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Financial Inclusion and Ten Years of PMJDY

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1. Introduction

India has made significant progress in the field of financial inclusion over the last decade and continues to do so, driven by its digital transformation, innovative policies and initiatives taken by the government. One such initiative was Pradhan Mantri Jan Dhan Yojana (PMJDY), which was launched in 2014 and this year completed a decade of its implementation. The primary purpose of the scheme was to connect unbanked citizens of India with basic banking facilities.

A National Sample Survey Office (NSSO) in its 78th report on Multiple Survey Indicator (2020-21) showed that 92.4% of men and 86.3% of women have an account in a bank or with a mobile money service provider or with another financial institution. It also showed parity between rural and urban account holders. This progress is significant considering the large number of poor and rural people who were previously out of the formal banking system and now its part. It also shows the efficacy of government policies at ground level.

It is often argued that it is the responsibility of the government of the day to make available banking services to the entire population as a matter of right, without any discrimination, which is also said to be the prime objective of public policy making.

In this context, PMJDY was a step in that direction and is one of the largest financial inclusion initiatives across the world. Launched on 28th August 2014 by Prime Minister Shri Narendra Modi, it completed 10 years of successful implementation on 28th August 2024. On this occasion, Finance and Corporate Affairs Minister Smt. Nirmala Sitaraman said, "Universal and affordable access to formal banking services is essential for achieving financial inclusion and empowerment. It integrates the poor into the economic mainstream and plays a crucial role in the development of marginalised communities". "By providing universal, affordable, and formal financial services including bank accounts, small savings schemes, insurance, and credit to the previously unbanked, PM Jan Dhan Yojana has transformed the banking and financial landscape of the country over the last decade," the Union Finance Minister added.

2. Financial Inclusion: Meaning and Significance

Financial inclusion has been defined as the "provision of affordable financial services" (RBI, 2006a) to those who have been left unattended or under-attended by formal agencies of the financial system. These financial services include "payments and remittance facilities, savings, loans and insurance services" (ibid.)

The concept emerged as a solution to the problem of financial exclusion, where people encounter difficulties in accessing and using basic financial services which is very important in 21st century to live a dignified life as a member of society in order to fulfil daily needs. In other words, it means the availability of financial service at affordable cost to a vast section of vulnerable, disadvantage and low-income group. The excluded and underprivileged member of society includes children, women, old age, person with disability, rural, unemployed and some ethnic minorities. These sections need to be taken care of by incumbent governments. In this context, PMJDY has played a crucial role.

The goal of achieving a 5 trillion-dollar economy which may remain hollow if financial inclusion is not attained fully. In the words of Mahatma Gandhi, “The true measure of any society can be found in how it treats its most vulnerable members.” On top of the grand ambition and vision propounded for “Amrit kaal”, financial inclusion can bring significant changes in many other sectors. To generate jobs, improve GDP, increasing economic output, access to credit requirements from formal banking channels is a necessary tool. It not only ignites enterprising spirit among companies or factories, but also enhances grassroots income levels. With the growth of MSMEs and their ability to access credit, it will not only generate productive employment but also contribute to national output and thereby fulfil the “missing middle” gap generated in the Indian economy by jumping directly from agriculture to the services sector.

Financial inclusion also encourages or boosts saving habits in the economy as people become thrifty when they have access to banking services. It also helps in boosting capital formation in the country via banking channels. Financial inclusion has been one of the best tools for inclusive growth and is critical in poverty reduction as it helps in percolating the benefits of growth and development to the lowest strata of the population. Inclusive growth also creates a multiplier effect by boosting investment in other sectors like health, MSME, education, etc.

