

# Pradhan Mantri Jan-Dhan Yojana



कलराज मिश्र  
KALRAJ MISHRA



18 MAR 2015  
सूक्ष्म, लघु और मध्यम उद्यम मंत्री  
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### MESSAGE

Pradhan Mantri Jan Dhan Yojana (PMJDY) is a nationwide scheme launched by Hon'ble Prime Minister, Shri Narendra Modi Ji in August, 2014. Backed by the National Mission for Financial Inclusion, the PMJDY aimed to provide at least one bank account to every Indian household. It is the launch vehicle of economic streamlining, providing access to a host of financial services including bank deposit accounts, credit, LPG subsidy and even insurance. The PMJDY has been launched with the motto- "Mera Khata - Bhagya Vidhaata".

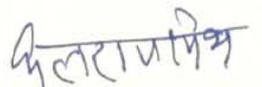
The initial target of opening 7.5 crore bank accounts by January 26, 2015 was later revised to 10 crore bank account in view of an outstanding show of achievement by the bankers in the first few days of the launch.

The PMJDY is also meant to become a potent tool to combat corruption of any form in Government offices. When the bulk of the Indian populace has a bank account, it facilitates direct bank transfer of any funds, averting the scope of a role for touts or bribery. The PMJDY also neatly ties-in with Modiji's vision of a Digital India- a country where the economy shall grow increasingly cashless.

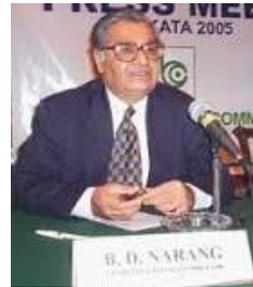
The total balance in over 12.7 crore accounts opened is now over Rs. 10,713 crore. A large number of account holders come from labour and un-privileged, farmers and less educated traders from MSMEs segments.

I am happy to know that the Federation of Industry Trade and Services (FITS) has taken upon itself to hold a Conference on this vital topic "Appraising Prime Minister's Jan Dhan Yojna & The Way to Forward" and to acknowledge the untiring efforts of banks who contributed immensely in making the project a great success.

I wish the Conference a great success.

  
(KALRAJ MISHRA)

**Mr. B.D. Narang**  
**Executive Director F.I.T.S and**  
**Former CMD O.B.C**



The NDA government launched a major scheme, the Pradhan Mantri Jan Dhan Yojana. Bank account openings on the first day beat expectations, as over 1.5 crore new accounts were opened on the very first day itself. The PMJDY will provide a bank account, overdraft facility, and basic insurance coverage to all households. It is a welcome move towards greater efficiency in transferring welfare benefits. By putting its resources and political capital behind this scheme, the government has acknowledged that cash transfers are going to be the way forward.

The scheme is intended to promote two major objectives: better transmission of social welfare benefits and also financial inclusion. If it is to meet both goals, however, the design of the scheme needs to be debated more carefully. The PMJDY is universal in nature — everyone with a bank account will be provided an overdraft facility as well as insurance coverage

I congratulate for having designed a Conference for appraising PMJDY and also confer excellence awards on banks who really contributed for the success of the scheme.

I wish the Conference a great success and congratulate the winners of awards.

**B D NARANG**

**D.R. KAARTHIKEYAN**  
**Padma Shri Awardee**  
**Former Director, CBI and**  
**Chairman, Jury on Excellence Awards**



Pradhan Mantri Jan-Dhan Yojna is a National Mission on Financial inclusion is an important priority of the Government, as it is an instrument for inclusive growth.

The main objective of the Yojna is to make sure for universal access to banking facilities with at least one basic banking account for every household in the country.

Inclusive growth is crucial for achieving Sustainable Economic Development in the Nation. It is also necessary to ensure Social Justice.

Role of Banks and other financial institutions in achieving the objectives of the Yojna is very vital. They have played a commendable role by surpassing all the targets set for them.

I congratulate Federation of Industry, Trade and Services (FITS) for taking this initiative in holding the Conference and also for honoring the Banks for efficiently and speedily achieving the targets.

I wish the Conference great success.

**(D.R. KAARTHIKEYAN)**

**Mr. Jyoti Prakash Gadia**  
**Managing Director**  
**Resurgent India Limited**



The launch of 'Pradhan Mantri Jan Dhan Yojana' by the Honorable Prime Minister of India on 15 August 2014 has given a fresh impetus to India's efforts towards financial inclusion. The ambitious program has witnessed opening of more than 12 crore accounts in a short span of six months. This has been possible largely on account of a shift in focus on covering households as against villages, which was the case earlier. It was observed, that a large share of the population in both urban and rural India was financially excluded, underscoring the inadequate performance of the existing financial inclusion initiatives. The launch of PMJDY transformed the focus on at least one account per household; this new strategy has enabled significant outreach in both the rural and the urban areas. The scheme also received positive response from the people, as these accounts are attractively packaged with additional benefits like accident and life insurance, debit card, overdraft and mobile banking facility.

Though the program has recorded phenomenal success in terms of numbers achieved, but going forward, the stakeholders will have to develop effective strategies to manage operational challenges which will arise on account of the its vast scope and large geographical spread.

Besides bringing the households under the ambit of banking, the stakeholders will also have to take steps to build economic activity around the unbanked population in villages so that the newly opened bank accounts remain active with regular transactions.

Through this report - Pradhan Mantri Jan-Dhan Yojana, we have provided a detailed account and analysis on PMJDY, encompassing scheme description, unique differentiators, scheme performance, and have also identified existing / potential challenges faced / likely to be faced in the operational execution of PMJDY. We have also identified strategies which can help towards the strengthening of the program implementation and thus aid in meeting its overall objectives.

I believe that the success of PMJDY can lay a solid foundation for inclusive growth in India. I hope that our views in this report will help stakeholders in executing PMJDY efficiently.

**Jyoti Prakash Gadia**

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# Appraising PMJDY & Excellence Awards

**Date:** 25.03.2015 | **Venue:** The Lalit, New Delhi

## Conference Itinerary



Inaugural Session		
9:55am	Lighting of lamp	
10.00-10.10 am	Welcome address & Introductory Remarks	Shri Subhash C. Aggarwal Chairman & MD, SMC Global Securities Ltd.
10.11-10.20 am	Special Address	Padmashri D.R.Kaarthikeyan, Former Director, CBI
10.21-10.30 am	A brief study report by Knowledge Partner	Mr. Jyoti Prakash Gadia, MD Resurgent India Limited
10.31-10.40 am	Special Address	Mr. Rajesh Aggarwal, Joint Secretary (FI) Ministry of Finance
10.41-10.50 am	Key Note Address	Mr. Pradeep Shankar, Director Resurgent India Limited
10.51-11.15 am	Address by Guest of Honours	Ms. Rita Singh, Chairperson, Mesco Steels Ltd.  Shri T.M. Bhasin , Chairman IBA and CMD Indian Bank
11.16am – 12.00 noon	. Release of Study Report . Award Ceremony . Speech by Hon'ble Chief Guest	Shri Kalraj Mishra, Hon'ble Union Cabinet Minister Ministry of Micro, Small & Medium Enterprises Govt. of India
	Q & A Session	
	Vote of Thanks	Shri Vijay Sharma, Secretary FITS
12.01-12.20 pm	Tea Break & Networking	
<b>Technical Session</b>		<b>Mr. Pradeep Shankar, Director Resurgent India Limited</b>
12.30-12.45 pm	Concept : PMJDY and its implementation	Shri Alok Pande, Director (FI) Ministry of Finance
12.46-01.30 pm	Role Play: . Banks  . NABADR  .Petroleum Ministry	. Mr. H.S.Lamba, Former CGM, Punjab & Sind Bank  . Mr. V.D.Bohra, GM Dept. of Financial Inclusion & Banking Technology NABARD  . Dr. Neeraj Mittal, Joint Secretary, - a* Ministry of Petroleum
01.31-01.45 pm	The role of PMJDY on inclusive growth	Mr. Guru Malladi, Partner & Leader – Advisory Service (Govt.& Public Sector), Ernst & Young
01.46-02.00 pm	Q & A Session	
02.01 pm onward	Lunch Break	
		a* - Confirmation Awaited

# Introduction

The announcement of 'Pradhan Mantri Jan Dhan Yojana' by the Honorable Prime Minister of India has helped push the agenda on financial inclusion program in India. The efforts to include the financially excluded segments of the society in India are not new but the vision of reach and benefit convergence committed under PMJDY has been unparalleled. The drive has already featured in the Guinness Book of World Records, with over 12.5 crore accounts opened in the first 9 months of the scheme launch.

This is a National Mission on Financial Inclusion and is implemented in Mission Mode under two phases and six pillars. The plan envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and old age security. The structural, infrastructural and technological issues like poor connectivity, on-line transactions, and sustenance of "live" accounts will have to be addressed to ensure effective implementation. Mobile transactions through telecom operators and their established hubs as Cash Out Points are also planned to be used for Financial Inclusion under the Scheme.

The ability to navigate through the above challenges will help enhance the impact of PMJDY. It will require a collaborative stakeholders approach with clearly laid out roles and accountabilities towards building an advantageous ecosystem. The eco-system would have to include a robust technology infrastructure to facilitate technology enabled banking activities and affordable reach, increased human connect for effective adoption, consumer protection measures, innovative product solutions to make business per account viable and an effective monitoring mechanism for due course correction.

Going forward, the Government must build and keep on this momentum. Financial Inclusion can become a gateway to social inclusion as the Jan Dhan Yojana can pave the way for micro insurance schemes, social security for disadvantaged groups and cheap credit for the economically weaker sections in the future. The sentiment is best summed up in Prime Minister's own words:

*"We want to integrate the poorest of the poor with bank accounts with Pradhan Mantri Jan Dhan Yojana. Today, there are crores of families which have mobile phones but no bank accounts. We have to change this. The economic development must benefit poor and it should start from here."*

# PM Jan-Dhan Yojana : Background & Description



## Brief Description

Pradhan Mantri Jan Dhan Yojana (PMJDY) is a nationwide scheme flagged off by Honourable Prime Minister of India Shri Narendra Modi in August 2014. The scheme was announced on the eve of Independence Day and officially launched a fortnight later on August 28<sup>th</sup> with the core development philosophy of Sab ka Sath, Sab ka Vikas.

Backed by the National Mission for Financial Inclusion, the PMJDY aims to provide at least one bank account to every Indian household. It is meant to be the launch vehicle of economic streamlining, providing access to a host of financial services including bank deposit accounts, credit, and going forward even insurance and pension.

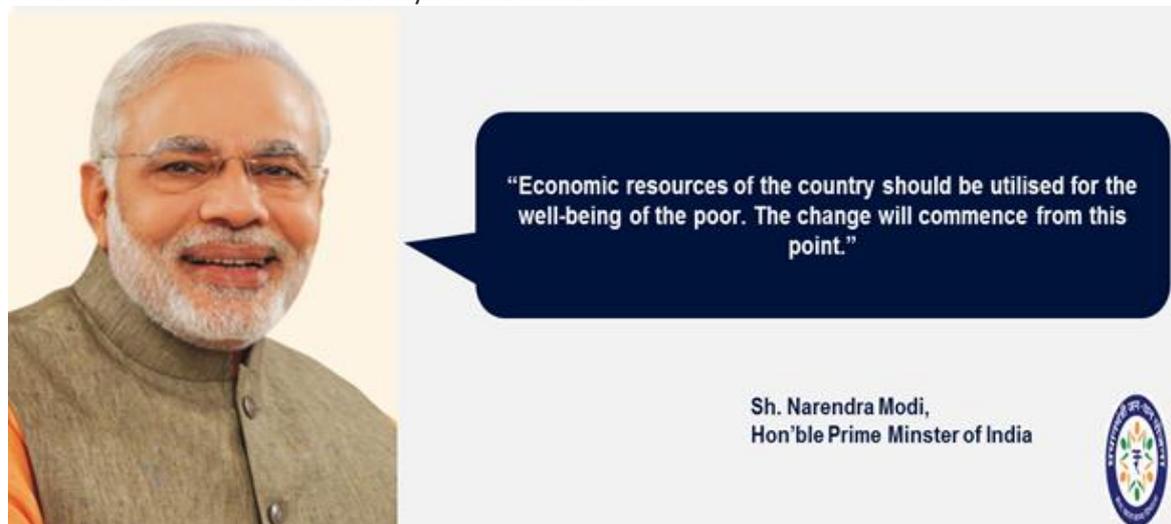
While launching the Yojana, the Prime Minister had described the occasion as a festival that marks liberation of the poor from a vicious cycle. It is no new knowledge that in India, while one segment of the population has access to a bouquet of financial services, the lower income group is almost deprived of even the basic financial services. Keeping a large set of the society financially excluded doesn't bode well for the overall economic development of the country. This makes financial inclusion a global concern. Canada law requires Banks to provide accounts without minimum balance to all Canadians regardless of employment / credit history. France and Sweden are legally bound to open an account for anyone who approaches them. In India, however even after decades of bank nationalization, whose rationale was to shift the focus from class banking to mass banking, financial access and security for the underprivileged is still a luxury.

