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PMJDY: Understanding its Benefits and Challenges in Implementing Financial Inclusion in India

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ABSTRACT

Pradhan Mantri Jan Dhan Yojana scheme since it is implemented has delivered more than its objectives under which it was introduced. In spite of its excellent performance, still it is not untouched from challenges related to ICT, high cost and financial literacy. This article narrates the section of stake holders: bankers, regulators, intermediaries and technology providers who are largely benefited out of this novel scheme of financial inclusion in India.

Key Words: PMJDY, Challenges before PMJDY, Benefits of PMJDY, Financial Inclusion

INTRODUCTION

Though PMJDY is not the first of its kind, it holds greater promise than its predecessors because it has more geographical widespread, provides greater benefits. The objectives of PMJDY are an integrated approach to ensure comprehensiveness financial inclusion of all the households in the country. The thought behind this scheme is to uplift those segments of the population who are devoid of the financial benefits and security that come along with various government schemes where any person can sign up for a bank account with minimum number of documents. Country like India where millions of people are living in rural areas that do not have bank account and can not avail the benefits that banking account can provide. They either save their money at home, or keep it with local money savers who are not regularized. This PMJDY scheme helped such persons and made it sure that they can get affordable financial products like bank accounts, remittances, credit services, pensions and insurance.

PMJDY scheme saw a record number of newly opened bank accounts with number of benefits such as no minimum balance, RuPay Debit card, insurance cover, overdraft facility, loan benefits and simplified mobile banking. In spite of gigantic success some key challenges which has impede the success of PMJDY are infrastructural issues pertaining within India, ability to keep the accounts 'live', lack of financial and technological literacy amongst the masses, duplication of accounts, managing the ecosystem of business correspondents.

Researcher has made an attempt to bring in one page some golden aspects of the schemes related to benefits of financial inclusion, challenges of financial inclusion and its implementation.

BENEFITS OF FINANCIAL INCLUSION FOR DIFFERENT STAKEHOLDERS:

Financial inclusion is a win-win situation of opportunity for the left-outs, for the banks, for the intermediaries, and for the economy as a whole. Because of growing incomes, better access to information, technology, communications, improving awareness levels, aspirations of the left-outs are on the rise. Banks can ignore these opportunities at their own peril. The need of the hour is to awaken, start, and grab the opportunity aggressively.

Benefits To the Banker: At the onset, banks may feel that financial inclusion initiatives are a burden on them and it will prove to be a dent on their profits but the ground reality is altogether different. The various experience on beneficial inclusion should give them financial comfort. The benefits accruing to the bankers can be summarized as under:

- The low-cost deposits from the individuals will offer banks the opportunity to reduce their dependence on bulk volume of deposits from corporates, HNI's and better help in the management of the liquidity risks and the asset-liability mismatches.
- The deposits offered at low - cost will result in increased profits with the perspective from medium to long term.
- The banks will be able to harvest the benefit from the fortune at the bottom of the pyramid.
- It will create huge opportunity for the banks to go for cross-selling of asset products, micro-insurance covering both life and non-life, micro pension products, etc.

Benefits to Users: It is correctly stated that business opportunity is mostly dependent upon the accessibility to financial resources. Such accessibility is especially useful in urban centers where there are more opportunities. Financial inclusion provides opportunities to build on savings, make investments, and also avail credit at lesser cost. Some remarkable benefits to the new users of bank accounts are as follows:

- Access to insurance products will result as a cushion against unplanned expenses and contingencies in the form of emergencies such as health problems, illness, death of the family member or loss of employment.
- Help in coming out from the clutches of the moneylenders who are providing credit facilities from unorganized sector.
- Receiving social security transfers being paid in the form of old-age pensions, widow pensions, monthly aid to handicapped persons and other benefits accruing from the governments directly into their bank accounts without delays and lesser intermediaries as in case of collecting the benefits in cash.
- No need to travel faraway places and bearing the tantrums of intermediaries involved in the distribution of government subsidies and other benefit transfers.
- Facilitating economic independence and supporting the improved economic well-being.
- Customized bank accounts will solve the problem of sending the money periodically to the native place. Migrants living in urban centers would be able to send money quickly, effortlessly and without paying commission to the intermediaries.
- In the anticipatable future, access to credit, insurance, remittance, and overdraft facilities will be made available easily.
- The stronger desire for saving, let the money earn for you; a better life, better living, and real income.