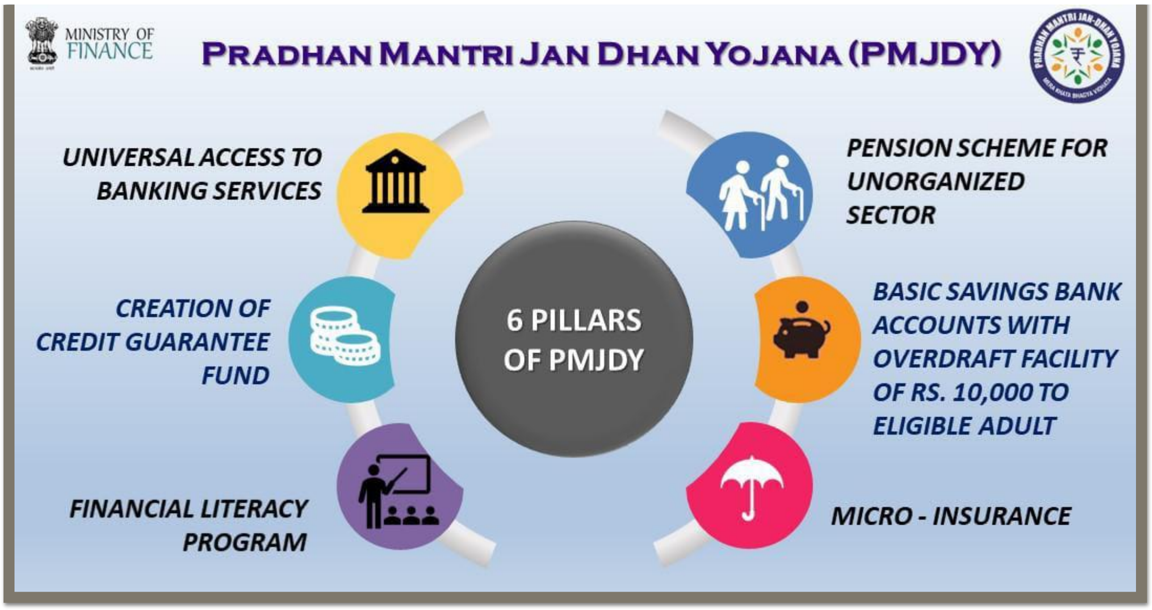
Also, the Indian government is trying to plug the subsidy gaps through cashless transfer directly into recipient bank accounts. This is a push for direct benefit transfer, which crossed Rs 63,000 crore in FY 22-23. Furthermore, financial inclusion is critical for achieving Sustainable Development Goals (SDGs) agreed under “Paris Principles”. It has played the role of an enabler in seven out of seventeen SDGs; for example, out of the total accounts created under PMJDY, 55.6% are women account holders, reflecting the scheme’s impact on women's empowerment.

Hence, it can be concluded with certainty that financial inclusion as a policy of the government can prove to be a game changer in unlocking the potential of our country.

3. PMJDY: Background

The scheme was launched in August 2014 and is declared as the world’s largest scheme to promote financial inclusion. This scheme is also known as “National Mission for Financial Inclusion”. The scheme aims to ensure that every Indian has access to basic financial services, namely credit, savings bank account, pension, insurance, remittance, etc which should be easily accessible and affordable at the same time. It is under the overall control of the Department of Financial Services, Ministry of Finance. It mainly consists of six pillars (refer to Figure 1 below).