With this awareness, the PM in his speech referred the Sanskrit verse: Sukhasya Moolam Dharma, Dharmasya Moolam Artha, Arthasya Moolam Rajyam – and put the onus on the state to involve people in economic activity. Since the banking services are in the nature of the public product, its availability to the entire population without any structural discrimination is the prime objective of financial inclusion in public policy. Access to a bank account builds further access to banking and credit facilities, which enables moving out of the grip of moneylenders, benefit from financial products and thus manage any financial crisis that comes from emergent needs.

The PMJDY was launched by the NDA government with the motto - "Mera Khata - Bhagya Vidhaata". It would be implemented in multi-phases:

- **Phase-1:** 28 August 2014 till 15 August 2015
- **Phase-2:** August 2015 till August 2018

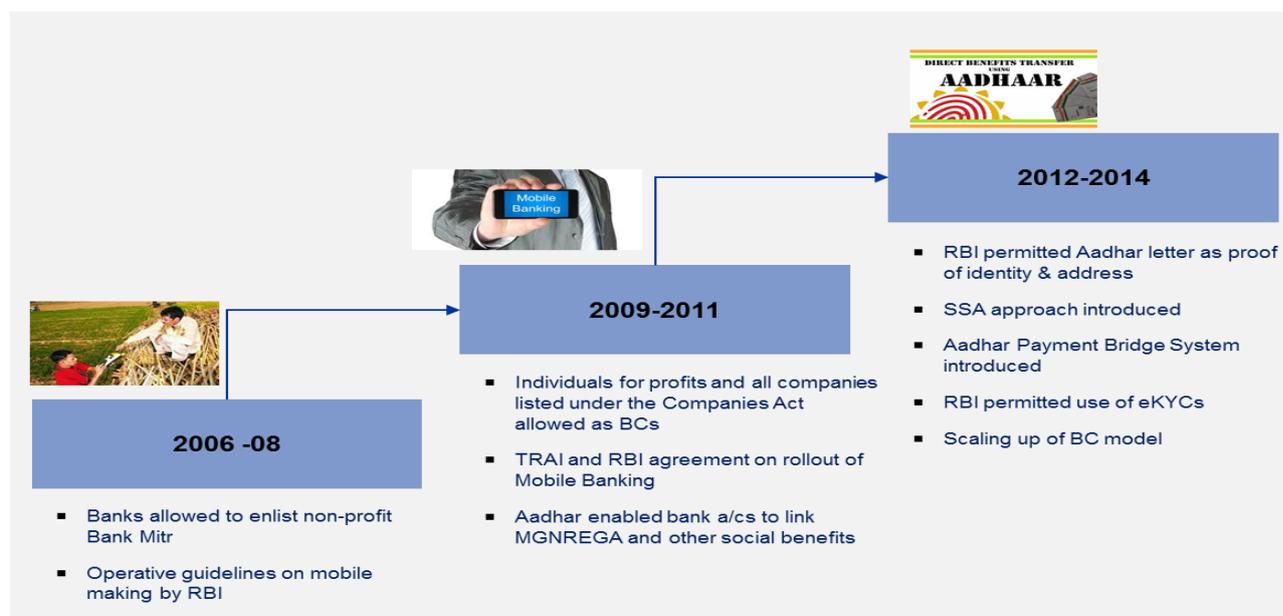
The scheme was initially launched with a target of opening 7.5 crore bank accounts by January 26, 2015. The target has been later revised to 10 crore bank account, on account of an outstanding show of achievement in the first few days of the launch.



## Need for PMJDY

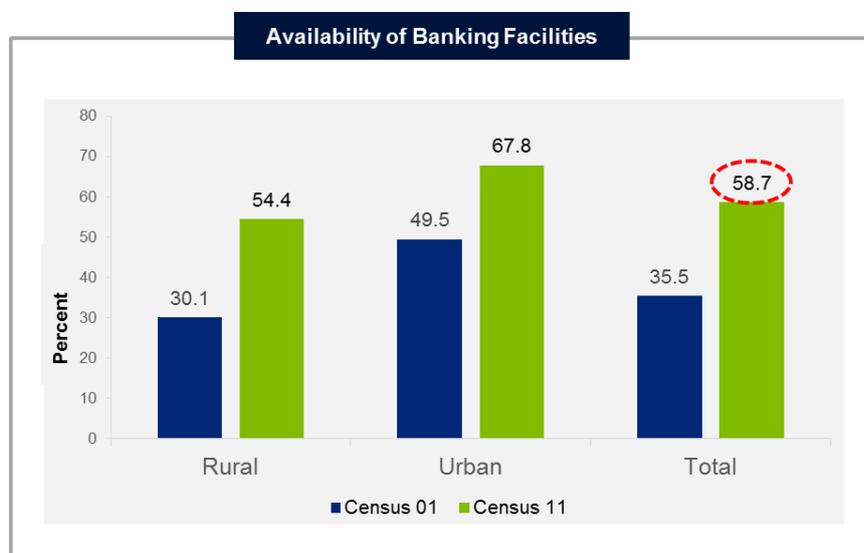
Over the years, the government and RBI has taken up various initiatives to ensure financial inclusion. Some of those being Nationalization of Banks, Expansion of Banks branch network, Lead Bank Scheme, State specific approach for Govt sponsored schemes by state level bankers' committee, and in more recent years Business Correspondent Model, Mobile banking, Aadhar enabled banking accounts, e KYCs etc. A timeline of recent initiatives/guidelines is given below.

**Chart 1: Timeline of Recent Important Guidelines on Financial Inclusion**



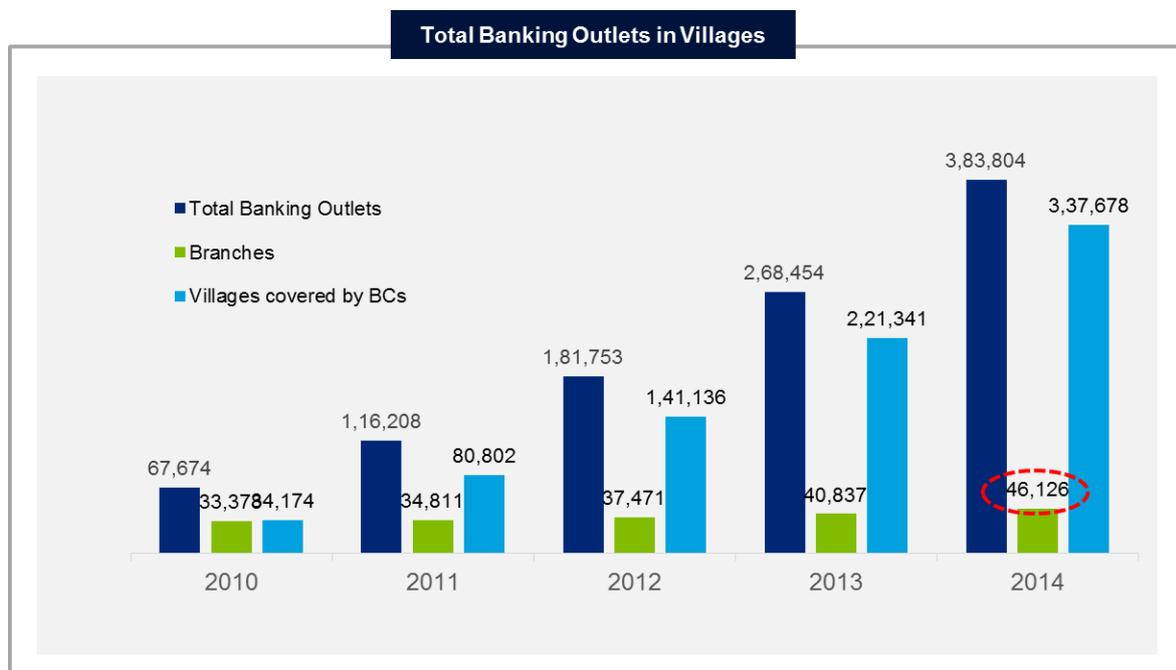
Despite various measures for financial inclusion, the impact is yet to percolate across society strata, with still a large part of country remaining unbanked. As per the latest Census of 2011, out of 24.67 crore households in the country, only 14.48 crore (58.7%) households have access to banking services, and the number dwindles further in Rural India (54.46%). The same holds true for the reach of banking and ATM network -- present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 115,082 and an ATM network of 160,055. Of these, only 43,962 branches (38.2%) and 23,334 ATMs (14.58%) are in rural areas.

**Chart 2a: Status of Financial Inclusion, Census 2001-2011**



Source: Census Survey, Government of India; Department of Finance Report on JDY

Chart 2b: Status of Financial Inclusion, All Banks including regional rural banks



Source : Census Survey, Government of India; Department of Finance Report on JDY

While there has been a progress above on coverage through Business Correspondent Model, banking network has not been able to scale up and expand reach beyond a point. According to World Bank Index Survey (2012), only 35% of Indian adults had access to a formal bank account and 8% borrowed from a formal financial institution in last 12 months.

A comparison of key performance measures with global counterparts further builds on the point of financial deprivation:

Chart 3 : Global Benchmarking on Key Performance Criteria, as of 2013

Parameter	Brazil	India	South Africa
Number of commercial bank branches per 100,000 adults	47	12	10
Number of commercial bank branches per 1000 kms	8	35	3
Number of ATMs per 100,000 adults	130	13	62
Deposit Accounts with commercial banks/1000 adults	1153	1197	1567
Loan Accounts with commercial banks per 1000 adults	2358	147	482

Source : Financial Access Survey, IMF; KPMG Report, RBI Annual Reports

The miniscule numbers suggest an urgent need to further push the financial inclusion agenda to ensure that people at the bottom of the pyramid join the mainstream of the formal financial system a majority of the country's population lacks access to the banking system making it susceptible to

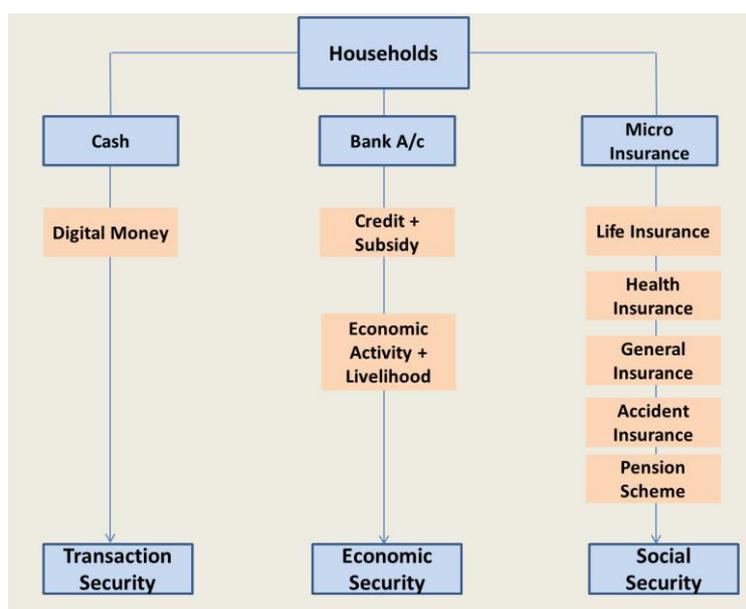
Approach money lenders for loans, Ponzi scheme operators for deposits, lose interest on savings on idle money, and lack any insurance cover. The PMJDY came up as PM Modi's solution to extend such financial services to the entire country and end an era of what he called "financial untouchability" through the promise of **economic security**.

