

## A Study on Financial Inclusion Initiatives and Challenges in India With Reference to PMJDY

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**ABSTRACT**

*Financial inclusion has progressed in a miserably slow pace, regardless of 68 long years of independence, and several decades of existence of nationalised banks and progress of technology, especially mobile based in the last decade. The present paper is an attempt to discuss the overview of The Jan Dhan Yojana, an ambitious financial inclusion programme which was launched in India on August 28, 2014 with Main aim is to eradicate financial untouchability by opening bank accounts for poor. This paper also seeks to provide evidence on impact of Pradhan Mantri JanDhan Yojna in India, the various issues, challenges, and present status of financial services in the country. This paper studied secondary data sources to represent the conclusion.*

**Keywords:** Financial Inclusion, RBI initiatives, Jan Dhan Yojana, RuPay Debit card, banking services

**Introduction:**

Pradhan Mantri JanDhan Yojna (PMJDY), as a national mission on financial inclusion having primary objective being to provide bank account to every household in the country and make available basic banking services like cash withdrawal and deposit, money transfer, balance enquiry, RuPay Debit card facility and extending mobile banking facility, The Government of India was launched the program on. 28<sup>th</sup> August, 2014. Financial inclusion is the delivery of financial services at affordable costs to sections of deprived and low income segments of society, in contrast to financial exclusion where those services are not available or affordable. It is said that since banking services are in the nature of public product, the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion in public policy. With a bank account, every household gains access to banking and credit facilities. This will enable them to come out of the grip of moneylenders, manage to keep away from financial crises caused by emergent needs, and most importantly, benefit from a range of financial products/benefits.

**Definitions of Financial Inclusion:**

Dr. C. Rangarajan, Chairman: The Committee on Financial Inclusion: Financial inclusion may be defined as *the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost*

Dr. Raghuram G. Rajan, Chairman: The Committee on Financial Sector Reforms: Financial Inclusion refers to *universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.*

**Review of Literature**

According to **Sonam Kumari Gupta (2015)** accounts opened at public sector banks (PSBs) under the Jan Dhan Yojana, 71 per cent are zero-balance, against 64 per cent for private banks and as per the data released by ministry, only 28 per cent of the accounts opened under the scheme are active, with about Rs. 9,000 crores deposited in these.

**Harpreet Kaur & Kawal Nain Singh (2015)**, studied the recent trends in financial inclusion in India with special reference to Pradhan Mantri Jan Dhan Yojana (PMJDY), highlighting its key areas and suggested strategies to ensure maximum financial inclusion for the disadvantaged and unbanked areas.

**Rajanikanta Khuntia (2014)** highlighted on the recent trends in financial inclusion in India with special reference to PMJDY.

**Divyesh Kumar (2014)**, discussed the overview of financial inclusion using PMJDY scheme in India. It is revealed that, it is the greatest step ever taken to eradicate poverty is financial inclusion through PMJDY. It is suggested that, the success of this scheme constant review and regular check is very much essential.

**Brij Mohan (2014)**, analyzed the performance, benefits, difficulties and future prospects of PMJDY scheme.

**II. Objectives of the study:**

This paper has four main objectives:

1. To understand past and present status of financial inclusion in the country.
2. To study the Pradhan Mantri JanDhan Yojna (PMJDY) implementation, performance & Challenges

**RESEARCH METHODOLOGY**

This paper is an attempt of exploratory research, based on the secondary data sourced from journals, articles and reports available at RBI, Government of India. Based on the objectives of the study the descriptive research design is employed for the study.

**Scope of the study:**

The scope of present study is limited to the performance and progress of Pradhan Mantri Jan-Dhan Yojan.. The study also covered the features, benefits, and challenges of PMJDY .

**Present status of financial inclusion in the country:**

Various initiatives were taken up by RBI / GoI in order to ensure financial inclusion. These include like Nationalization of Banks , Expansion of Banks branch network , Establishment & expansion of Cooperative and RRBs ,Introduction of PS lending , Lead Bank Scheme, Formation

of SHGs and State specific approach for Govt sponsored schemes to be evolved by SLBC .During 2005-2006, RBI advised Banks to align their polices with the objective of financial Inclusion. Further, in order to ensure greater financial inclusion and increasing the outreach of the banking sector, it was decided to use the services of NGOs/SHGs, MFIs and other Civil Society Organizations as intermediaries in providing financial and banking services through use of Business Facilitator and Business Correspondent Model.