Figure 1: Pillars of PMJDY



Source: Ministry of Finance

3.1 Basic Tenet of the Scheme

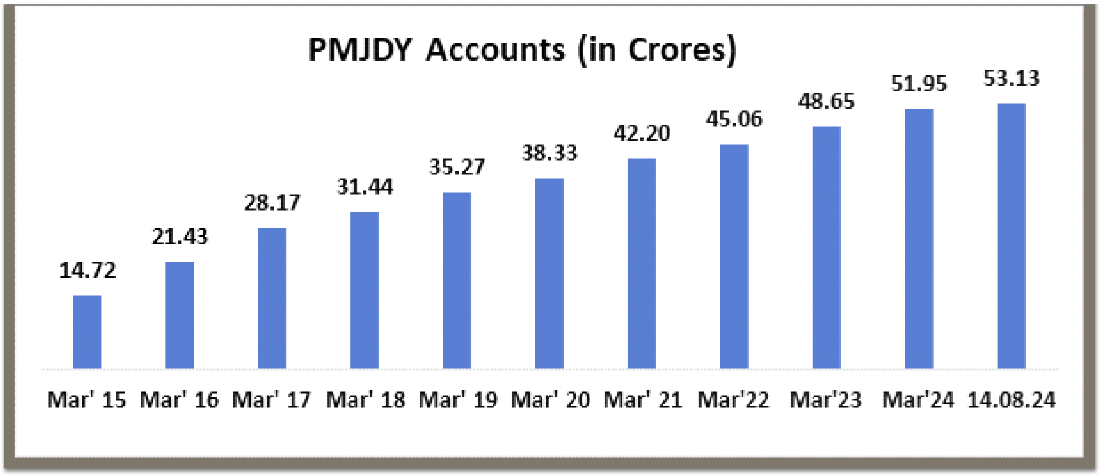
1. Banking the unbanked areas with basic savings bank accounts, e-KYC, and minimal paperwork.
2. Accidental insurance cover on many cards up to 2 lakhs with certain conditions.
3. No minimum balance requirement and interest on deposit.
4. Providing other financial services like micro insurance, micro credit, micro pension and overdraft facility up to Rs 10000.
5. These PMJDY accounts are eligible for Direct Benefit Transfer (DBT) and other government schemes like Pradhan Mantri Jeevan Jyoti Yojana, Pradhan Mantri Suraksha Bima Yojana, MUDRA scheme and Atal Pension Yojana.

The scheme has achieved wonders in banking penetration and inculcating the habit of saving among the population. It has not only given financial wings to vulnerable and low-income groups but also proved to be a potent tool in women empowerment. It has achieved various milestones in the last decade and has the potential to change the complete face of digital public infrastructure in the country.

3.2 Key achievements in the last decade

1. Opening of a large number of new accounts-By 14 August 2024, 53.13 crore Jan Dhan accounts were opened from 14.72 crore in March 2015. It can be seen from the figure below that from March 2015 onwards, the number of PMJDY account are seeing continuous increase without any delay.