The PMJDY is also meant to become a potent tool to combat corruption of any form in government offices. When the bulk of the Indian populace has a bank account, it facilitates direct bank transfer of any funds, averting the need for a bribe. The PMJDY also neatly ties in with PM Modi's vision of a Digital India - a country where the economy shall grow increasingly cashless. The reliance on technology helps build reach for the program at affordable costs, with increased transparency and **transaction security**.

Lastly, the scheme also aligns the social benefits within its scope. Through Accidental Insurance cover, Life Insurance cover (as per specified criteria) and proposed old age security benefits like unorganised sector pension funds, the need of **social security** is well covered under the scheme.

The impact of the financial inclusion scheme thus delivers on multi aspects of security a) economic b) transaction and c) social security.

**Chart4 : Impact of Financial Inclusion on Household**



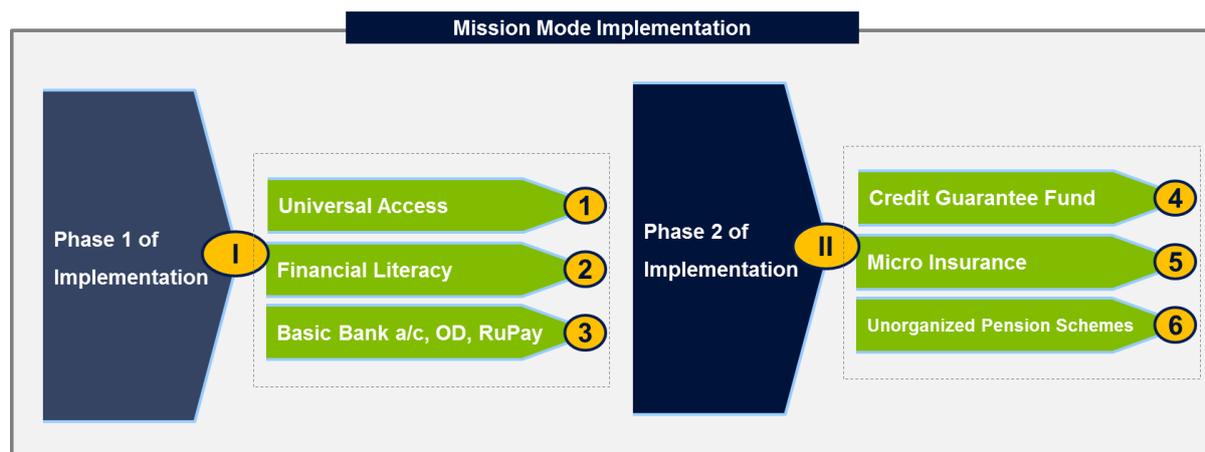
Source :PMJDY Official Website

# Mission Mode Objectives & Implementation



The Prime Minister himself flagged off the scheme with an address to the nation on August 28<sup>th</sup> 2014. Prior to the launch, the Prime Minister's Office had sent out over 7 lakh e-mails to bankers across the country entreating their cooperation in making the scheme a success. About 78,000 enrolment camps were set up nationwide to handle the initial spate of account openings. Thereafter the banks took up the account opening process under the directives of the RBI.

PMJDY is envisaged to be executed in the Mission Mode, consisting of **6 pillars**, spread across two phases of implementation.



During the 1st year of implementation under **Phase I (15th August, 2014-14th August 2015)**, three pillars as mentioned below are targeted to be covered:

1. **Universal access to banking facilities:** This requires working at district level by mapping of each district into Sub Service Area (SSA). This will be done in a manner that every habitation has access to banking services within a reasonable distance say 5 km by 14 August, 2015. Certain parts of the country with telecom and infrastructure constraints like J&K, Himachal Pradesh, Uttarakhand, North East and the Left Wing Extremism affected districts would spill over to the Phase II of the program (15 August, 2015 to 15 August, 2018)
2. **Financial Literacy Programme:** Access is held complete only with awareness. Building financial literacy as part of the pillars would ensure beneficiaries make the best use of the financial services made available to them.
3. **Providing Basic Banking Accounts with overdraft facility and RuPay Debit Card:** The first effort would be to cover all excluded with banking facility by opening an account and account holders would be provided with RuPay Debit card with inbuilt accident insurance cover of Rs 1 lakh and Kisan card. OD facility would be extended to the extent of Rs.5000 only after six months of satisfactory operation and credit history. Aadhar numbers will be seeded to make account ready for direct transfers.

**Phase II, beginning from 15th August 2015 upto 15th August, 2018 will address**

4. **Creation of Credit Guarantee Fund:** This fund will be built for coverage of defaults in overdraft A/Cs
5. **Micro Insurance :** Provide to all willing and eligible, and then carry forward on an ongoing basis, and
6. **Unorganized sector Pension schemes** like Swavlamban.

In addition, in this phase would entail coverage of households in hilly, tribal and difficult areas as mentioned in point (1) above. Moreover, this phase would focus on coverage of remaining adults in the households and students.

### Implementation of PMJDY scheme

In order to achieve the above objectives a broad collaborative strategy with all stake holders that leverages the existing infrastructure and inspires further expansion is required. A comprehensive plan is necessary considering the past experience where a large number of accounts opened remained dormant, resulting in costs incurred for banks and no benefits to the beneficiaries. Roles of various stakeholders like other Departments of the Central Government, State Governments, RBI, NABARD, NPCI and others have been indicated. This will help inter-department convergence and synergies will be gainfully utilized. As of now, the central body relies on banks/regulators/parties to collect the data, organize and analyze the data and provide it in a comprehensible form. This helps the central body to monitor the implementation work and progress towards financial inclusion goals. The contributing parties provide monthly data updates which the central body collates and analyses on a quarterly basis.

**Chart 5: Role of Stakeholders towards Effective Implementation**

<b>Department of Financial Services</b>		<ul style="list-style-type: none"> <li>Ownership of the Mission Mode Project on Financial Inclusion</li> <li>Overall monitoring and implementation role in PMJDY</li> <li>Acting as central advisory board to guide other stakeholders</li> </ul>
<b>Reserve Bank of India</b>		<ul style="list-style-type: none"> <li>Align their directions to the Banks on Financial inclusion with the Mission mode</li> <li>FIF fund allocation support ; Depositor Education and Awareness Fund scheme support</li> <li>Support Banks in Financial Literacy Campaign and FLCCs expansion upto the Block level.</li> </ul>
<b>NABARD</b>		<ul style="list-style-type: none"> <li>Monitoring Implementation of Financial Inclusion for organisations under NABARD</li> <li>Allocation of funds from FIF</li> <li>Coordination in Publicity and campaign</li> </ul>
<b>Banks</b>		<ul style="list-style-type: none"> <li>Setting up financial literacy and Credit Counselling centres</li> <li>Providing easy access of banking facilities to beneficiaries</li> <li>Dedicated Desk to be set up for monitoring of implementation of FI by IBA</li> </ul>
<b>NPCI</b>		<ul style="list-style-type: none"> <li>Coordination and necessary support to banks for proper operations of RuPay cards.</li> <li>To facilitate Interoperability among BCs.</li> <li>Necessary supports to Banks in making available Unstructured Supplementary Service Data (USSD) based mobile banking with low end mobile phones</li> </ul>
<b>Local Bodies</b>		<ul style="list-style-type: none"> <li>Assist in implementation of FI by organising camps for opening accounts, driving financial literacy campaign, educating account holders etc.</li> <li>Local bodies – Panchayats for Rural, Municipal bodies for Urban</li> </ul>
<b>State Governments</b>		<ul style="list-style-type: none"> <li>Monitoring of FI campaign in coordination with SLBC &amp; all the stake holders</li> <li>Direct Benefit Transfer of the State schemes in the bank accounts of the beneficiaries.</li> </ul>

## Implementation in Mission Mode

1. The first pillar of the scheme deals with the expansion of banking network to reach out to the financially excluded and provide **Universal Banking Access**. In the year 2014-15, the Public Sector Banks propose to set up 7332 branches and 20,130 new ATMs. However, staff constraints and the viability of opening full-fledged branches in rural areas make the demand for expansion far exceed the supply.

The efficient and cost effective method to cover rural areas is by way of mapping the entire country through Sub Service Area (SSA) approach and service that through a mix of branch and branchless banking, The strategy is to take forward the Bank Mitra (Business Correspondent) model for expansion of banking services by modifying it to ensure both operational flexibility and viability of the Bank Mitra (Business Correspondent). Technological innovations like RuPay card and mobile banking would also be made use of.

Herein, public private partnership can prove extremely efficient.

Source :PMJDY Official Website, Mission Statement

### Key action points under this pillar would include:

- a. **Map the country with SSAs:** Under the present plan, all the 6 lakh villages across the entire country are to be mapped according to the Service Area of each Bank to have at least one fixed point Banking outlet catering to 1000 to 1500 households, called as Sub Service Area (SSA) This task has already been complete in coordination with District Level Coordination Committees, to identify SSAs at the district level.
  - b. **Allocate the identified SSAs to different banks :** SSAs are proposed to be covered through a combination of banking outlets i.e. branch banking and branch less banking. The allocation of identified SSAs to outlets has been completed.
  - c. Post assessing operational and business feasibility of each identified centre, banks would strive to **set up a brick and mortar branch** with minimum staff strength of 1+1 or 1+2 in over 74000 villages with 2000+ population. These villages were covered by BCs in the earlier campaign.
  - d. **Monitoring and follow up** through a portal of the Department of Financial Services (DFS), which would capture the progress made in setting up these SSAs.
2. **Financial Literacy and Credit Counseling** is the second pillar of the scheme. Financial literacy is particularly relevant for a country like India with wide diversity on access, awareness and literacy. It is critical for people who are resource-poor, and are vulnerable to persistent downward financial pressures. With no established financial awareness, the un-banked poor are pushed towards expensive alternatives. Unless financial inclusion is clubbed with financial literacy, instead of helping poor, they may be further pushed into problems through unaware choices on credit and investment. The Rangarajan Committee on Financial Inclusion revealed that over 95% of adults in the country's 256 districts did not have bank loans. Banks under the PMJDY will, therefore, need to ensure that beneficiary uses overdraft facility to acquire assets, pursue economic activity, generate income and ultimately converts it into loan in due course. This calls for commitment and accountability of all stake-holders under the PMJDY.

Establishment of Financial Literacy Centers (FLCCs) which provides free financial literacy/education and credit counseling has been the major contributors to the cause of championing financial literacy. However, most of these have not been set up in rural areas and the present plan intends to expand its reach. Several other measures like RBI's Depositor

Education and Awareness Fund Scheme, National institute of Securities Market's NCFE further the cause of financial literacy in India.

**Key action points under this pillar include:**

- a. Expansion of FLCCs to the block level
- b. Finalize the course content in consultation with key stakeholders
- c. Effective technology enabled system of dissemination like Video conferencing
- d. Monitoring and follow-up.

3. The third pillar of implementation is around **Opening of Basic Savings account for every adult citizen**. The accounts would be zero account balance starting with coverage of all households. The current scheme moves forward with the learning of previous such initiatives. In the past, it was seen that many of the accounts opened didn't have enough transactions to make them viable for banks. This was because of lack of linkages to the account. The current scheme intends to correct that, through its six pillars approach and also added transactions flexibility through a debit card and ATM enabled accounts. The account would also be seeded with Aadhar number, making it the single point for receipt of all **direct benefit transfers**. This has far reaching implications for not only the account holders, but also the overall economy. A McKinsey (2011) study estimated that connecting every Indian household to a digital payment system and automating government payment flows can save \$22 billion a year, 80% of it from reduced leakages.

**Key Action Points under this pillar include:**

- a. A total of 7.5 crore account were estimated to be opened as per the original plan ~ 6 crores in rural areas and 1.5 crores for the financially excluded in the urban areas. The figure has now been revised through higher target setting.
  - b. This requires identification of people without a bank account and an increased awareness that JDY benefits are available on current accounts as well and there is no need for opening fresh accounts to avail this benefit. This will ensure the scheme reaches the right target segment.
  - c. Re-activation of dormant accounts
  - d. Organizing camps to facilitate opening of accounts at both urban and rural level
  - e. RuPay debit cards for all non KCC holders. For KCC holders, manual pass books to be replaced with RuPay ATM enabled cards.
  - f. Mobile Banking for low end mobile phones and mobile wallet for deepening financial inclusion
4. **Creation of Credit Guarantee Fund** is the fourth pillar of implementation. This is intended to setup against the overdraft facility upto Rs.5000/-. Per account. The present plan proposed to create the fund with a corpus of Rs.1000 crores. This corpus would be budget neutral for the government and will be funded by the Financial Inclusion Fund, being maintained by the NABARD. Setting up of this fund allows for the OD facility, which could be a great support for the poor borrower in times of exigency. It meets the basic premise of freeing the lower income segment from the expensive money lending options like that of local moneylender or Ponzi schemes. The OD facility also helps the borrower take the first little step towards larger credit by learning to manage his account and associated responsibilities of maintaining credit history and making payments,. For the banks, provision of OD facility is valid only after first 6 months of validated satisfactory operations and credit history. The banks can after a year increase the credit limit.

