Pradhan Mantri Jan Dhan Yojana – The National Mission on Financial Inclusion

Key Features of PMJDY

- The Pradhan Mantri Jan Dhan Yojana is a national mission aimed at ensuring access to financial services to the underserved population, primarily in rural areas.

- It aims to provide a bank account to every household in the country as well as provide additional facilities such as debit card and insurance. It also places a strong emphasis on seeding the Aadhar card of an individual with their bank account.

- An MP can monitor the progress of PMJDY through the District Level Review Committee, an institutional mechanism set up under the Lead Bank Scheme of the Reserve Bank of India (RBI).

> "Financial Inclusion is not just about opening bank accounts. It is important to avail the various bank facilities that one gets after opening the account and Financial Literacy Programmes are important."
> - Mr. Swaraj Bhattacharyya, AM (LDO)-RBI, Agartala

In 2008, the Rangarajan Committee defined financial inclusion as a process to ensure access to affordable financial services and credit facilities, as required by the vulnerable groups in society. Today, financial inclusion has acquired the dimension of a broader national development policy goal. This is reflected by the launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY) and further attempts to link Aadhar Card number to the bank account of an individual so as to enable direct benefits transfer. Under the PMJDY, the GoI seeks to provide a bank account to each household and ensure access to banking facilities through a well-established network of bank branches. This is an attempt to address the situation wherein approximately 42 percent households do not have access to banking services (as per the Census 2011). It also seeks to enable access to overdraft facility along with provision of availing insurance under the Jan Suraksha initiative. Given this background, the brief provides a detailed insight into the working mechanism of the scheme with an emphasis on the demand supply network.

Financial Inclusion in India – The Evolution

The RBI and the GoI have initiated policies to expand the net of banking coverage. In 2005-06, the RBI appropriated the Bank Mitr or the Business Correspondent (BC) Model, in order to facilitate branchless banking. Under the model, the RBI suggested that a BC could be a non-bank employee, who delivers financial services including processing and submission of applications, preliminary processing of loan applications, creating awareness about banking to underserved regions and the wider public. The idea was to leverage the services of a BC to conduct the primary activities undertaken at a bank branch or an ATM kiosk. Furthermore, given the difficulty in setting up brick and mortar bank branch outlets in certain parts, this model was seen as a viable option to ensure wider penetration of banking services.

Buoyed by the introduction of the BC model, the GoI initiated the Swabhimaan Campaign, which concentrated on increasing the supply of banking services to habitations with a population above 2000 (as per census 2001). Approximately 74,000 habitations were identified under the aforementioned criteria. The coverage of banking facilities was done through both bank outlets and the BC model.

While these measures have produced considerable impact, 7 crore households did not have access to banking services, as per certain government estimates in 2014[1]. Given the magnitude of the task at hand, the GoI has adopted a mission mode approach towards achieving financial inclusion in the country through the PMJDY. One of the critical aspects of PMJDY is that it aims to extend the coverage of banking from both the supply side and the demand side, as is explained in subsequent sections of this brief. When it comes to the extension of banking facilities, it envisages a banking outlet within a radius of 5 km of each village in the rural areas, whereas it proposes increased awareness and usage of banking services such as insurance, debit card and overdraft facilities to create increased demand.

Termed as a "landmark" approach to financial inclusion by the RBI, the PMJDY operates through close synergy and coordination between the government and the banks with tight timelines set for all concerned stakeholders. The implementation model of the scheme includes active involvement from the banks as well as district and state level monitoring systems to ensure adequate banking coverage. A District Level Implementation Committee headed by the District Collector (DC) has been set up in each district to monitor the efforts of the banks in the region on a fortnightly basis.

Furthermore, a timeline for achieving universal access to banking services has been conceptualized. The timeline is divided into two parts whereby, from 15th August 2014 – 14th August 2015 banking facilities would be provided to the majority of the uncovered households in the country. The next phase would be between 15th August 2015 – 14th August 2018, whereby these services would be further refined to include micro insurance, overdraft facilities, and pension schemes.