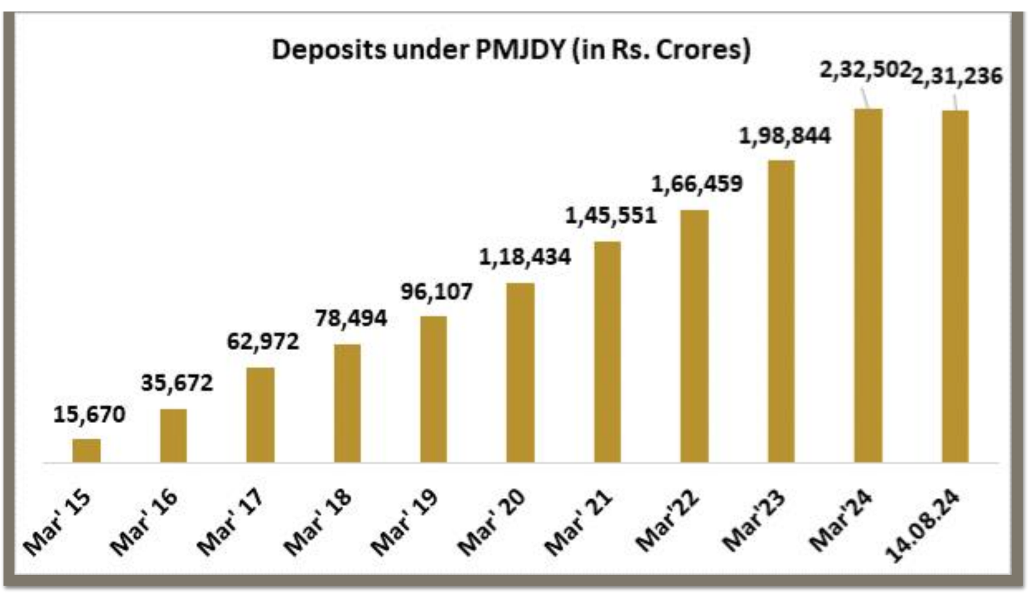
Figure 2: PMJDY accounts



Source: PIB

2. Deposits-Deposits made under this scheme stand at Rs 2,31,236 crore as of 14th August 2024, which is about 15 times more than March 2015. The figure below can support the fact that deposits as of March 2015 were only around Rs 15,670 crores, which rose to Rs 1,18,434 crores in March 2020 and to Rs 2,31,236 crores in 2024.

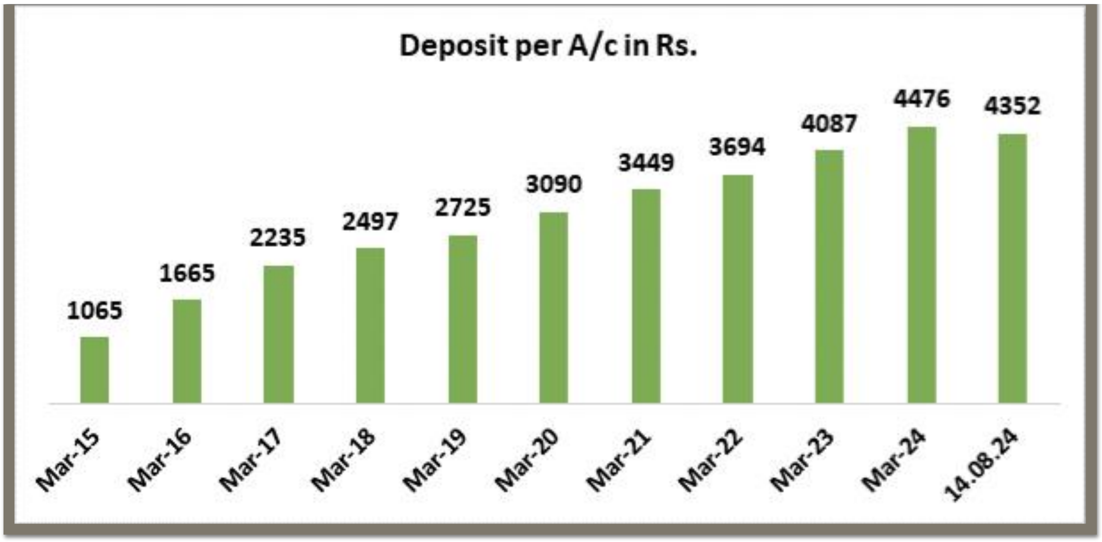
Figure 3: Deposits made under PMJDY



Source: PIB

3. Average deposit per account-Deposit per account stands at Rs 4352 as of August 2024, which is an increase of 4 times compared to March 2015. In March 2015, the deposit in the account was only Rs 1065. This increase is also an indicator of increased account usage and changed savings habits among holders of account.