Benefits to Regulators: The key role of regulators is to acutely observe the performance of the regulated. Some of the principal functions will prove to be the benefits being offered by the regulator are as under:

- Protect the interest of the consumer for if they feel safe and secure will help in making them to come towards formal financial system.
- Take steps for protecting the interest of all other stakeholders who works for ensuring financial inclusion for the country.
- See the activities in a broader perspective and give purposeful direction to achieve larger societal goals.

If banks can initiate financial inclusion on their own for both urban and rural area, then the regulator will be relieved of its social responsibility.

Benefits to Intermediaries: These are quite early days for financial inclusion in urban and rural area. Even the expanded list of intermediaries is yet to be field-tested at a reasonable scale. But one can safely determine that individual owner of Kirana stores / medical shops/ fair price shops; individual PCO operators; individual petrol pump owners; agents of saving schemes of government of India; agents of insurance companies will be increasingly used as intermediaries. These intermediaries stand to benefit by way of:

- Howsoever small it may be but the additional income will come to the intermediaries. This income will come without any additional investments.
- The financially excluded persons opening the account through them are likely to stick to them for their other needs. That way urban intermediaries stand to gain indirect benefits also.
- Working as extended hands of banks, intermediaries are more likely to earn better respect and dignity for them in society.

Benefits to Technology Providers: The major role of technology providers is to acutely observe the performance of the regulated. Some of the functions which can provide benefits for stakeholders are as under:

- The technology providers will widen the markets for smart cards.
- The sense of satisfaction by way of contributing to national social agenda.
- The opportunity of new business in technology driven environment will be created.

Benefits to Society at Large: The key role of regulators is to acutely observe the performance of the all stakeholders. This observation will help for providing the following benefits for the society at large:

- Will encourage both the central and state government to shift the subsidies distribution form indirect system to directly in the hands of the target groups by way of directly crediting the fund in their account.
- Distribution cost of subsidies as well as social security and social welfare payments will get considerably reduced.
- This will help in plugging the leakage in fund and reducing the corruption.

Benefits to Government: Financial inclusion will be to help the state and the central government in the following ways:

- Helps in removing the inefficiency and corruption from the system.
- Possibility of making social security and social welfare transfers such as old-age pensions, widow pensions, etc directly into the bank account of beneficiaries through electronic transfer. This will help in minimizing transaction costs.
- Accounts will also help in plugging leakage in the distribution network and this will benefit society at large.
- Likely to stop the leakage, over the next five years, the central government alone will be spending 11.5 trillion rupees on subsidies, including old-age pensions, health care, and national jobs for work programs. in the current scenario, 40% of this will be siphoned off by the system. If the same subsidies can be transferred directly into the bank account of beneficiaries, then this leakage can be stopped.

Benefits to the Economy **as a Whole:** Financial inclusion is likely to result in a number of benefits for the Indian economy as a whole. Some of the probable benefits are explained herein:

- An avenue which will help in bringing the additional savings into the formal financial and banking channel enhancing the collective economic resources.
- Probability due to higher incomes coupled with a reduction in cash economy can lead to overall economic growth and reduction in black money.
- Better possibility of unlocking the economic potential of the people residing in our nation.
- Possible to track individuals' financial history; better utilization of consumers protection mechanism and higher level of financial literacy.
- Chance to achieve faster growth in the country by way of including the mainstream of the country.

CHALLENGES OF FINANCIAL EXCLUSION:

Challenges that are hindering financial inclusion in India are varied. Overall, it was required to look at the challenges that hinders financial inclusion in India. Though big scale financial inclusion in the country is still at lower scale as the statistics provided are not convincing and promising over the extent of financial inclusion in the country. The largely stated challenges that were identified by many are the ones which hinder the effective financial inclusion:

Lack of financial literacy: In this, it was established that, lack of adequate financial education or knowledge about the various financial services along with lack of access to formal financial sector is amongst the challenge to the most of the Indians which consecutively affects the overall general beneficiaries' approach to finances. Fundamentally, it was apprehended that majority of individuals within the nation lacks information on even the basic financial services especially loans in terms of both access and repayments. Also, they seem to not have even the important knowledge on the essential requirements for securing such loans. Hence, due to these challenges, one of the elementary ways that can be used for improving people's accessibility to financial services is by providing education to the public, so that the wrong long stuck mentality can be removed on financial services offered to the public.