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[1] http://www.pmjdy.gov.in/files/E-Documents/PMJDY_BROCHURE_ENG.pdf

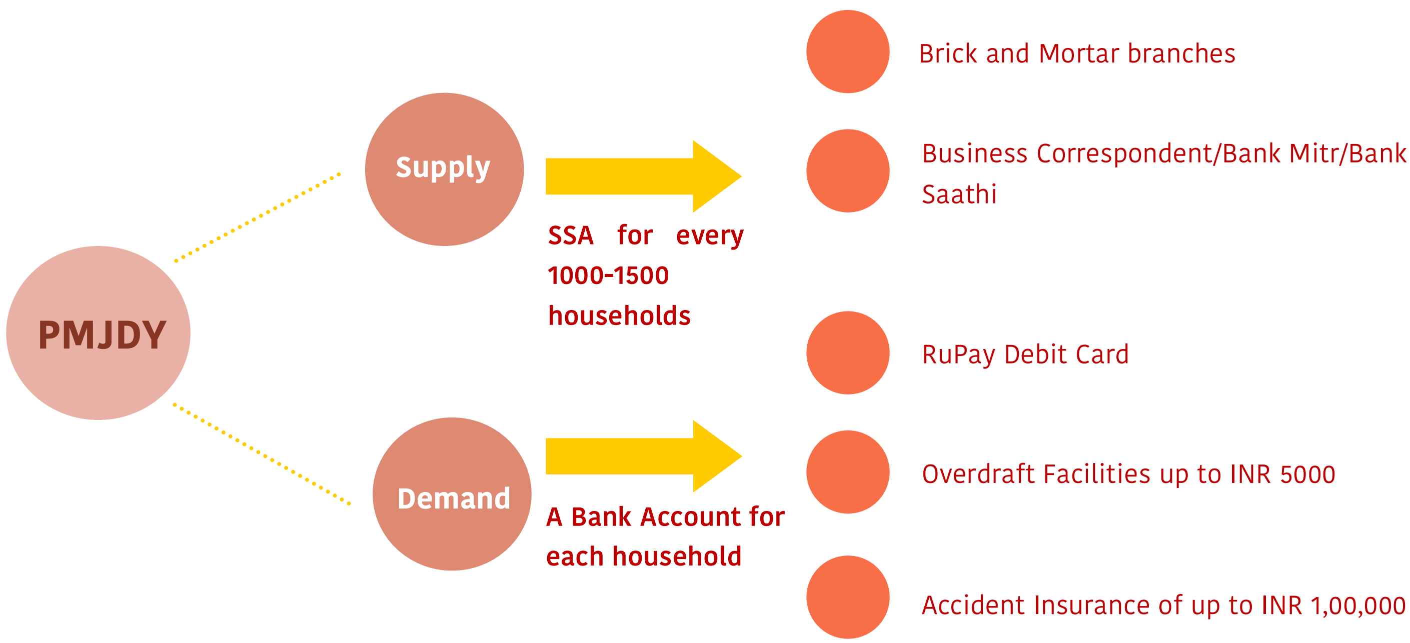


Figure I: Facilities under PMJDY

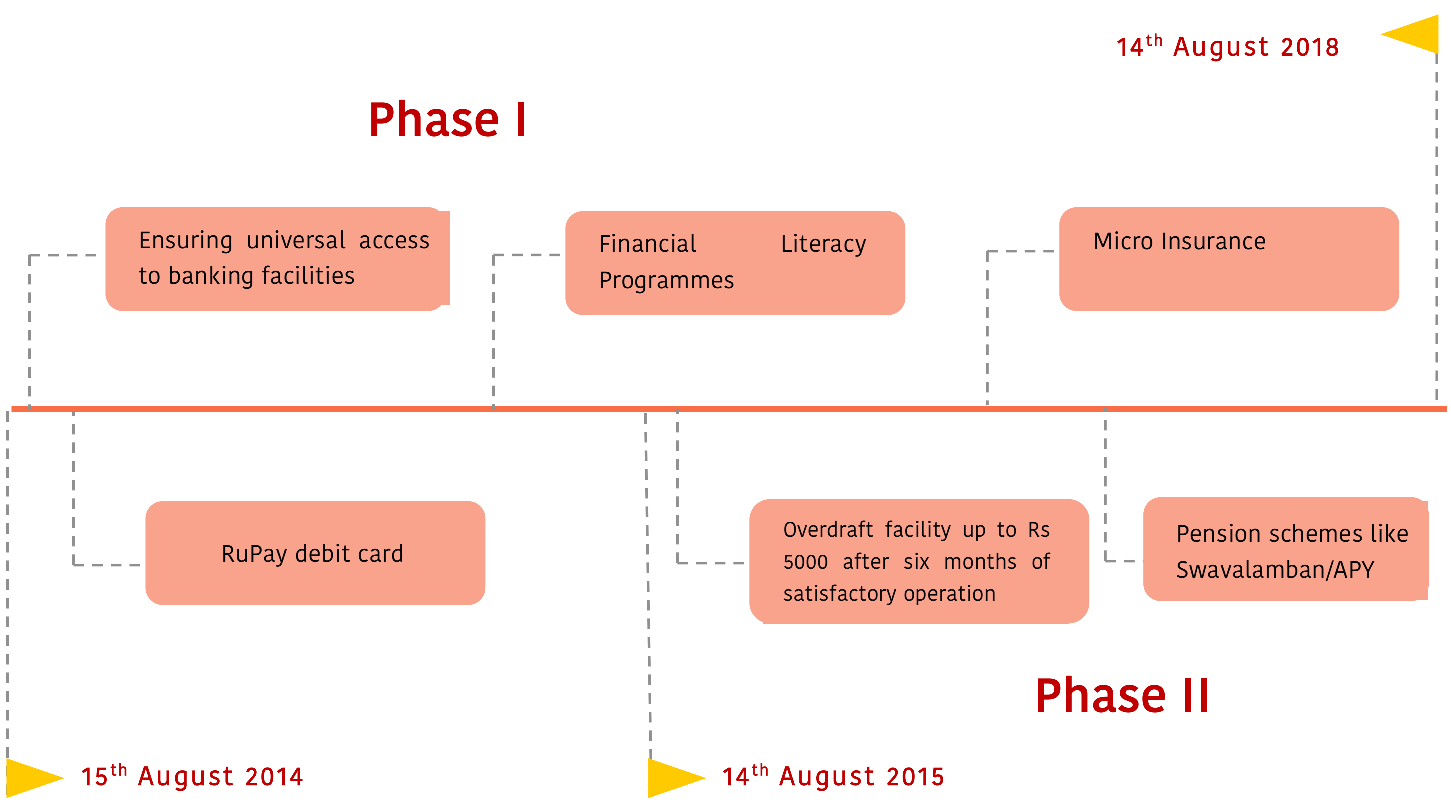


Figure II: Timeline for financial Inclusion

Strengthening the Supply Side – Setting up Banking Facilities in Regions

Keeping in mind the fact that only 38.2 percent of branches operate in rural areas, the RBI vide its circular DBOD.No.BL.BC. 24/22.01.001/2011-12 has advised all domestic scheduled commercial banks (except regional rural banks) to dedicate 25 percent of their proposed new branches to unbanked rural areas, which would be Tier V and Tier VI regions. The allocation to unbanked rural regions is undertaken during the preparation of the Annual Branch Expansion Plan (ABEP).

When it comes to mapping the service area of each bank, the districts are divided into habitations of 1000-1500 households known as Sub Service Area (SSA), which would be serviced by at least one banking outlet. Around 1.3 lakh SSAs across the country have been identified and 80,000 SSAs had been covered (as of 31.03.2014), which left another 50,000 to be covered by banking services. Under PMJDY, there is a massive push to cover these remaining SSAs by bank outlets, which could be either brick and mortar bank branches or the BC model. The banking outlets would be organized in such a manner that every SSA would have access to banking services within a distance of approximately 5 kms.

BC Model: The BC model due to its scope for operational flexibility has been given special emphasis under the scheme. Recognizing the potential of this method, PMJDY has leveraged it in order to expand the coverage of banking services especially in those areas where setting up of brick and mortar branches is difficult. In order to facilitate the growth of this model, the RBI has given its approval to a proposal to employ retired bank employees, retired teachers, retired government employees and ex-servicemen, individual owners of kirana/medical/fair price shops, individuals representing NGOs/MFIs and post office as a BC. There is a special focus under PMJDY to employ the youth as BCs servicing SSAs. Under PMJDY, the model has been scaled up by providing compensation to the BC to the tune of INR 5000 per month, which is the fixed amount, whereas the banks would decide the variable component, as per their policies. All banks have to put in adequate mechanism through which the BC can receive equipment worth INR 50,000, a working capital of INR 25,000 and some kind of vehicular support worth INR 50,000.