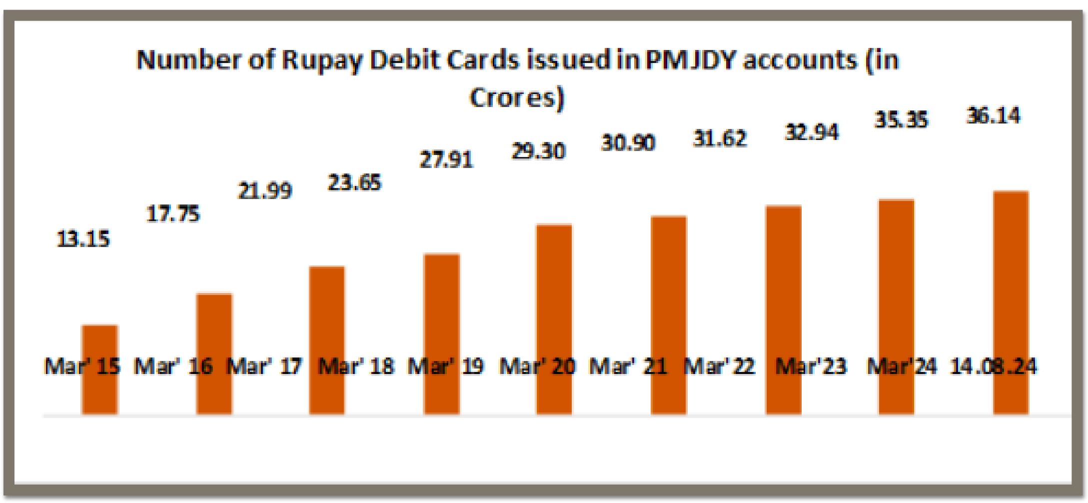
Figure 4: Deposit Per Account



Source: PIB

4. Rupay cards issued-These card currently stands at 36.14 crore, with data suggesting increased usage with time. In March 2015, it was 13.15 crore. It is almost 2.5 times more than March 2015.

Figure 5: Rupay Debit card issued



Source: PIB

Along with 36 crore Rupay debit cards, the total number of transactions from these cards has increased from 67 crore on FY 17-18 to 96.78 crore in 23-24. Additionally, 89.67 lakh PoS machines have been installed to smoothen these transactions.

With the introduction of payment services like UPI, digital transactions have shot up to Rs 16,443 crore from a meagre amount of Rs 2,338 crore in just 5 years, and the total number of UPI-based financial transactions has increased from Rs 535 crore to Rs 13,113 crore in the same period.

3.3 Financial Inclusion: Challenges for PMJDY

In a diverse and populous country like India, where a substantial population lives below the poverty line and comes under the low-income group, financial services are among the least of the worries. Prioritising financial literacy and connecting them with formal banking channels was the task successive government has been grappled with. With the launch of PMJDY in August 2014 and its performance till now, it can be concluded that targeted service delivery has borne fruit.

Despite the success of the scheme, some challenges remained, and they are as follows:

1. From the demand side, there is still a lack of awareness about financial services. Low income and therefore less saving and meagre asset holding pose another challenge. Also, high transaction costs and meagre paperwork will make the rural population turn towards moneylenders. From the supply side, financial institutions' reluctance to cater to low-value and less profitable consumers, especially with uneven income, is a major challenge in this direction. Many banking and financial institutions refuse to serve in rural areas or just serve to fulfil RBI guidelines without any innovative techniques to expand their reach. Even the Priority Sector Lending (PSL) norm of the RBI has not been adhered to by many financial institutions.

2. Digital and Infrastructural gap-The great digital divide between rural and urban areas, male and female, lack of mobile connectivity and poor financial and technological literacy, coupled with frequent power outages and lack of maintenance of digital infrastructure, especially in remote areas, hampered digital penetration.

3. Regulatory barriers-Stringent know-your-customer (KYC) norms and strict RBI regulations sometimes make it difficult to access financial services.

4. Lack of financial literacy- People from low-income groups, especially in rural areas, lack basic financial literacy required for effective use of financial services, which leads to their exclusion. For instance, nearly 20% of PMJDY accounts were found to be dormant, and 8.4% currently have zero balance, all due to poor financial literacy.

5. Socio-Economic barriers-Women, persons with disabilities, rural population still lag in financial access due to various cultural norms, geographical isolation and illiteracy.

Hence, there is a need for greater collaboration between financial institutions, telecom companies and the government to accelerate the process of financial inclusion.

3.4 Review of Literature

Sharma, A. et al. (2017), in *"Financial Inclusion through PMJDY: Challenges and Opportunities"*, mentioned that PMJDY helped in increasing financial inclusion, but there are some major challenges which acted as a barrier in the programme, like financial illiteracy, other financial products availability like insurance and deactivated accounts.