5. The next pillar of implementation is **Micro Insurance**. IRDA has created a special category of insurance policies to cover the economically vulnerable sections of the society. The IRDA Micro-Insurance Regulations, 2005 defines a micro insurance policy. A micro-insurance policy can be a general or life insurance policy with a sum assured of Rs. 50,000 or less.

Though new and small, the micro-insurance portfolio has made steady progress. More life insurers have commenced their micro-insurance operations and launched many new products. The flexibility provided by regulators allows the insurers to provide composite coverage or package products. The distribution network has also been considerably strengthened, although the volume is still small. As of now, Life Insurance Corporation of India (LIC) contributes the most, both in terms of policies sold and number of micro-insurance agents.

**Key points of implementation under this pillar would entail:**

- a. Enabling the distribution machinery to offer micro-insurance products and full coverage of schemes. Bank Mitra (Business Correspondent) mechanism would be enabled to offer micro-insurance products and full coverage of schemes like Aam Admi Bima Yojana
  - b. Aadhar Enabled Micro Insurance can be printed from CSC location.
6. The sixth and final implementation pillar relates to the **Pension Fund security** for the unorganized sector, which accounts to over 85% of the working population in India. Weak labour market attachment, irregular income streams, poor access to social security renders the unorganized workers highly vulnerable to economic shocks during their working lives. Noting the need for an old age security, the government had launched Swavalamban scheme in 2010.

The objective was to induce unorganized sector workers to start saving a part of their incomes from working years to be made use of in old age. The government also contributed to mobilize and incentivize savings. Subscribers could exit at the specified age with the built-up corpus, given out as lump sum and part annuity. The scheme is a feature optimized model, low cost, that is regulated by PFRDA and works on the sophisticated architecture of the National Pension System. It is completely IT enabled, managed by Professional Fund Managers for investment of funds and follows prudential investment guidelines to safeguard the interests of subscribers.

The scheme has been a huge success showing a CAGR of 75% in the four years of its operations, taking the tally of unique subscriber numbers to 2.7 mn. As against the total government contribution of 363 crores till March 2014, subscribers' own contribution has been 564 crores, all directed towards old age security.

**Key Action Points under the pillar relate to:**

- a. Use the distribution mechanism for full coverage under the scheme – Bank Mitrs to be used for scale up
- b. Estimated 35 cr. unorganized labour in the country. 15.94 lakhs subscribers enrolled till 31.03.2014

## **Implementation Challenges**

There are some challenges which have been identified by Department of Financial Services in the path of mission mode implementation:

- a) **Lack of supporting Infrastructure:** Poor physical and digital connectivity in rural areas and hilly regions such as the North East, Jammu & Kashmir, Orissa and Chhattisgarh and Uttarakhand pose a major hurdle in securing complete Financial Inclusion. This is one of the principal reasons responsible for less than 100% coverage in these areas. Further, poor connectivity on account of network outage / power shortage in these areas hinders account usage leading to dormant / inactive accounts. To address some of the issues, the government is contemplating satellite connectivity though it is at a very early stage.
- b) **Ensuring “Live” Accounts:** One of the key challenge that earlier financial inclusion plans faced was that a lot of opened accounts remained dormant or inactive because of lack of any transactions. The reasons could be many i) low incentivisation for banks/ account holders to continue operations ii) added time and hassle of operations through lack of physical banking infrastructure that forces villagers to travel long distances to deposit money into banks iii) Increased banks’ costs on organizing camps, supporting BCs vs low value accounts.

Flexibility in operations (via RuPay and ATM enabled accounts) and linkage to the DBT schemes especially MNREGA need to be pushed and DBT in LPG needs to be restarted to incentivize transactions. Other government activities like Make in India can also be linked to this scheme to add to the economic activity around the villages and thus generate employment opportunities.

- c) **Low Financial Literacy:** Financial literacy is a huge challenge to overcome for effective implementation of this plan. As per the Visa International Financial Literacy Survey for 2012, India ranks 23<sup>rd</sup> out of 28 markets in global financial literacy. It further reveals that 65% of Indians lack financial literacy. There is a lack of awareness, knowledge and skills to make informed decisions about savings, borrowings, investments and expenditure. The intent of the scheme is difficult to be fulfilled in the absence of awareness of benefits and associated responsibilities – so while the scheme aims to liberate low income segment from the clutches of expensive moneylenders and Ponzi schemes through access of bank accounts and subsequently OD and higher value loans, it is important to provide credit counseling so the scheme is not seen as a subsidy and adds to the **economic burden** instead.
- d) **Low Technological Literacy:** Use of technology can be a great enabler in extending banking reach but at an affordable cost. However technology adoption is nascent and low amongst masses currently. There is a need to educate people on usage of cards, ATMs, e-banking in a secure manner. This needs to be part of the curriculum on financial literacy and credit counseling.
- e) **Ensuring unique accounts:** Aggressive target setting may push banks to open accounts without assessing duplication, the challenge is enhanced in the wake of no centralised information sharing system to detect duplication of accounts. Most financial inclusion and welfare schemes have struggled with on-boarding citizen information. An Aadhar card is crucial for the success of the Jan Dhan Yojana as it is backed by biometric authentication which could eliminate the risk of fraud or duplication. It is also important for the government to keep communicating that the benefits under PMJDY scheme can be availed under existing accounts and no fresh account is required to be opened.
- f) **Lack of proper management of BCs:** Business Correspondents act as intermediaries as representatives of the Banks to provide financial services in un-banked areas and are critical for last mile connectivity. However past schemes have thrown some learning that can be corrected for or built in the plan for effective implementation i) observed delay in subsidy and benefit payout to villagers by BCs ii) Inadequate/inconsistent customer service by BCs iii) Banks’ lack of commitment to monitor operations of BCs iv) Lack of proper training to BCs v)

little incentive (2%) for BCs, which may lead to demotivation or charging illiterate customers extra charges for business/ request processing.

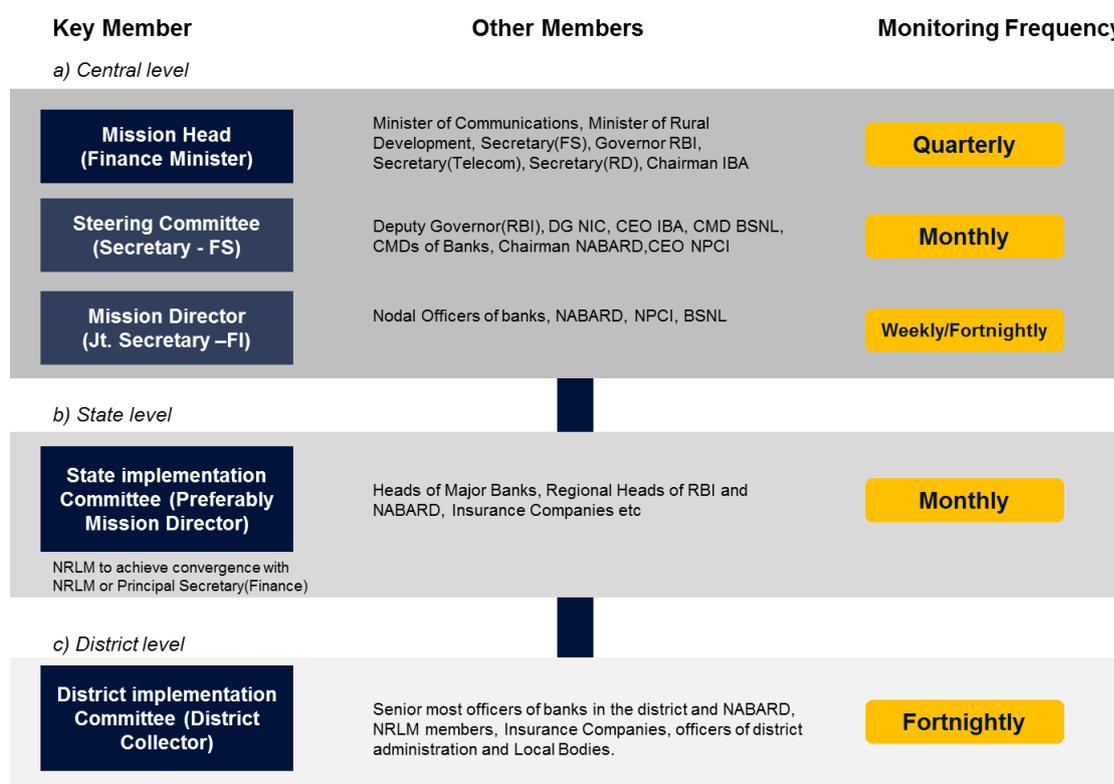
- g) **Building Demand pull:** For a demand pull effect, it will be important for the government to spread awareness around the scheme and Bank Mitr model for providing basic banking services, Banking Products available at Bank Mitr (Business Correspondent) outlets and RuPay Cards. This will build awareness and allow real benefits to be availed under the scheme.
- h) **Perceived Unviable or adding to Economic Burden:** Having to keep newly opened accounts live, the insurance claim system operative, subsidy money flowing through direct cash transfer in the accounts and sustaining the overdraft facilities will imply costs for banks and the Government. This requires banks to chart out a financially viable model of keeping the accounts live and providing the benefits linked to the accounts such as insurance cover and a card facility. It is a possibility that the overdraft facility could end up as bad loans for banks as the scheme does not spell out how the banks can collect debts.

A comprehensive framework, with PMJDY, Aadhar, Direct benefit cash transfer, financial literacy, improved infrastructure and self-sustaining last mile delivery model can result in effective financial inclusion. If the banks start believing in this business, they would be able to innovate and, in the process, start reaping the benefits of economies of scale.

### Administrative Structure for PMJDY Monitoring

The administrative structure for the scheme works across the levels of implementation -- starting from local district level implementation committee to state and centre level monitoring. The central body relies on banks/regulators/parties to collect, organize and analyze the data. This helps the central body to monitor the implementation work and progress towards financial inclusion goals. The frequency of review increases as one goes down the administrative structure. A brief snapshot of the structure and frequency of monitoring has been provided below:

**Chart 6: Administrative Structure for Monitoring**



**Additionally, few notes:**

- a) Director (FI) would be Additional Mission Director at the Central level
- b) SLBC Convener Bank General Manager in the State capital would be the Secretary to the State Implementation Committee. States are requested to provide a Senior State Officer on deputation to SLBC Convener Bank for a period of one year to help coordinate the work
- c) Lead District Manager (LDM) to act as Secretary to the District implementation committee. The frequency to meet could be even higher in the initial stage till creation of the infrastructure. Presence of DC would be necessary in at least one of the two consecutive meetings.

Source: PMJDY Official Website

# Features & Benefits



To draw in people in large numbers and enhance account-holders' value, the government devised attractive incentives such as easy credit and in-built accidental and life insurance plans to be offered to those opening bank accounts under the PMJDY scheme. The RBI has specified only one type of account that can, currently, be opened under this scheme viz. the Basic Savings Bank Deposit Account (BSBDA). This account can be opened at no charge to the applicant. The main features of this account deliver on **the financial tripod**:



### Key Benefits of the Scheme:

#### Account Characteristics Related

1. A zero balance savings account – to open or maintain the account
2. Interest is paid on amounts maintained in the account
3. Every account holder will get RuPay Debit card (which is India's domestic debit card) included in the welcome kit. RuPay card can also be used for e-commerce transactions.
4. Account holder will receive a kit containing cheque book, financial literacy and pass book. However this would vary from bank to bank and account usage.

#### Documentation Related

5. Aadhar number on the spot.
6. Minimal documentation – option to open temporary accounts a.k.a. small account where required proofs cannot be provided

#### Technology Related

7. Mobile banking would be available and technical platform will be built connecting all the banks and telecom operators so that customers can access mobile banking facility with ease.
8. Money transfer can be done across Indian banks.
9. Account transfer from one branch to another is also possible since all the accounts opened are through core banking system (CBS).

