



# PMJDY- A Study of Its Role in Financial Inclusion and Inclusive Growth in India

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## Abstract:

*Pradhan Mantri Jan-Dhan Yojana is one of the biggest social welfare scheme of NDA Government, launched by our Hon. Prime Minister, Shri Narendra Modi on 28<sup>th</sup> August, 2014 as a land mark initiative to ensure financial inclusion for the weaker section of the society for providing Banking Saving and Deposit Accounts, Remittance, Credit, Insurance, Pension in affordable manner. On 20<sup>th</sup> January, 2015, the scheme entered in to Guinness Book of world records. PMJDY is based on the motto- 'sabka khata bhagya vidhata'. Universal access to banking facilities with at least one bank account for every household is the main objective of this scheme. This research article therefore, is an attempt to find out the role of PMJDY in financial inclusion and growth of India as well how effectively this scheme will be implemented in India.*

**Keywords:** Financial inclusion, Inclusive Growth in India, PMJDY

## 1. Introduction

Pradhan Mantri Jan-Dhan Yojana, was announced by Hon. Prime Minister, Mr. Narendra Modi, in his first Independence Day speech on 15<sup>th</sup> August, 2014. This scheme is launched on 28<sup>th</sup> August, 2014. PMJDY is a National Mission on Financial Inclusion to ensure access to financial services, namely, Banking/Savings and Deposit Accounts, Remittance, Credit, Insurance, Pension in affordable manner. Financial Inclusion includes integrated approach to bring about complete financial inclusion of all the households in the country. The motto of Pradhan Mantri Jan-Dhan Yojana is –‘Merra Khatta Bhayga Vidhata’. Financial inclusion means providing the financial services at affordable costs to the sections of disadvantaged and low- income segment of society or to those who are not having access to banking sector so that they can also enjoy basic banking facilities and they can be integrated with formal banking system. In 2005, the concept of financial inclusion came in to India when its importance was recognised and some relaxation given to banking sectors to come with best strategies so that lots many people can involve in banking sectors and can avail banking facilities at affordable costs. RBI also played crucial role in financial inclusion. In 2006, RBI permitted commercial banks to make use of services of non-governmental organizations, micro finance institutions, and other civil society organizations as intermediaries for providing banking and financial services. There are also some challenges in the way of financial inclusion which are, acting as barriers to achieve the target of financial inclusion.

## 2. Review of Literature

**Patel (2014)** highlighted the features, benefit, limitation and criticism of PMJDY. The study mentioned that there is lack of financial inclusion in India because only 59% of households having bank accounts. By discussing various pillars of PMJDY, study also mentioned the process to open ‘jan-dhan account’. Study criticised scheme due to- multiple accounts to get more insurance and also due to money laundering activities.

**Kumar (2015)** studied the implications and effectiveness of PMJDY as well threats for the success for PMJDY. The study is focused on phases as well strategy for the successful implementation of PMJDY. The study concluded that financial inclusion requires sustained efforts over many years and emphasis on quality rather than quantity.

**Hussain (2015)** studied the need of financial inclusion through PMJDY in Indian context. The study discussed that there are 250 million household in the country but only three-fifths of the total had access to basic banking services. The study concluded that for the successful implementation of this mission. Full support is needed from banking and other financial institutions and above the citizens.

**Kaur and Singh (2015)** studied the progress of financial inclusion initiative in India. The study focused on financial inclusion initiative before launch of PMJDY and discussed various steps taken by RBI and other banks to achieve financial inclusion. Study concluded that financial inclusion mitigates the exploitation of vulnerable sections by money lenders, by facilitating easy access to formal credit.

**Singh (2016)** studied the role and progress of PMJDY and also the challenges in the way of financial inclusion in India. Study also focused on details of household coverages of various states under financial inclusion. The study concluded that involvement of people in financial system and formal banking sector is necessary for the development of country.

### 3. Objective of the Study

- To study the role of PMJDY in Financial Inclusion and Inclusive Growth.
- To know the implication and effectiveness of Pradhan Mantri Jan-Dhan Yojana

### 4. Research Methodology

The study is based on secondary sources of data or information. Different books, newspapers and relevant websites, Govt. Publications and annual report of RBI, have been consulted in order to make the study effective one. The study attempts to examine the role of PMJDY in financial inclusion and inclusive growth.

### 5. Role of PMJDY in Financial Inclusion and Inclusive Growth

The National Mission on Financial Inclusion or Pradhan Mantri Jan Dhan Yojna was started by Ministry of Finance, Department of Financial Services, Government of India, with a wide vision to provide access to banking facilities to those people who are not having any bank accounts or still unbanked from formal banking sector, so that they can also be involved in banking sector which is necessary for economic development and for the welfare of poor people. Under this scheme people will get basic bank accounts with insurance facility and an additional facility of overdraft. Thus they will avail benefit offered by banks and facilities provided by government and will be able to develop small savings habits among them, and it will enhance capital formation, which will in result increase economic development of country. (Singh, 2016)