**Table:1 Households Penetration of availing banking Services as per 2001 and 2011 Census**

Households	As per Census 2011			As per Census 2011		
	Total number of households	Number of households availing banking services	Percent	Total number of households	Number of households availing banking services	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
<b>Total</b>	<b>191,963,935</b>	<b>68,230,642</b>	<b>35.5</b>	<b>246,692,667</b>	<b>144,814,788</b>	<b>58.7</b>

Source: <http://financialservices.gov.in/banking/Overviewofefforts.pdf>

It is to be observed from Table no 1 that, the accessing banking services in rural and urban has been increased from 30.1 percent, to 54.4 percent and 49.5 percent to 67.8

percent respectively in the years 2001 and 2011. As per the table rural and urban people are participating in the financial services with the banking industry with increasing tendency continuously.

**Financial Inclusion Plan (FIP)**

RBI has been encouraging banks to implement a structured approach to financial inclusion by preparing board approved FIPs. Out of 3,445 rural bank branches opened during 2014-15, 2,230 branches were opened in unbanked rural centers. Around 155 million basic savings bank deposit accounts were added taking the total basic savings bank deposit accounts to 398 million. This includes 147 million accounts opened under PMJDY. With the addition of 2.6 million small farm sector credits and 1.8 million small non-farms sector credits, the total number of such accounts went up to nearly 42.5 million and 9.2 million respectively.

<b>Table .2: Financial Inclusion Plan-Summary Progress of All Banks Including RRBs</b>				
<b>Particulars</b>	<b>Year ended March 2010</b>	<b>Year ended March 2014</b>	<b>Year ended March 2015</b>	<b>Progress April 2014 - March 2015</b>
Banking Outlets in Villages - Branches	40,238	46,126	49,571	3,445
Banking Outlets in Villages – Branchless mode	34,316	337,678	504,142	166,464
Banking Outlets in Villages -Total	67,694	383,804	553,713	169,909
Urban Locations covered through BCs	447	60,730	96,847	36,117
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	126	210.3	84.3
Basic Savings Bank Deposit A/c through branches (Amt. in billion)	44.3	273.3	365	91.7
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	116.9	187.8	70.9
Basic Savings Bank Deposit A/c through BCs (Amt. in billion)	10.7	39	74.6	35.6
BSBDAs Total (No. in million)	73.5	243	398.1	155.1
BSBDAs Total (Amt. in billion)	55	312.3	439.5	127.3
OD facility availed in BSBDAs (No. in million)	0.2	5.9	7.6	1.7
OD facility availed in BSBDAs (Amt. in billion)	0.1	16	19.9	3.9
KCCs (No. in million)	24.3	39.9	42.5	2.6
KCCs (Amt. in billion)	1,240.10	3,684.50	4,382.30	697.8
GCC (No. in million)	1.4	7.4	9.2	1.8
GCC (Amt. in billion)	35.1	1,096.90	1,301.60	204.7
ICT A/Cs BC Transaction (No. in million)	26.5	328.6	477	477
ICT A/Cs BC Transactions (Amt. in billion)	6.9	524.4	859.8	859.8

Source: RBI

### **Earlier efforts**

With the nationalization of banks and establishment of RRB's, Government initiated policy and programs to gradually promote financial inclusion, viz. introduction of the concept of the

- i. Lead Bank Scheme
- ii. Priority Sector Lending
- iii. Service Area Approach
- iv. SHG-Bank-Linkage Program by banks & microfinance by MFIs
- v. Implementation of Financial Inclusion as a banks' corporate policy
- vi. Adoption of the business correspondent (BC) model to provide doorstep delivery of banking service

In response to Government's directive to banks in October 2011 to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts, banks provide banking services in all 129 identified un-banked blocks since March 2012 and opened branches in 3,402 locations out of identified 3,925 in 2013.