### Additional Benefits

10. Direct Benefit transfers – from government schemes to account holders
11. Accidental insurance of Rs 1 lakh will be available to all RuPay card holders between 18-70 years. They will need to use their RuPay card once in 45 days of receipt of the card to get the benefit. The accidental claim intimation should be given to bank within 30 days from the date of accident.
12. Overdraft (loan) facility of Rs. 5000 would be provided once account holder completes 6 months and has kept account active. Loan amount can be increased dependent on banks' assessment of the credit history of the account holder.
13. Overdraft facility would benefit individuals who had been relying on money lenders charging high interest. However, only Aadhar linked accounts would be eligible for overdraft facility.
14. Account holder will also get access to pension and insurance products in the phased implementation plan

### Others

15. Farmers' dependency on money lenders would reduce as they've been relying on money lenders especially in rural areas. Once trapped by money lenders, whole family's future is ruined.
16. No fresh account needed to get benefits of the Pradhan Mantri Jan Dhan Yojana scheme

**Life Cover under Pradhan Mantri Jan Dhan Yojana Scheme:** In addition to the abovementioned benefits, the government had a special incentive on offer to attract more people i.e. free life insurance through the 'Life Cover Under Pradhan Mantri Jan Dhan Yojana Scheme'. This cover is available to all those who opened accounts under the PMJDY scheme before January 26th, 2015. Through this policy, the government aims to provide the added benefit of financial security as a part of life insurance. It is mainly intended to service the poor (urban and rural) classes of society who, generally, don't have access to affordable life insurance.

### Key Features of the Life Cover include:

- ❖ Sum insured or death benefits – Rs.30,000
- ❖ Entry age – 18 years
- ❖ Exit age – 59 years i.e. up to but not including 60 years (subject to the scheme being valid)
- ❖ Validity – 5 years i.e. until 2019-20 or when the insured person turns 60 years, whichever is earlier
- ❖ No. persons covered – One account holder per family, usually the head of the family
- ❖ Linked to RuPay Debit Card –to be valid at time of death of the insured for claims to be processed

Eligibility for the Life Cover - Certain provisions to qualify for protection under the life insurance scheme.

- ❖ This scheme applies to only those account holders who opened their accounts under the PMJDY scheme before January 26th 2015.

- ❖ Only one accountholder per household can avail coverage under this life insurance scheme. This person is usually the head of the family or may be an earning member of the family.
- ❖ Although accounts can be opened for minors above the age of 10, life insurance coverage under this scheme will only be available to those who have completed 18 years of age.
- ❖ The insured accountholder can avail coverage only up to 59 years of age. On completing 60 years, coverage is automatically discontinued.
- ❖ To avail benefits of life insurance protection under this scheme, the accountholder must have a valid RuPay Debit Card. This card must be in effect at time of death of the insured accountholder in order to process claims.
- ❖ The insured person should also have a bio-metric card e.g. Aadhar Card linked to a bank account to which claim payout will be transferred (includes any account including a temporary account created under the PMJDY scheme). In case of joint accounts, only the person named as the first holder is eligible for coverage.

Jan Dhan is set to be a universal social security framework in India. The government will launch Pradhan Mantri Suraksha Bima Yojana, the Atal Pension Yojana and the Pradhan Mantri Jeevan Jyoti Bima Yojana which have been announced in the budget.

#### **Unique Differentiators of PMJDY**

The earlier campaign on financial inclusion started with a limited objective. The focus was on the coverage of villages with population of 2000 or more with banking services. The major shift in PMJDY is that households were targeted instead of only villages as targeted earlier. Moreover both rural and urban areas are covered this time as against only rural areas targeted earlier. The target under PMJDY is to extend banking facilities in each Sub-Service area consisting of 1000 – 1500 households such that facility is available to all within a reasonable distance, say about 5 Km.

Cross-functional coordination is held critical for the implementation and success of this program and has been evident in the execution and monitoring so far. Banks organize account opening camps on every Saturday with a mega camp on last Saturday of the month from 8.00 A.M. to 8.00 P.M. in coordination with District Authorities for opening of bank accounts. Financial literacy camps with a counter for Aadhar enrolment and insurance companies are also part of camps organized by the Banks.

The present plan pursues digital financial inclusion with special emphasis on monitoring by a Mission headed by the Finance Minister. A mission office comprising of bankers, IT professionals and data analysts was set up for coordination, collation and follow up with various state governments, Banks and other stakeholders.

PMJDY focuses on coverage of households as against the earlier plan which focused on coverage of villages. It focuses on coverage of rural as well as urban areas. Earlier plan targeted only villages above 2000 population while under PMJDY whole country is to be covered by extending banking facilities in each Sub-Service area consisting of 1000 – 1500 households such that facility is available to all within a reasonable distance, say about 5 Km.

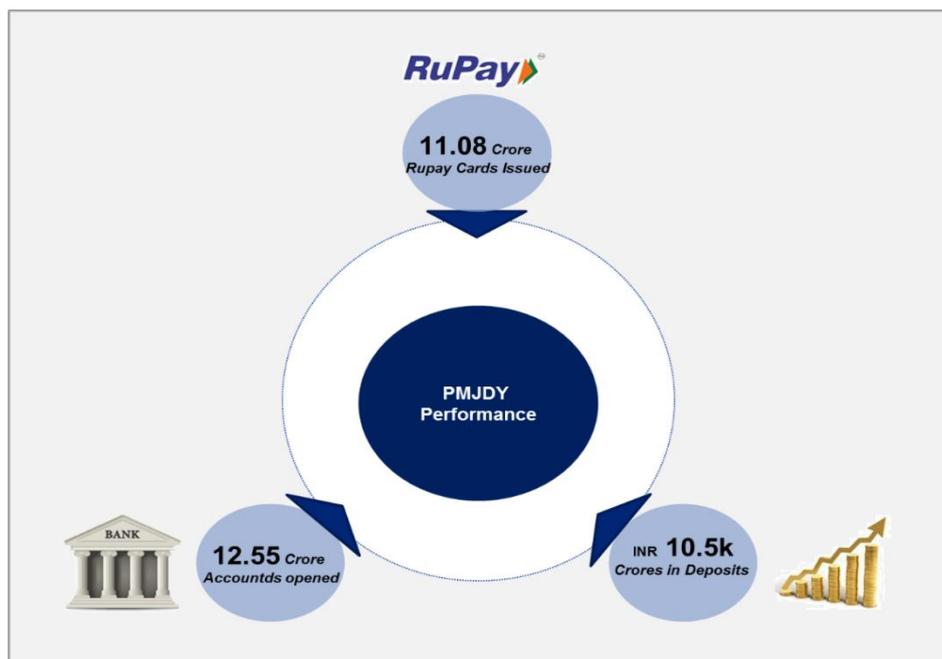
**Chart 7: Comparison of Inclusion Plans – Then and Now**

Parameter	Earlier Approach	New Approach (PMJDY)
<b>1</b> <b>Coverage</b>	<ul style="list-style-type: none"> <li>Only Rural</li> <li>Villages with population greater than 2000 with limited coverage</li> </ul>	<ul style="list-style-type: none"> <li>Both Urban and Rural</li> <li>Focus on household; Sub Service Area (SSA) for coverage of the whole country.</li> </ul>
<b>2</b> <b>Technology</b>	<ul style="list-style-type: none"> <li>Offline accounts opening - Technology lock-in with the vendor</li> <li>No use of Mobile Banking. Interoperability of accounts not available</li> </ul>	<ul style="list-style-type: none"> <li>Only online accounts in CBS of the Bank</li> <li>Mobile wallet and USSD based mobile banking, nter-operability through RuPay Debit Card, AEPS etc</li> </ul>
<b>3</b> <b>Process</b>	<ul style="list-style-type: none"> <li>BC was visiting on fixed days only</li> <li>Focus on account opening and large number of accounts remained dormant</li> <li>Cumbersome KYC</li> <li>Financial literacy had no focus</li> <li>Credit provision not encouraged</li> <li>No grievance redressal</li> </ul>	<ul style="list-style-type: none"> <li>Fixed point BC in each SSA comprising of 1000-1500 households</li> <li>Account opening to be integrated with DBT, credit, insurance and pension</li> <li>Simplified KYC/e-KYC</li> <li>Viability and sustainability of BC is critical</li> <li>Dedicated Financial Literacy cell</li> <li>OD limit after satisfactory operations / credit history of 6 month</li> <li>Grievance redressal at SLBC level in respective States</li> </ul>
<b>4</b> <b>Monitoring</b>	<ul style="list-style-type: none"> <li>Left to banks</li> <li>No active involvement of states/districts</li> </ul>	<ul style="list-style-type: none"> <li>Financial Inclusion campaign in Mission Mode with structured monitoring mechanism at Centre, State and District level</li> <li>State level &amp; District level monitoring committees to be set up</li> </ul>

Source: PMJDY Official Website

# Performance & Impact



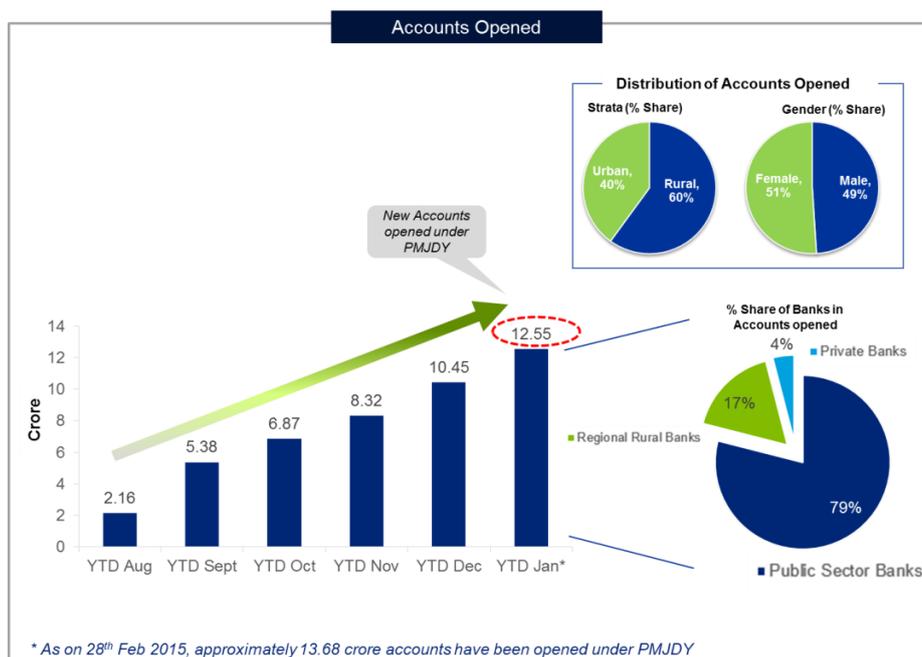


The performance of PMJDY scheme since inception has been incredible and the numbers achieved have significantly exceeded the targets. Overall, under the scheme, till the end of January 15, approximately, 11.08 crore accounts were opened, ~12.55 crore RuPay cards were issued and deposits amounting to INR 10,500 crore were collected in the accounts.

The performance of the scheme is closely monitored by the Finance Minister who is also the Mission head. For the purpose of overall monitoring and co-ordination with various state governments, Banks and other stakeholders, a separate team / Mission office was formed comprising of bankers and IT professionals.