Documents required for opening an account under PMJDY

The desired identification proof required for opening an account is an Aadhar Card. However, if Aadhar Card is not available then a Voter ID card, Driving License, PAN card, Passport or NREGA Job Card could be used. If the address is available on these documents, then they can serve as identity and address proof. If none of these documents are available, but if the bank categorizes the applicant as "low-risk", a letter issued by a gazette officer with a self-attested photograph of the person is enough. Further, RBI has issued guidelines for persons, who do not have any identity proof. They can avail banking services through opening a "Small Account" for which, the identity proof required is a self-attested photograph and a thumb print/signature, which is done in the presence of a bank official. The "small account" has certain limitations regarding aggregate credit, aggregate withdrawal and balance as compared to other bank accounts. These types of accounts are valid for only a year, after which an application for an official identity proof needs to be shown for continuing the account.

Demand for Financial Services

In order to reinvigorate the demand for financial services, each household is provided with atleast one bank account under PMJDY. The procedure to open an account under the PMJDY has been simplified and an applicant only needs to submit a one-page form. While all banks have different timelines for processing the applications, the mission document for PMJDY specifically calls for these timelines to be expedited.

The account opened under PMJDY is a Basic Savings Bank Deposit Account (BSBDA), which requires no minimum balance and comes with additional facilities including an ATM-cum-debit card. The other facilities include deposit and withdrawal of money, electronic payment channels amongst other services. These services are provided without any extra cost to the customer. Some of the key features are elaborated below:

RuPay Debit Card

All account holders under PMJDY are provided with a RuPay debit card, which is made available by the National Payment Corporation of India (NCPI), to make financial transactions easier. The card offers all the regular facilities of a debit card, whereby the customer can make withdrawals at any ATM kiosk or make payments at any Point of Sale (PoS) machine. The card also provides the user with an accidental insurance cover for up to INR 1,00,000. However, to avail this insurance cover, the card has to be operational i.e. the card must be used once. The accident insurance would be made available if the last transaction with the card has been made within 90 days of the accident.

Overdraft Facility

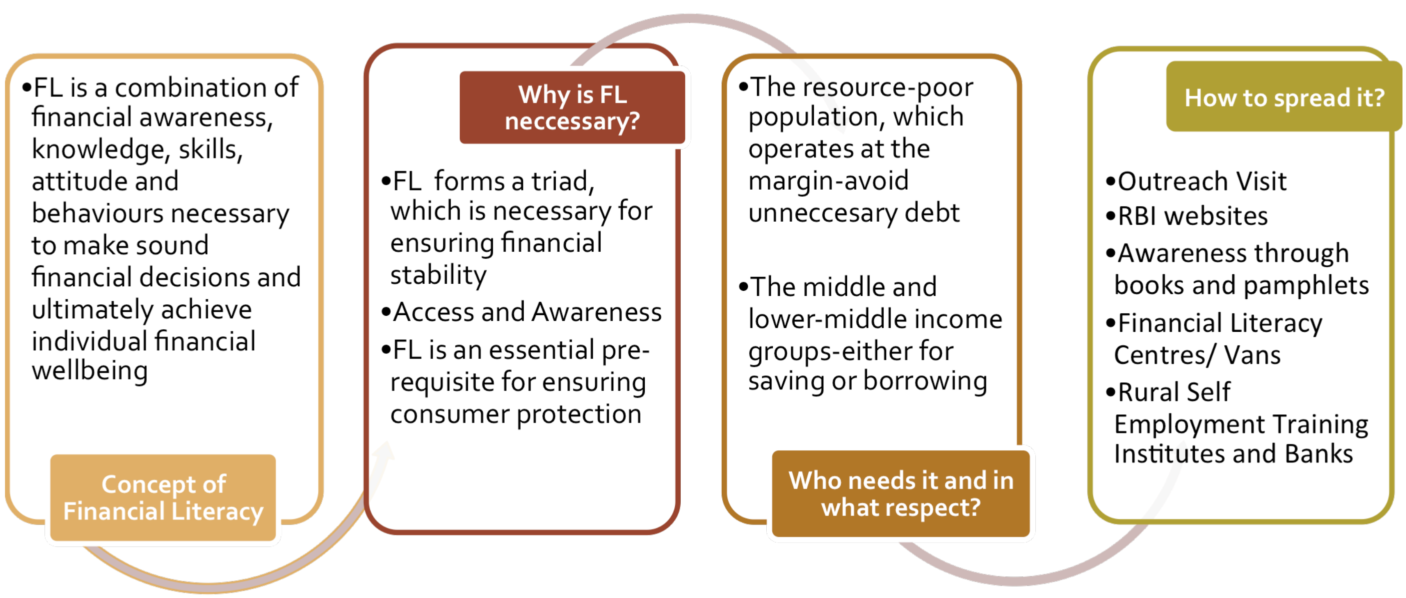
Account holders under PMJDY can avail of an overdraft facility. An overdraft is the line of credit, which is available to the account holder depending on the amount available in the bank account. The maximum overdraft, which can be obtained under the scheme, is INR 5000. This amount can be availed after six months of successful operation of the account. An interest rate of base rate plus 2 percent or 12 percent, whichever is lower, is charged on the overdraft. At present, the interest charged is 12 percent. For availing the overdraft facility, the account has to be linked to the Aadhar card. Only one earning member of the household is eligible for applying for the overdraft, it is preferred that the beneficiary of the facility is a female member of the household.