Kumar, N. (2015), in *"PMJDY: A Step Towards Financial Inclusion in India"* critically evaluated the initial phases of implementation of PMJDY. He concluded that the scheme was very successful, as millions of accounts were opened in the initial phase only, especially in rural areas. The scheme proved very efficient in connecting unbanked areas, opening accounts for those who didn't have an account previously, like women, old and disadvantaged people. So, it proved very efficient in economic connectivity.

Morduch, J. (2000), in *"The Microfinance Revolution: Sustainable Finance for the Poor"* highlighted that financial inclusion not only provides capital for businesses but also promotes the human capital aspect, as people will have money to make investments in education and health. Therefore, it also helps in poverty alleviation. So, this multi-dimensional aspect of financial inclusion was focused on.

Penny, M. (2003), in the paper *"Financial Inclusion: A Broad Framework for Reform"*, argued that financial inclusion is very crucial for poverty alleviation, reducing inequality and thereby promoting equality.

Reddy, S. (2007), in "*Financial Inclusion in India: Issues and Challenges*", pointed out the challenges to financial inclusion in India, which range from financial illiteracy, denial of financial institutions to open branches in rural and backward areas, improper banking and financial infrastructure to factors associated with the socio-economic fabric of society.

Sood, S. et al. (2016), in "*Role of Financial Inclusion in Economic Development*" argued in favour of financial inclusion in promoting growth and development of the Indian economy. It was also highlighted that it not only promotes growth and development but also makes it sustainable by including those who were left behind, i.e. women, the old and the marginalised.

Gupta, M. (2018), in "*PMJDY and Women's Financial Inclusion*" and **Sahu, R. (2019)** in "*PMJDY and Financial Inclusion: A Study on Marginalised Groups"* focused on the impact of the scheme on the groups that were earlier not included, which include women, old. and the marginalised section of society. Both made the same point by arguing that the scheme has increased the participation from these groups, especially for the services which were earlier out of their range and scope. So, the scheme proved significant in not only increasing their inclusion but also empowering these groups.

Ghosh, R. (2020), in "*Financial Inclusion and Poverty Reduction: The Role of PMJDY*", made an observation on the basis of data available that in the long term the scheme will help in poverty reduction and therefore in reduction of income inequality.

3.5 Research Methodology

The research was based on deductive reasoning in an attempt to bring more generalisation through a detailed area-specific study. The theoretical part includes the understanding of Financial-inclusion and PMJDY and its importance in enhancing financial inclusion amongst those who were left behind earlier. Also, the role of different payment services was also observed along with prepaid cards in increasing financial inclusion. Both primary and secondary sources will be consulted.

Secondary sources available and consulted for the study include periodicals, books, research articles, journals, internet sources, domestic and international newspaper coverage, mass media, unpublished papers, and insightful thoughts that were expressed by known researchers working on the related topic.

Primary sources include surveys and reports by different government departments and institutions and also include documents and reports published by the private and government organisations such as Pib, Ministry of Finance, NSSO reports, etc., of government, and private institutions. The study used both qualitative and quantitative methods of data analysis.

3.6 Conclusion

PMJDY is a successful example of a government led initiative which helped transformed the face of digital economy and financial inclusion at grass root level. It not only helped marginal and low-income group get access to basic financial services but also become a successful tool for women's empowerment. Its success highlights the mission mode approach of the government in banking the unbanked, strengthening public-private partnership, providing regulatory support and developing Digital Public Infrastructure like Aadhaar and UPI.

PMJDY has enabled access to credit to a large number of hitherto marginalised sections and made them more thrifty as well as empowered.

This scheme has helped the financially excluded section of the population to benefit from banking services in all walks of life. Hence, it can be said that PMJDY, as the world’s largest scheme for financial inclusion, has transformed, digitised and revolutionised the financial inclusion landscape in India and has become a model for others to follow.

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