The performance of the PMJDY scheme was reviewed at the end of Jan 2015 and the noteworthy achievements have been detailed below-

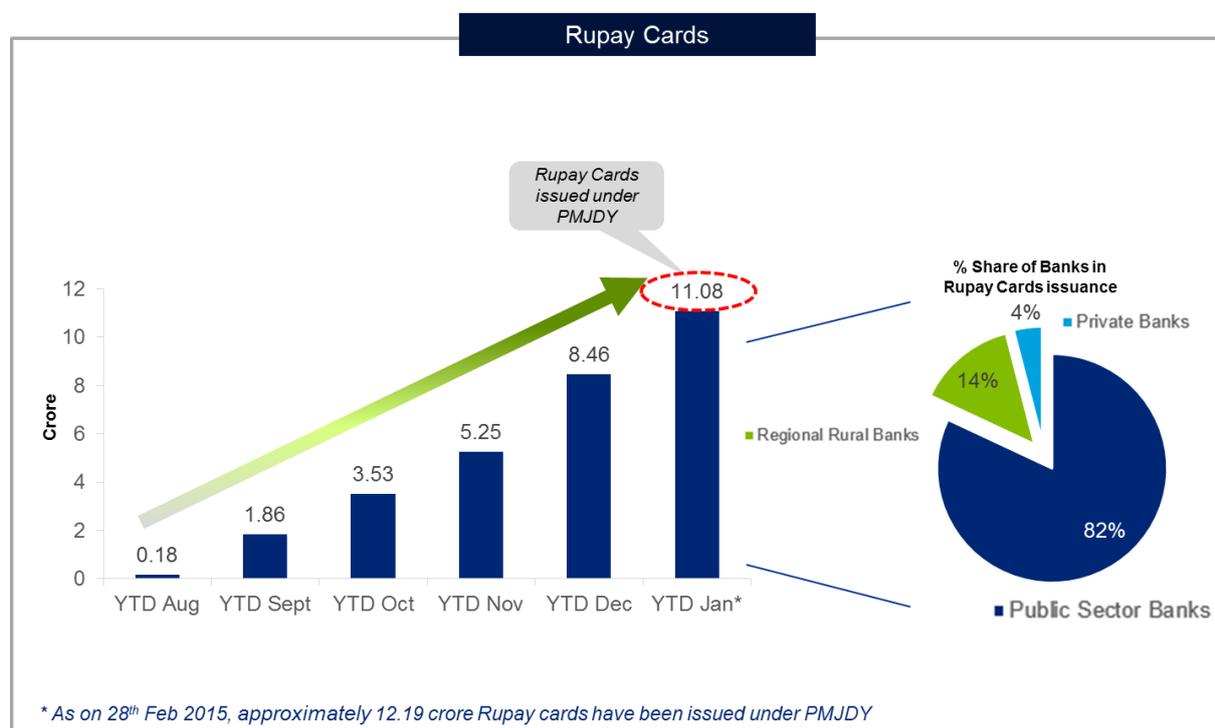
**Chart 8: Performance on Accounts Opened**



The scheme initially aimed to open about 7.5 crore accounts by January 26, 2015, but on the basis of the incredible response, the target was later revised to 10 crore accounts. On the very day of its launch, the PM Jan Dhan Yojana set a record with the opening of over 1.5 crore bank accounts nationwide - the largest such exercise undertaken in any country ever on a single day. The Government also received a certification from Guinness Book of records for opening a record 1.8 crore accounts within a week of its launch, a feat which has never been achieved before, in any part of the world. States including Goa, Kerala, Tripura and Madhya Pradesh as well as union territories of Chandigarh, Puducherry and Lakshadweep have opened at least one bank account in every targeted household.

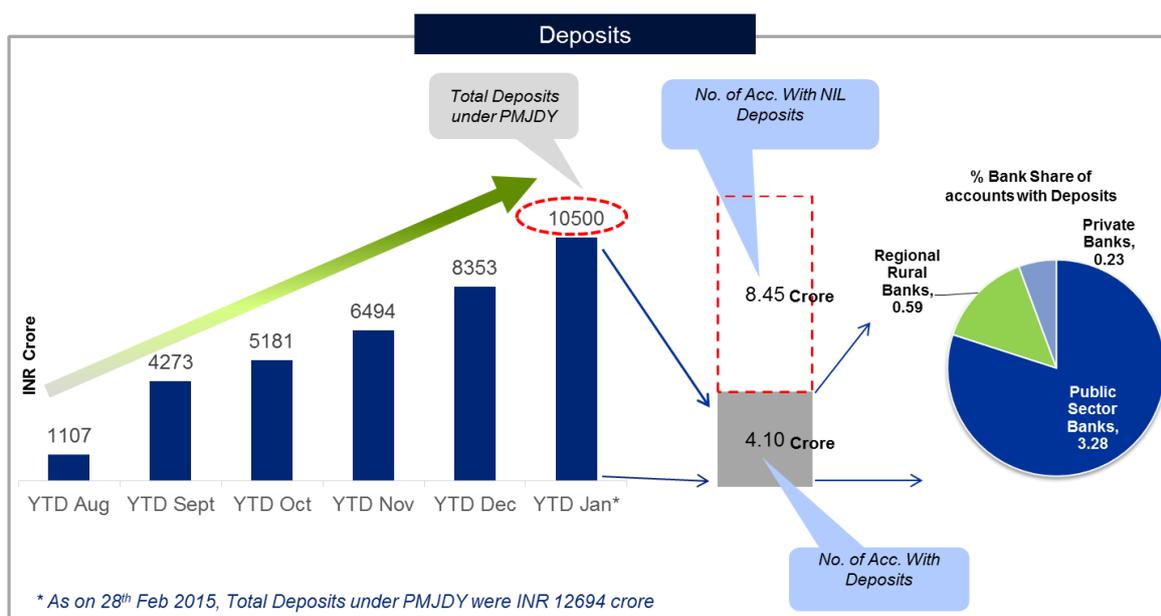
Under the scheme, the Banks have already opened 12.55 Crore accounts and mobilized deposits amounting to INR 10,500 crore (as on 31st January 2015). Out of the accounts opened, 60% are in rural areas and 40% are in urban areas. Share of female account holders is about 51%. The scheme claims over 99 percent household coverage. This has largely been possible due to the efforts made on the part of the Banks. Banks played a crucial role in surpassing the targets under the scheme. Several activities were organized such as account opening camps on every Saturday with a mega camp on last Saturday of the month from 8.00 A.M. to 8.00 P.M. in coordination with District Authorities, for opening of bank accounts. Additionally, financial literacy camps with a counter for Aadhar enrolment and insurance companies were also part of camps organized by the Banks.

**Chart 9 : Performance on RuPay Cards Issued**



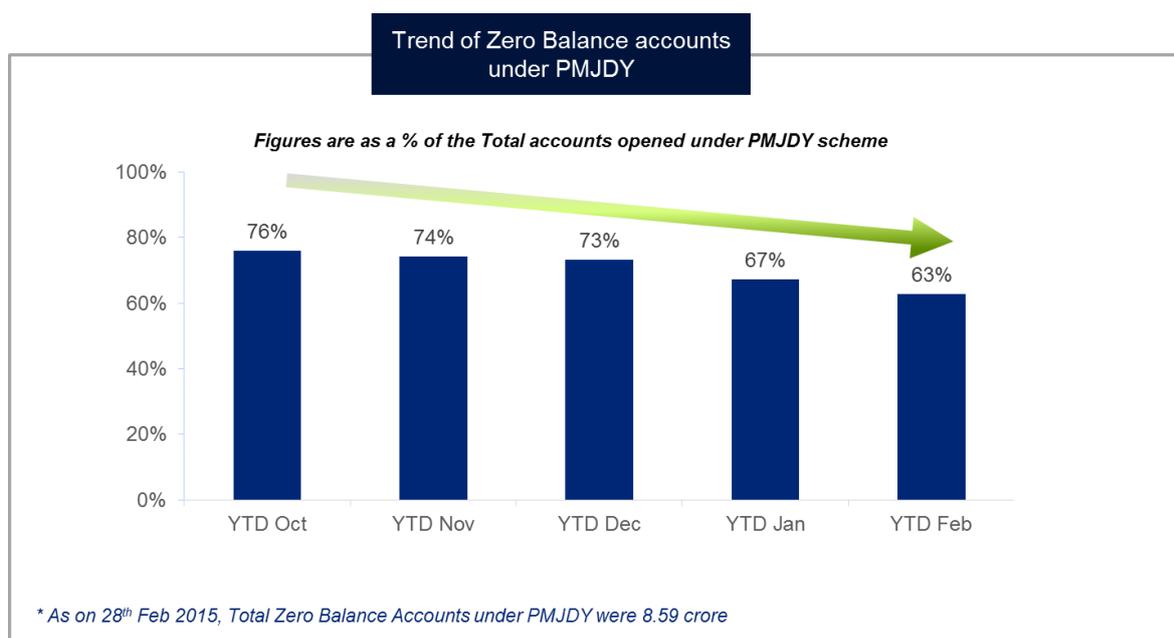
Source: PMJDY Official Website

Under the scheme, RuPay cards have been issued to more than 11 Crore beneficiaries who will get a benefit of personal accidental insurance of INR 1.00 Lac under the Yojana in addition to a life insurance cover benefit of INR 30,000. As on 28<sup>th</sup> February, the total number of RuPay cards has exceeded 12 crores. The public sector banks hold the largest share of RuPay card issuance to the tune of 82% followed by Regional banks and Private Banks at 14% and 4% respectively.

**Chart 10: Performance on Deposits**


Source: PMJDY Official Website

Over the 6 month period post launch, the scheme has been able to mobilize deposits amounting to INR 10,500 crores. It was observed that the entire chunk deposits was flowing in from only 4.10 crore accounts as against the total of 12.55 crore accounts. A very high percentage of accounts are lying in zero balance. Of the accounts opened at public sector banks (PSBs) under the Jan Dhan Yojana, 67 per cent are zero-balance, against 57 per cent for private banks. It is imperative to reduce the number of inactive accounts as Banks incur expenditure of ~INR 140 towards the opening of every account under the scheme. This expense primarily comprises of costs related to hardware maintenance, advertisement expenses, debit card expenses and remuneration to business correspondents. As per a report by the IBA, the banks have incurred capital expenditure of INR 2,000 crore so far for opening accounts under PMJDY.

**Chart 11: Zero Balance Account, Trend and Status**


Source: PMJDY Official Website

As mentioned earlier, a significant percentage (63% as on Feb 15) of the bank accounts opened under the scheme are inactive / Zero balance. However, as shown in the graph above, the number of zero balance accounts are witnessing a declining trend; On 31 January, the zero-balance accounts were down to 67 percent of the total, down 6 percent from the 73 percent which had no cash in them at the end of December 14. This has largely been possible due to Government intervention. The ministry launched slew of initiatives and plans to announce additional measures in the future time period to address the issue related to zero balance accounts.

Some of them are –

- a) Linking the Direct Benefits Transfer (DBT) scheme to these accounts so as to ensure that the accounts don't remain inactive and to also address challenges related to leakages, inefficiencies in subsidy distribution
- b) In a recent move, the Ministry of Finance agreed to a demand from banks for commission for direct benefits transfer transactions. The commission will boost the fee income of lenders and make account opening under the Pradhan Mantri Jan Dhan Yojana more viable.
- c) As per RBI directives, overdraft facility under PMJDY is made eligible for priority sector lending. In a recent move, the Reserve Bank of India has allowed the credit given by banks under the overdraft facility up to INR 5,000 under PMJDY scheme to be classified as priority sector lending by banks. Back-of-the-envelope calculations show that this could translate into INR 66,000 crore of credit included in priority sector. The classification would be allowed only if the borrowers household annual income does not exceed INR 60,000 in rural areas and INR 1,20,000 in non-rural areas.
- d) Connectivity is seen as an important factor affecting the use of accounts in the rural areas, leading to dormant / inactive accounts. The government is considering satellite connectivity to address challenges related to connectivity especially in the rural hinterland. Connectivity has emerged as a serious constraint in rural areas in a number of states, prompting the government to consider VSAT (very small aperture terminal) technology that is considered secure and provides uninterrupted connectivity using satellites.

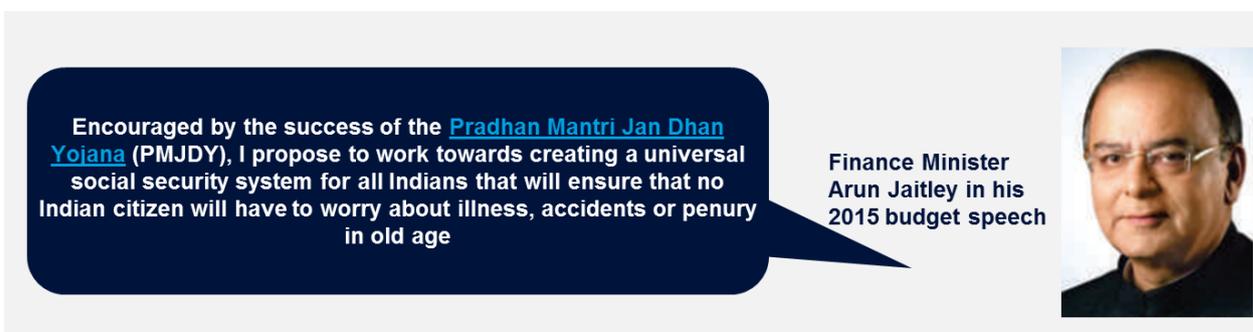
**Chart 12: Household Coverage**



The scheme has been able to reach out to more than 99% of the total households in India and has benefitted around 21 crore households. Except a few states including J & K, Chhattisgarh, Orissa and North-eastern States, all the other states have registered 100% coverage. This has been possible largely on account of targeted focus on households instead of only villages, which was the case in the earlier financial inclusion efforts / schemes. Moreover, under PMJDY, both rural and urban areas were covered as against only rural areas targeted earlier.