Pradhan Mantri Jan-Dhan Yojana lies at the core of the development philosophy of “sab ka sath sab ka vikas”. With a bank account every household would gain access to banking and credit facilities. This will enable them to come out of the grip of the moneylenders, can manage to keep away from financial crises caused by emergent needs, and most importantly, benefits from a range of financial products. Under this scheme every account holder firstly, would get a RuPay debit card with 100,000/-accident cover and further they will be covered up by insurance and pension products. Target of this scheme is to open account of 7.5 crore families in one year. Since from its inauguration of the PMJDY (28<sup>th</sup>, August, 2014), it has become the effective tool of financial inclusion. On the inauguration day of PMJDY itself, 1.5 Crore (15 million) banks accounts were opened under this scheme. By end of September, 2014, 3.02 Crore accounts were opened under this scheme. If we talked about public sector banks then State Bank of India has opened the highest bank account which is 30 lakh, followed by Punjab National Bank with 20.24 lakh accounts, Canara Bank 16.21 lakh accounts, Central Bank of India 15.98 lakh accounts and Bank of Baroda 14.22 lakh accounts. Under this scheme total of 7 crore

bank accounts have been opened with deposits more than Rs50 billion as of 6 November, 2014. On 20<sup>th</sup> January, 2015, the scheme entered in to Guinness book of world records setting a new records for , 'The most bank accounts opened in one week'. At the end of November 2016, accounts opened under this scheme reached to 255 million and the amount deposits rose to Rs380.47 billion by April, 2016.

## 6. Implications of PMJDY

Under this scheme accounts holder will be provided bank account with no minimum balance with RuPay debit card and in addition an accidental insurance cover of Rs1 lakh. Those who open accounts by January 26, 2015 over and above the Rs1 lakh accident insurance, they will also be given life insurance cover of Rs. 30,000. After six months of opening of bank account, holders will be eligible for Rs5000 overdraft from bank. With the introduction of new technology introduced by National Payment Corporation of India (NPCI), a person can transfer funds, check balance through a normal phone which was earlier limited only to smart phones. Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.

## 7. Phases of PMJDY

There are six pillar of Pradhan Mantri Jan Dhan Yojana which is divided in to two phases. Phase one operated from 2014 to 2015 (15 August) and phase two will be operated from 2015 to 2018 (15 August).

### 7.1 Phase One (From 2014 to 2015 (15 August))

Phase one cover three pillars which is Service area, Accounts and Literacy

1. **Service Area:** Country will be divided in to sub service areas (SSA). Each sub service area will cover 1000-1500 households and each household will have a banking outlet within 5 km distance.
2. **Account:** Each household will have at least one bank account, even the minors of 10 years or above age can open account under this scheme. Each beneficiaries has given RuPay debit card and in addition an accidental insurance cover of Rs1 lakh but conditions provided: first one is if one individual having more than one bank account or multiple accounts, still a maximum 1 lakh insurance cover, second condition is if within a family husband-wife having separate accounts, each gets 1 lakh cover. If households will open account before 26<sup>th</sup> January 2015, then they will get an additional Rs30,000 life insurance cover. Each household who is having good credit history for first 6 months then Rs5000 overdraft facility. If same family has multiple accounts then only 1 account gets this benefit – first preference to women account.
3. **Literacy:** government and banks in an effective coordinated manner will have to launch a massive campaign to create full awareness among the poor households for their better understanding of Jan Dhan Yojana and improve the level of education / financial literacy that can help them avail the benefits under the scheme along with the responsibilities attached with it. Simultaneously, banks will have to put in place client- friendly procedure that can encourage/ motivate them to operate bank account rather than allowing to remain dormant since Financial Inclusion aims at continuous operations or transactions in the bank account already opened .

### 7.2 Phase Two (From 2015 to 2018 (15 August))

This phase also cover three pillar like Credit Guarantee Fund, Insurance, Direct Benefit Transfer.

**Credit Guarantee Fund:** Banks have requested to Finance Ministry to quickly set up a credit guarantee fund to cover possible delinquencies in overdrafts they extend to account holders under the Pradhan Mnatri Jan Dhan Yojana. Banks had collectively opened more than 2.20 crore accounts of weaker section and low income group of people under this Yojana, within two days only.

**Insurance:** Insurance benefits are available through the RuPay card to accounts holder under PMJDY. The existing account holders in order to avail the RuPay Debit Card facility for getting the benefit of insurance can submit an application to concerned branch under PMJDY.

**Direct Benefit Transfer:** Earlier government launched Swavalamban Yojana to make unorganised sector workers join NPS scheme. Then account holders will get NPS-pension directly in these Jan-Dhan accounts. Government will also try for direct benefit transfer (DBT) i.e. sending scheme-subsidy money directly to beneficiaries 'jan dhan accounts.

## 8. Summary and Conclusion

The present study based on descriptive analysis examined the role and implications of PMJDY in Financial Inclusion and Inclusive Growth. Under this scheme, Services, number of bank accounts and financial literacy were categorised in phase one, whereas Insurance, Credit Guarantee Fund and Direct Benefit Transfer were categorised in second phase. The benefits of the scheme were highlighted in the study. By providing bunch of financial products and universal banking facilities of insurance, credit guarantee fund and pension at affordable rate, this scheme has attracted mass of population of India.

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