It is also important to specify that existing account holders can avail the facilities of RuPay debit card along with the accident insurance and overdraft facility with their present account itself i.e. a separate account under PMJDY need not be opened.

Financial Literacy Camp facilitated by Swaniti Initiative in Kathalbari, Dhalai Tripura

Mr. Jitendra Chaudhury, the Hon'ble MP of Tripura East, has identified Kathalbari VC in Ambassa RD Block of Dhalai district for development as an Adarsh Gram. The Swaniti team has been working with the MPs Office to strengthen the delivery of existing government schemes. As part of the same, the team identified financial inclusion as a priority area. The idea was to not just ensure universal coverage of households under the PMJDY but also to educate the villagers about the benefits available under the scheme as well as make them financially aware. Moreover, no Financial Literacy Camp had been organized in the past couple of years in the VC and interaction with different stakeholders highlighted the poor status of repayment of loans, limited coverage of insurance and a lack of general awareness about banking services. It was in this context that the team discussed the possibility of organizing a series of FLCs in Kathalbari with the Lead Bank of the district, the United Bank of India.

As an outcome of the discussion, the team and UBI worked together to rope in NABARD, Tripura State Co-operative Bank (TSCB), Rural Self Employment Training Institute (RSETI) and the RBI to organize an FLC in the VC on September 28 2016. Moreover, the team worked in collaboration with the PRI members to ensure extensive publicity across all the habitations of the VC so that maximum people could attend the session. The session attended by more than half of the village population, including all high school students, covered topics such as financial planning, budgeting, savings, how to maintain financial diary, advantages of savings with banks, the concept of Business correspondent, difference between formal and informal sources of borrowing, purpose and cost of borrowing, different types of borrowing etc.



The Way Forward – Direct Benefits Transfer

The Government of India and the State governments launch a number of schemes, which are aimed at the general upliftment of all income groups. Under these schemes, benefits in the form of cash or subsidies are provided to households belonging to the economically weaker sections. However, these schemes are often plagued by inefficiency in the form of corruption or leakages, as highlighted by various committees and reports. Corruption occurs in the form of unintended income groups/people availing the benefits or third party intermediaries siphoning the benefits from the supply chain. For example, 97 percent of the LPG is consumed by 30 percent of the richest households in the country[2]. As a result, the subsidy for LPG is not benefitting the intended beneficiary, who belongs to the lowest income levels. Another example of leakage is the malfunctioning of the Public Distribution System (PDS), where the leakages in the system vary from 40-50 percent and even go up to 60-70 percent in some states[3].