Further, the remarkable performance of the scheme is expected to boost consumption demand from the rural sector, which is home to approximately 70% of the country's population. The benefit of overdraft facility and direct transfer of subsidy amount in the account is likely to give a fillip to the rural activity and demand, which in turn will help the economy grow.

#### Impact of Budget 2015 on PMJDY



Encouraged by the success of the [Pradhan Mantri Jan Dhan Yojana](#) (PMJDY), I propose to work towards creating a universal social security system for all Indians that will ensure that no Indian citizen will have to worry about illness, accidents or penury in old age

Finance Minister  
Arun Jaitley in his  
2015 budget speech



Marked the movement from Jan Dhan (financial inclusion) to Jan Suraksha (social security) for the government. Finance Minister Arun Jaitley announced a slew of low-cost pension and insurance schemes, including Atal Pension Yojana and Universal Social Security scheme. The schemes are expected to be rolled out on the platform of the Jan Dhan Yojana, under which over 12.5 crore bank accounts have been opened in the past nine months.

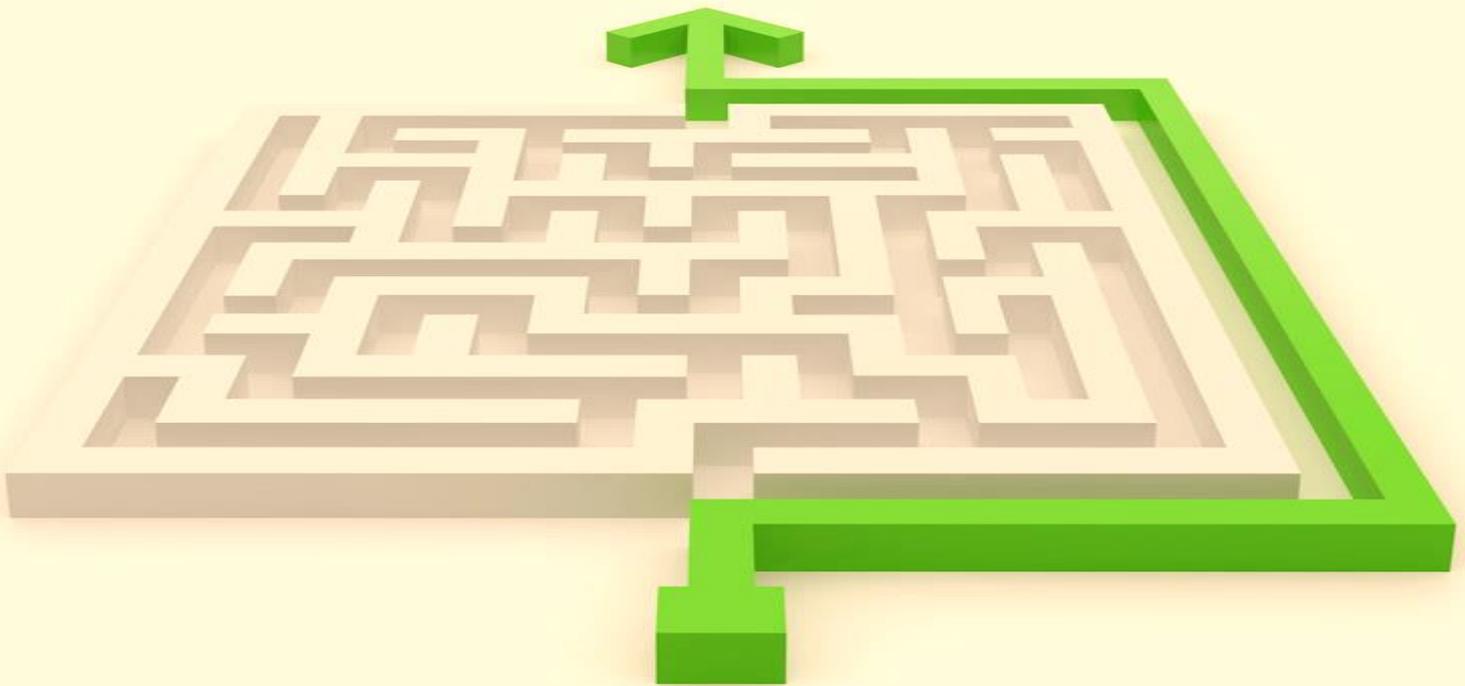
Under the Atal Pension Yojana, which will provide a defined pension, depending on the contribution and its period, the government will contribute 50% of the beneficiaries' premium limited to Rs 1,000 each year, for five years, in the new accounts opened before December 31, 2015. Insured under the soon-to-be launched Pradhan Mantri Suraksha Bima Yojana will be covered for an accidental death risk of Rs 2 lakh for a premium of just Rs 12 per year that will be debited from their bank account under the PMJDY.

The third social security scheme, the Pradhan Mantri Jeevan Jyoti Bima Yojana, will provide a cover of Rs 2 lakh against both natural and accidental death, at a premium of Rs 330 per year, or less than one rupee per day, for people in the 18-50 age group.

Committed to utilise the vast postal network with nearly 1.55 lakh point of presence to reach out to beneficiaries under the Jan Dhan Yojana

The dovetailing of the 150,000-plus points of presence of the postal department will contribute significantly towards penetration of rural finance under the Pradhan Mantri Jan Dhan Yojana, help bring in more individuals into the formal financial sector, and thereby, increase the scope of the DBT scheme.

# PMJDY: A Key Enabler for the Direct Benefit Transfer Program



The government has taken several steps in the last few months to ensure that the PMJDY scheme is leveraged for the larger benefit of the society. The government has done a stupendous job in bringing a large percentage of the excluded population under the banking sector purview so that a host of benefits are available to them including subsidies, social benefits, etc.

The success of PMJDY has proved to be key enabler for the Direct Benefits transfer program. PMJDY aims to provide a sustainable platform for Direct Benefits transfer, which will aid in plugging leakages in subsidies and thereby provide savings to the exchequer. The Government of India expects Rs 33,000 crore to flow into bank accounts under Jan Dhan Yojana scheme in the next one year. The Government intends to transfer the benefits of 27 old schemes to the bank accounts directly. So far 19 schemes out of 35 DBT schemes have been rolled out across the country, including MGNREGS in 300 districts.

Under the JDY scheme, there is an effort towards linking the bank account to Aadhar. As of December 2013, over 720 million citizens had been allocated an Aadhar card. By December 2015 the total number of Aadhar enrolments in the country is expected to exceed 1 billion. The linking of an Aadhar number with a bank account makes the job of identification easier for the government in order to make welfare payments and subsidies directly into the bank accounts. Through this, the government will ensure that many more schemes utilize the Direct Benefit Transfer platform to deliver direct benefits to India's poor. This will remove the need for convoluted routes to deliver affordable products or services to the target population.

The prevailing system of subsidy distribution is flawed and inadequate in the absence of a uniform stricture governing direct transfer of benefits. At present, the MGNREGA is operated through the panchayats, the Centre and States supply rice, wheat, pulses, cooking oil, sugar and kerosene at heavily subsidized prices through the PDS. Such a mechanism of disbursing subsidies is ridden with leakages, corruption and inefficiencies, causing a significant loss to the exchequer.

According to the Economic Survey, about Rs. 3.78 lakh crore or 4.2 per cent of GDP, is currently spent on key subsidies. As per the survey, the current system of price subsidies is a leaky bucket. Approximately, three-fourths of the subsidized LPG cylinders are used by the richer half of the population; Corporation water is subsidized, but 60 per cent of the poor get their water from public taps; Over 15 per cent of PDS rice, 54 per cent of wheat and 48 per cent of the sugar is lost in leakages.

Going forward, the combination of Jan Dhan Yojana, Aadhar and Mobile number is expected to solve the govt's problems. With Aadhar helping in direct biometric identification of disadvantaged citizens and Jan Dhan bank accounts and mobile phones allowing direct transfers of funds into their accounts, it may be possible to cut out all the intermediaries.

Direct benefit transfer has already been launched in LPG, PDS and a few other schemes –

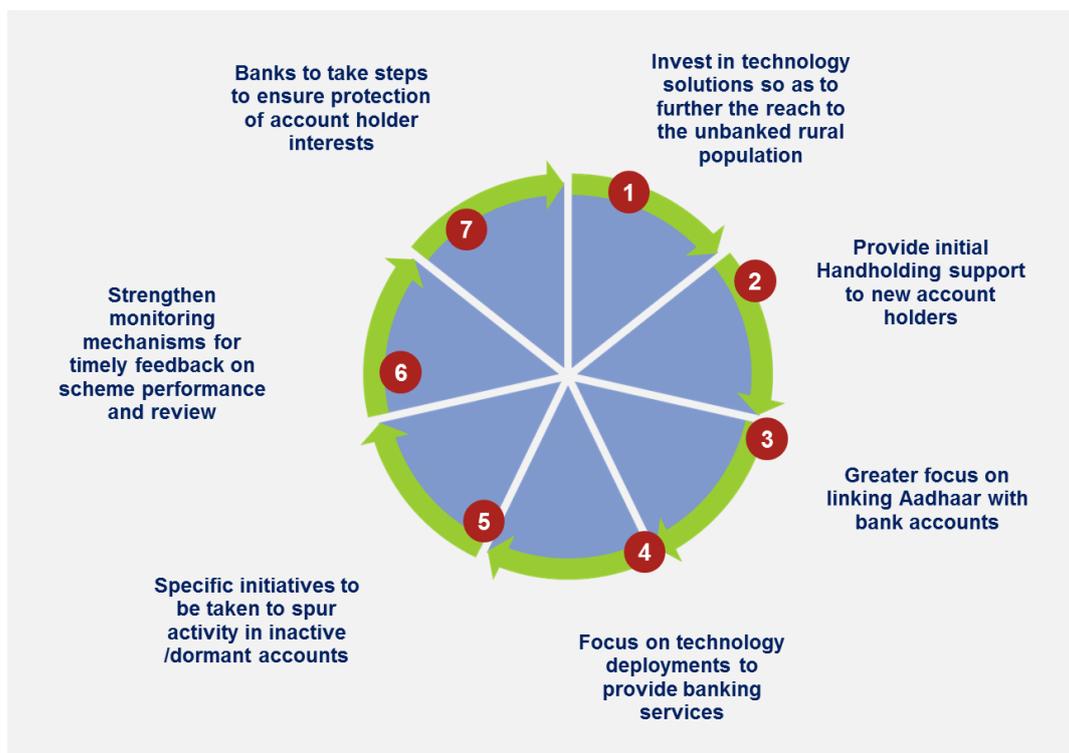
**DBT for LPG** - Along with other benefits to the account holders, the bank accounts opened under the PMJDY scheme have been linked to transfer the LPG subsidy under the Direct Benefit Transfer Scheme for LPG subsidy (PaHaL). PaHaL was launched on November 15, 2014 in 54 districts and in the rest of the country on January 1, 2015. The scheme aimed at preventing diversions and black-marketing of the subsidized cooking gas covers more than 65 per cent of 15.3 crore LPG consumers in the country and has outperformed similar programs in other countries such as China, Mexico and Brazil where the maximum beneficiaries reached were not more than 2.2 crore. The scheme is expected to help the government save 10-15 per cent of the INR 40,000 crore LPG subsidy by 1st April, the government is targeting 100 percent of LPG subsidies to be routed through bank accounts

**DBT for PDS** - In a recent move, the government announced direct cash transfer on PDS (public distribution system) benefits, so as to address issues related to leakages, black marketing and ensure that the money is effectively and efficiently utilized. It is expected that the cash transfers could save the exchequer INR 30,000 crore every year.

