strengthening the e-governance policy of the government.

SUGGESTIONS

Under the PMJDY, each account holder are bound to get Rs. 5,000/- as overdraft loan without any collateral. If loan are not repaid then the overdraft facility of Rs. 15 crore is likely to become an economic burden on banks. It is, therefore, necessary to evolve basic guidelines for providing overdraft facility. A comprehensive pilot studies should be conducted in each district to assess the borrower's perception, the actual requirement, the use of overdraft facility and on-time payment and settlement of draft loans. It is also suggested that the overdraft facility can be granted solely at the discretion of banks.

CONCLUSION

The PMJDY is superior over the UPA's financial inclusion programme because the earlier programme had no focus on individual households. Further, there was no emphasis given on financial inclusion in urban areas. Again there was Know Your Customer (KYC) norm to open an account which has restricted account opening. Lack of credit disbursement, untraceable business correspondents and maximum inactive accounts were some of the deficiencies in earlier schemes.

The present PMJDY has addressed all the existing and possible deficiencies. This programme is in true sense one of the poverty alleviation programmes. Crores of poor people in India are still outside the organised financial system, despite the nationalisation of commercial banks long ago in 1969. Hence, this is the mission to eradicate poverty through the financial inclusion programme. The poor and the underprivileged people in rural, semi-urban and urban areas are expected to get all the benefits such as financial inclusion, financial stability and financial freedom through the PMJDY.

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