Banks, after implementing their board-approved 2010-2013 Financial Inclusion Plan [FIP] as directed by RBI in 2010, currently implement second round of FIP for 2013-16. FIP incorporates self-set targets for opening rural brick-and-mortar branches, hiring services of BCs, covering un-banked villages and offering financial products, viz. Savings Bank Deposits, Kisan Credit Cards and General Credit Cards, among others. Banks in the first phase covered over 75,000 unbanked villages with population of over 2000 and in the second phase about 4,90,000 unbanked villages with population less than 2,000 are identified and allotted among banks. During 2010-13, 7840 rural branches were opened and banking outlets in villages increased to 2,68,454 from 67,694. Nearly 109 million Savings Bank Accounts were added. Besides, 9.48 million farm sector households and 2.24 million nonfarm sector households were financed.

### **Swabhiman scheme:**

The financial inclusion programme of the UPA government was focused on expanding the banking networks in rural and unbanked areas. The initiative called "Swabhimaan" that started in 2011 set a target to ensure a bank branch in all the villages with population of 2,000 or more by March 2012. The banks in general were directed to open "no-frill" accounts. The "no-frill" accounts are the basic savings accounts with no minimum balance and fewer paperwork requirements. More than 80 per cent of accounts opened under financial inclusion programme of UPA government have remained dormant. Out of the 5.92 lakh villages in the country, only 74,000 villages could be covered by this scheme. Besides, only 3.9 million account holders out of 18.2 million no-frills accounts availed overdraft facilities amounting to Rs155 crore.

### **Present plan:**

Objective of "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" is *ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology.*

PMJDY to be executed in the Mission Mode, envisages provision of affordable financial services to all citizens within a reasonable distance. It comprises of the following six pillars:-

**a. Universal access to banking facilities:** Mapping of each district into Sub Service Area (SSA) catering to 1000-1500 households in a manner that every habitation has access to banking services within a th reasonable distance say 5 km by 14 August, 2015. Coverage of parts of J&K, Himachal Pradesh, Uttarakhand, North East and the Left Wing Extremism affected districts which have telecom connectivity and infrastructure constraints would spill over to the Phase II of the program (15 August, 2015 to 15 August, 2018)

**b. Providing Basic Banking Accounts with overdraft facility and RuPay Debit card to all households:** The effort would be to first cover all uncovered households with banking facilities by August, 2015, by opening basic bank accounts. Account holder would be provided a RuPay Debit Card. Facility of an overdraft to every basic banking account holder would be considered after satisfactory operation / credit history of six months.

**c. Financial Literacy Programme:** Financial literacy would be an integral part of the Mission in order to let the beneficiaries make best use of the financial services being made available to them.

**d. Creation of Credit Guarantee Fund:** Creation of a Credit Guarantee Fund would be to cover the defaults in overdraft accounts.

**e. Micro Insurance:** To provide micro- insurance to all willing and eligible persons by 14<sup>th</sup> August, 2018, and then on an ongoing basis.

**f. Unorganized sector Pension schemes like Swavalamban:** By 14 August, 2018 and then on an ongoing basis.

**Implementation of Pradhan Mantri Jan-Dhan Yojana (PMJDY):**

All the rural & semi-urban areas of the country are proposed to be mapped into Sub Service Area (SSAs) comprising 1000-1500 households with an average 3-4 villages with relaxation in north eastern states.

- 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). It is proposed that SSAs shall be covered through a combination of banking outlets i.e. branch banking and branch less banking. Branch banking means traditional Brick & Mortar branches. Branchless banking comprises of fixed point Business Correspondents agents, who act as representative of Bank to provide basic banking services.

- The implementation strategy of the plan is to utilize the existing banking infrastructure as well as expand the same to cover all households. While the existing banking network would be fully geared up to open bank accounts of the uncovered households in both rural and urban areas, the banking sector would also be expanding itself to set up an additional 50,000 Business Correspondents (BCs), more than 7,000 branches and more than 20,000 new ATMs in the first phase.