Going forward, the DBT is expected to be launched for kerosene, where current subsidies are in the range of INR 25,000-30,000 crore. About INR 15,000 crore disbursements under Mahatma Gandhi Rural Employment Guarantee Scheme (which has an annual outlay of INR 33,000 crore) are already through bank accounts; The PMJDY is expected to gradually take the figure closer to 100 percent over the next year or two. Additionally, the funds for three pension schemes (Rs 9,690 crore), 24 scholarship schemes (Rs 5,756 crore) and seven other schemes (Rs 2,583 crore) are also being routed through bank accounts. In due course of time, it is expected that subsidy payments for food and fertilizers in the tune of INR 1,87,970 crore will be paid through banks instead of being doled out physically through shops. Overall, there is a huge potential flow of government subsidies in the range of nearly Rs 2,90,000 crore. Even if a third of this flows through Jan Dhan accounts, that's a sizeable volume of nearly Rs 1,00,000 crore.

# Strategies for strengthening implementation of PMJDY





The success of PMJDY will largely depend on reaching the vast unbanked population in the country and bring them under the ambit of banking services. It will also be important to educate the rural poor about the availability and functions of banking services and to encourage usage. The government and other stakeholders will have to undertake steps to kindle economic activity around the unbanked population so that the newly opened bank accounts remain active with regular transactions and do not fall in a state of dormancy.

- 1) **Invest in technology solutions so as to reach the unbanked rural population** - Technology has brought a complete paradigm shift in the functioning of banks and delivery of banking services. Banks need to continue investment in technology solutions that ensure ceaseless delivery of banking services to the rural population. It has been witnessed, that it is not economically viable for banks to provide banking services to the unbanked by opening physical branches, especially in the backward and rural areas. It can be said, that, the people in rural areas will realize the benefits of having an account only when they begin actively using it. So, the presence of the Business Correspondent equipped with necessary technology is imperative, so that either he can visit the person or person can approach him for any transaction. Therefore, in order to achieve complete financial inclusion the banks will have to increase adoption of branchless banking services, i.e., opening of bank account, cash deposit, cash withdrawal through a BC model. To make this model a success, the banks will have to invest in technology solutions and IT infrastructure viz. Micro ATM, bio-metric scanners, etc.
- 2) **Provide initial Handholding support to new account holders and plan gradual transition to a self-help model** - India's population, especially in the rural areas, could be reluctant to use banking services if financial knowledge is not properly communicated during the process of opening accounts. The banks will have to spend considerable time and effort on the weaker sections of society to help them become financially literate and make them familiar with

Account based banking. Greater focus is required to expand the BC model, as in recent years it has shown greater traction in the rural areas where the people are generally reluctant to visit branches for transactions. As a start, the Banks will be required to provide handholding to new accountholders and then gradually move towards a 'Do-It-Yourself' model facilitated by technology. The Banks will have to plan to facilitate this transition to more self-conducted transactions at self-help kiosks, ATMs, mobile phone and other new technologies.

- 3) **Greater focus on linking Aadhar with bank accounts** - The prime minister has already exhorted the need for linking the bank account with Aadhar and several steps have already been taken to ensure the same. The linking of an Aadhar number with a bank account makes the job of identification easier for the government in order to make welfare payments and subsidies directly into the bank accounts. Banks will be required to take additional steps to increase Aadhar seeding & enrollment, such as an enrollment counter should be set-up wherever account opening camps are organised. Other modes of seeding like SMS, ATM, Internet Banking, planned Call / communication to the customers on Aadhar seeding should also be utilized.
- 4) **Technology will play a key role in the success of PMJDY** - Technology is a major enabler in the process of providing banking services to the needs of a larger section of society, with special emphasis on the under-privileged communities. The success of PMJDY largely depends on the ability to deploy cost effective technology to transform the financial ecosystem in India. In order to reach the unbanked population in the rural hinterland, there is a pressing need of an enabling technology framework that accelerates the movement of financial inclusion. Further, there is a need to align technology solutions to ensure that the delivery of financial services is undertaken in a transparent, righteous and equitable manner at an economical cost. One of the biggest driver for PMJDY is the potential of technology to provide doorstep service to the account holders. Some of the major challenges in reference to technology adoption are lack of last mile connectivity, financial and technology illiteracy, lack of technology adoption, etc. Technology has helped enable Multi-channel branchless banking through E-KYC, transaction through mobile banking, IMPS (immediate payment system), Micro ATM's, National Unified (USSD platform), RuPay debit cards and Aadhar payment bridge system.
- 5) **Initiate steps to reduce the number of dormant / inactive accounts** - Post the success of the scheme, the emphasis should be on making beneficiaries, particularly economically poor households, use the bank account. The Banks will have to work towards educating the rural poor about the availability and functions of banking services so as to encourage usage. This could be done by extending credit, offering remittance and insurance facilities through the account. Some initiatives have already been taken in this space such as linking the account with the DBT program. Transfer of subsidies to the poor in the accounts will ensure that these accounts continue to have deposits and can remain live, this can reduce the number of dormant accounts. The provision of OD facility is also expected to spur transactional activity in the account. However, 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 so as to minimize the risk of defaults. Going forward, the Finance Ministry will have to create a separate fund to secure banks from such defaults.
- 6) **Strengthen existing monitoring mechanisms** – PMJDY, on account of its scale and importance requires high level of monitoring and data management. There is a need for a

robust data analytics team to measure the progress of the scheme by providing useful information on relevant metrics and parameters from a combination of datasets from various banks and departments. With proper monitoring mechanism in place, the systems can generate and provide quick and concise information and insights on the program, thereby identify gaps and enable quick intervention. Adoption of proper monitoring tools can help in identifying sites where wherever a saturation level with regard to opening of accounts has reached or likely to reach so that focus can be made in other areas. The dashboards can provide information around the enrolment status, saturation levels, RuPay usage and acceptance, availability of financial access and services, usage of the bank accounts, etc., insights around financial literacy, account usage, penetration and saturation, access, etc. can also be extracted from the systems. The Government can consider the proposal from Bill & Melinda Gates Foundation, which (BMGF) has offered to help in monitoring of the progress made with regard to the scheme.

- 7) **Banks to take steps to ensure protection of account holder interests**-The security of customer data and protection of account holder money has become even more critical with the huge surge in the number of accounts opened under the scheme. Prevalence of financial illiteracy, lack of experience and a mistrust of technology among large section of the account holders makes them vulnerable to fraudsters. Moreover, lack of understanding can result in over indebtedness due to overdraft facilities. In such a scenario, banks have the principal responsibility to proactively run smart campaigns for increasing financial literacy, to create mechanism to allow accountholders to raise their voices and to create a feedback mechanism to address any customer queries and issues. Banks need to work with their service providers to provide knowledge and comfort to the accountholders with regards their data and money.

### Need for linking PMJDY with MSMEs



The MSME sector contributes in a significant way to the growth of the Indian economy, creating employment of about 106 million people, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. It has been witnessed globally, that the MSME segment constitutes the mainstay for maintaining growth rates as well employment generation rate and provides stability during economic downturns. This sector facilitates socio-economic development of the country and is considered as a strategic asset. Further, the progress of this sector is extremely critical to meet the national objectives of financial inclusion and employment generation across urban and rural areas in the country.

Moreover, to fulfill the Make-in-India vision and to give push to the manufacturing sector, and consequential boost to employment, the growth of the MSME sector is imperative.

There are some 5.77 crore small business units, mostly individual proprietorship, which run small manufacturing, trading or service businesses. A large number, approximately, 62% of these are owned by SC/ST/OBC. It has been observed, that, these bottom-of-the-pyramid, hard-working entrepreneurs find it difficult to access formal systems of credit.

One of the probable solutions could be to create a mechanism to leverage the deposits held under the PMJDY accounts for funding the MSMEs. The stakeholders can look into creating a program for facilitating loan linkages between the PMJDY deposits and deserving MSMEs. Such a step would greatly increase the confidence of existing MSMEs and young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs. However, this alternative needs to be explored in-depth for a positive move forward.

The success of the PMJDY scheme has led to many corporate houses applying for small finance banks with RBI already having received around 72 applications. The small finance banks will undertake basic banking activities of accepting deposits and lending to the unbanked sections like micro business units, small and marginal farmers, micro and small industries and unorganized sector entities. This sends a clear signal that the corporate houses interested in opening small banks see a good business opportunity in this segment. Further, this also suggests that small ticket loans to MSMEs will play a vital role in fueling the economy.

# Conclusion



PMJDY program strives to achieve complete penetration of banking services and microfinance facilities to the weak and poor sections of the society. Though, many financial inclusion schemes have been launched before, PMJDY commands high importance due to its magnitude, geographical reach, scale of impact and involvement of critical stakeholders - i.e. the Government, banks and regulators.

Till date, PMJDY has registered a remarkable performance and continues to be the main driving force towards the goal of absolute financial inclusion. The scheme aims at building a holistic framework by integrating the other critical elements such as Aadhar, Direct Benefit Transfer, and Direct Benefit Transfer for LPG.

Going forward, the effort of the stakeholders will be to reduce zero balance accounts. The Government has already put in place various measures such as connecting the Direct Benefits Transfer (DBT) scheme to these accounts. So far, the DBT for liquefied petroleum gas, along with those for a few other schemes, have been linked with these accounts. The stakeholders will also have to intensify efforts towards educating the rural poor about the availability and functions of banking services and to encourage usage. Financial literacy of the account holders will be critical so as to ensure that they are aware of their rights and benefits.

Additionally, greater focus is required on making infrastructure more robust to ensure last mile delivery of services and benefits. The government and other stakeholders will have to initiate steps to build economic activity around the unbanked population so that the newly opened bank accounts remain active with regular transactions and do not fall in a state of dormancy.

The program is expected to witness another boost with the government announcing commission to Banks on Direct benefit transfers and RBI allowing overdraft facility extended to PMJDY accounts under priority sector lending. The banks will have to increase adoption of branchless banking services, i.e., opening of bank account, cash deposit, cash withdrawal through a BC model. To make this model a success, the banks will have to invest in technology solutions and IT infrastructure viz. Micro ATM, bio-metric scanners, etc. The Business Correspondents will have a crucial role to play in the entire transformation exercise.

To conclude, PMJDY has built a strong foundation for universal growth and inclusive development.

# About FITS



**Federation of Industry, Trade & Services (FITS)** is a proactive and dynamic national chamber working at the ground level with established national and international linkages.

**FITS** tends to act as a catalyst in the promotion of all sectors of our economy viz; manufacturing, trade and services. It favours research-based and time-tested policy initiatives for positive impact on the economic growth and development of the nation. During the last two decades, the Government has been focusing on achieving inclusive and sustainable growth by undertaking vast infrastructure development projects cutting across sectors, creating an enabling environment for inviting greater private sector participation through regulatory reforms, improving the delivery of public services and stressing for e-governance and skill development. These measures have started showing results and in the process the international community too has shown a keen interest in being a part of this growth momentum.

With over 1.2 billion population, we are the fourth largest economy of the world with most number of young, English- speaking and technically sound workforce. We have grown to be a global agriculture power-house after being dependent on the out-side world for green imports for so many years. Life expectancy and literacy rates in our country have almost doubled and quadrupled in last few years.

**FITS** being a body of the Industry, Trade and Services stands for the Govt.'s call for 'Skilling India for Global Competitiveness' and thus contribute to socio-economic development and capacity building in different domains. Through its 1200+ direct and indirect associates spread –over in public and private sectors, MSMEs, and large corporates, FITS is destined to play its crucial role in the nation building.

As a policy, **FITS** engages with Ministries/Deptts. of Govt. of India and state Govts. on issues which directly or indirectly impacts the industry and trade. It strives for skill development thus enhancing efficiency, a greater feeling of focusing competitiveness and multiplying business opportunities for growth. We associate with different Govt. agencies, autonomous bodies, National & International NGOs, Knowledge partners, RWAs and civil society institutions for effecting improvements in Corporate social Responsibility, healthcare sector, Waste management, homeland security, social and domain reforms, education and sanitation etc. to name a few with special thrust for the most vulnerable sections of the society be it women security and police reforms..

**FITS** is of the considered opinion that the pro-active support and role of the Central and State Govts. is crucial for creating a resurgent India. The current political and economic scenario expects all political formations of the country to join-hand to support the young generation's aspirations for economic growth.

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