In order to plug these leakages, the Jan Dhan, Aadhar Number, Mobile (JAM) trinity is envisaged, which would aid the GoI to identify and provide the benefits and subsidies to targeted income groups. With the JAM model, the government can identify the beneficiaries through their Aadhar card number. The benefits can be directly transferred to the beneficiary through the individual bank account of the person. The spread of bank accounts has got a massive push, as evidenced by the efforts under Jan Dhan. The last stage, wherein the beneficiary is actually obtaining the subsidy or cash from the bank, is possible by taking advantage of the high mobile penetration within the country. A majority of states enjoy mobile penetration of over 75 percent. The high mobile penetration could be utilized to ensure that the beneficiaries obtain their benefits/subsidies from their accounts. The JAM model has been used in the disbursal of LPG subsidy through the PAHAL scheme. Under this scheme, the subsidy was directly transferred to the account of the beneficiary, while people bought the LPG cylinder at full market price. This way, the subsidy did not have to travel through the multiple layers from the Centre to the beneficiary, which would include the state, district, block and GP. The whole process was simplified to a one level transaction. According to the Economic Survey 2015-16, the PAHAL scheme had the potential to add Rs. 12700[4] crores as fiscal savings to the account of the GoI. This implies that the Direct Benefit Transfer (DBT), which is practiced under the PAHAL scheme, has huge potential to tighten the subsidy disbursal mechanism under different government schemes.

In order to do so, greater linkages are needed between Aadhar Card numbers and bank accounts to accurately identify the beneficiaries for any scheme. Some logistic modalities will also have to be worked out, as Aadhar Card numbers are individual identity number while accounts opened under Jan Dhan are done on a household basis. However, once a scalable model is created, it can be applied across multiple sectors. DBT would greatly aid in bringing about targeted subsidy disbursal and consequently targeted development.

[2] Economic Survey 2015-16
[3] High level Committee on re-structuring of food Corporation of India report, 2015
[4] In one financial year

Annexure I - State wise Report of Jan Dhan Yojana (as of 30.11.2016)

Name of State/UT	Total Number of Accounts	Aadhar Seeded Accounts (in %)	Zero Balance Accounts (in %)	RuPay Card Issued (in %)
Andaman & Nicobar	55174	73.18%	29.60%	84.80%
Andhra Pradesh	8033807	77.04%	21.30%	82.72%
Arunachal Pradesh	186817	25.56%	26.87%	77.36%
Assam	9841728	2.20%	23.72%	60.36%
Bihar	26358851	42.68%	20.30%	65.22%
Chandigarh	211724	82.49%	12.73%	89.11%
Chhattisgarh	11914626	55.03%	33.01%	66.12%
Dadra & Nagar Haveli	64940	64.54%	23.26%	58.23%
Daman & Diu	23326	67.18%	20.87%	66.68%
Goa	142642	63.17%	15.66%	87.58%
Gujarat	9056081	50.36%	21.11%	79.08%
Haryana	5514087	75.25%	16.06%	83.64%
Himachal Pradesh	963374	78.95%	13.08%	81.00%
Jammu & Kashmir	1924362	16.48%	32.45%	84.23%
Jharkhand	8692355	76.99%	25.48%	65.39%
Karnataka	9968326	67.87%	21.55%	89.11%
Kerala	3309278	73.58%	19.71%	77.56%
Lakshadweep	5239	85.23%	20.65%	86.33%
Madhya Pradesh	22491278	57.34%	27.30%	71.31%
Maharashtra	16035738	73.78%	28.80%	77.16%
Manipur	707974	32.76%	21.21%	63.95%
Meghalaya	377922	1.74%	17.00%	52.94%
Mizoram	382371	9.94%	32.75%	24.71%
Nagaland	194766	33.86%	30.81%	82.67%
Delhi	3425982	71.09%	23.17%	81.01%
Orissa	10783014	44.86%	22.01%	73.15%
Puducherry	126941	79.17%	16.94%	84.55%
Punjab	5123121	80.78%	15.84%	87.02%
Rajasthan	18972222	66.43%	19.75%	80.40%
Sikkim	84613	76.94%	19.13%	78.10%
Tamil Nadu	8794128	47.07%	21.98%	83.39%
Telangana	8324320	74.54%	27.83%	83.77%

Tripura	825976	62.40%	13.05%	55.30%
Uttar Pradesh	38207606	43.81%	22.63%	81.62%
Uttarakhand	2091116	45.96%	16.20%	82.78%
West Bengal	24631689	46.40%	18.76%	66.95%
Grand Total	**257847514**	**54.12%**	**22.85%**	**75.07%**

Source: www.pmjdy.gov.in