Pradhan Mantri Jan - Dhan Yojana  
(Accounts Opened as on 08.06.2016) (All Figures in Crores)

<b>Bank Name</b>	<b>Rural</b>	<b>Urban</b>	<b>Total</b>	<b>No Of Rupy Cards</b>	<b>Aadhaar Seeded</b>	<b>Balance In Accounts</b>	<b>% Of Zero-Balance Accounts</b>
Public Sector Bank	9.7	7.65	17.35	14.6	8.55	30462.05	25.89
Regional Rural Bank	3.37	0.55	3.92	2.75	1.36	6639.51	21.81
Private Banks	0.5	0.31	0.81	0.77	0.33	1439.12	37.69
<b>Total</b>	<b>13.57</b>	<b>8.51</b>	<b>22.08</b>	<b>18.12</b>	<b>10.24</b>	<b>38540.68</b>	<b>25.6</b>

Source: Department of Financial Services, Government of India.

**Challenges:**

**Life Insurance:** Even bigger challenge is in the case of life insurance. The proposal is to provide life insurance cover of Rs.30,000 to all those who open the account under the scheme by 26th January 2015. As per the target, all 75 million unbanked households are expected to open the account during this period and thus will be eligible for the life insurance cover of Rs.30,000. LIC that controls more than two-thirds of the life insurance business in the country, is expected to be given the responsibility for ensuring life cover under the Jan Dhan scheme.

**Non-Performing Assets (NPAs):** The scheduled banks had Gross Non-Performing Assets (NPAs), Rs.2.5 lakh crore as on 31st March 2014. Government-run banks that account for two-thirds of loans, have over 80 per cent of bad assets. Gross NPAs of public sector banks rose to 4.03 per cent in the financial year 2013-14 from 3.42 per cent in 2012-13 and 2.94 per cent in 2011-12.

Most of the accounts are opened under the scheme through special camps held across the country. On the launch day 77,852 special camps were organised. The special camps are opened accounts without proper screening. Duplication and security are the two problems with it. Mostly those people who already have accounts may end up opening the new ones in expectation of getting the benefits of insurance and overdraft facilities. According to the bankers, at least a fifth of the accounts opened under the scheme are fake.

**Security:** The third big problem is related to the security. The KYC norms followed for opening such accounts are very poor. Only one document is taken for identity and address proof and just a declaration by the applicant is sufficient for change in address proof. This may lead to misuse of the system and pose a security threat.

**Connectivity:** According to the plan, this will be taken care by banking correspondents. These agents will go to each and every village, thus banks will not have to open branches in remote areas. But they are paid as per the commission on the transactions. Right now, there are two lakh agents working with different banks, but to implement the present plan would require another five lakh agents to be recruited. However, if new accounts have to remain active not dormant, then only solution is to increase number of banking correspondents.

**Cost:** The total annual cost of the PMJDY estimated at Rs 150 billion is just one tenth of the total operating expenses of Rs 1566 billion incurred by banks in 2012-13. If the domestic banking system can spend Rs 1566 billion to provide banking services to 600 million people, can't it spend Rs 150 billion to serve another 600 million people is big question.

**Conclusion & Way Forward:**

The PMJDY is advanced financial inclusion programme because it had focus on individual households. Further, there was no emphasis given on financial inclusion in rural, semi - urban and urban areas. Out of 3,445 rural bank branches opened during 2014-15, 2,230 branches were opened in unbanked rural centers. Around 155 million basic savings bank deposit accounts were added taking the total basic savings bank deposit accounts to 398 million. This includes 147 million accounts opened under PMJDY. Overall, the PMJDY is a big step towards financial inclusion. The provision of basic accounts with linked insurance coverage, debit card facilities, overdraft facility, zero account facilities etc., to the poor households' benefit, economic activity, stability,

and the ability to absorb shocks. The PMJDY scheme can meet the challenges, improving banking infrastructure (bank branches, ATMs, good and reliable BCs) and overall monitoring for effective financial inclusion.

The real challenge is the service delivery. Just opening of the account won't bring good fortune. The account would turn divine only when the banking services in true sense reach to the masses.

To add synergy in the Jan Dhan Yojna, the Department of Posts should be immediately given a full banking license. India has the world's largest postal network. The total number of post offices is over 1.55 lakh, which is substantially higher than the total number of bank branches. So, these existing networks must be leveraged on. The Jan Dhan Yojna should take care of these concerns for carrying forward the aim to deliver for the deprived and marginalised.

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