Low technology (ICT): Low technological advancement is the major problem faced due to not developed information communication technology infrastructure which is the reason for uneven distribution of information between the financial service providers and the beneficiaries of the financial services. In this challenge, the banks must make significant improvements in various areas and in varied Management Information System. The improvements in ICT will help in uniting people in different geographical location.

High costs: Costs connected with the delivering essential financial services through traditional pattern is high. Other than delivering, the challenges that were highlighted were the costs of connecting to the customer and financial services operation cost. Along with this cost, the charges collected from the beneficiaries of the services such as the interest rates and charges of using ATMs and mobile banking services exerts pressure on the people which in return affects the usage of these services. Essentially, it was realized that the various charges that imposed on services being provided is making operation more difficult. In order to limit this, there is a need for harmonizing the overall service charges, thus that the beneficiaries can be secure in paying them without any much hesitation.

Regulatory requirements: Regulation framed requirements such as KYCs rules has been initiated to avoid money laundering and it can make it difficult for the poor people to open a basic saving bank account for, they may not have the required necessary documentation. At the same time, it has been observed that many poor people do not have any collateral security or the required credit record for availing credit. The regulation needs to be reframed in a manner which can help to include all strata of people in banking sector.

CHALLENGES FOR IMPLEMENTING PMJDY:

The PMJDY is an ambitious initiative taken by the government constantly by setting aggressive timelines and deliverables. The capability of the scheme's initiative is, to successfully endeavour the aim of providing comprehensive financial inclusion to each citizen depending on coherent and efficient implementation. Various agencies have identified various challenges which is summarized by KPMG and such others, key challenges which could hamper the success of PMJDY initiative. The six challenges are listed below:

Infrastructural Issues: There is a lack of physical and digital connectivity related infrastructure in hilly areas and hinterlands such as the North East Region, Uttarakhand, Jammu & Kashmir, and Bihar put forward a major hinderance in achieving financial inclusion for all. Digital and technological issues are prevalent and affects the banks range due to poor connectivity, power shortage, network outrage, and bandwidth problems for managing costs of maintaining the infrastructure. This makes us to question that 'Whether or not our banks infrastructure is capable for providing banking facilities to our diverse and ever – growing Indian population?'According to 2011 census, only about 46,000 out of the 6,00,000 India villages have bank branches. That comprise of only 14 percent of the 1,60,000 ATMs are in rural areas. Electricity being amongst the basic requirement for banks operations, running the ATMs and network connectivity to operate, but the large parts of the developing country is suffering from limited or no accessibility to electricity. Again, as per the statistics provided by the Census of 2011, only 55 percent of rural households had access to the basic requirement electricity. The major problems seen with ATMs in rural area are that it either run out of cash or remain shut due to power outage. Infrastructural constraints in rural area can be understood by the finding that it takes around 8 hours for a faulty machine to be repaired in urban area whereas in rural areas it takes around seven to eight days. An analysis by KPMG states that branch network of banks, needs the government to provide them with major infrastructure especially to the public sector banks. Taking the various factors into consideration in present scenario, a cost effective, technical and economically business model should be implemented to wrestle the infrastructural challenges.

Maintaining the accounts 'LIVE': Another challenge that the previous banking inclusion initiatives such as Swabhimaan program and no-frills account initiative have faced problem of dormancy or limited number of transactions in the accounts opened newly. The present statistics reveals that increasing the transactions per account opened is a challenge. As per the data available on official PMJDY website, 67 percent of the 12.58 crore PMJDY accounts had zero balance until 2nd February, 2015 which started to decline in the second Phase. Villagers are not willing to travel to long distance for branches located far for depositing a small sum of money. It costs them half of their days' time and loss of a days' earnings for availing banking services. This makes long travel a serious accessibility concern to think over. On the flip side, the banks have to spend Rs. 100 to 150 per account on cost of holding camps, getting the necessary documentation, and the commission to be paid to the Business Correspondents who are authorised for opening accounts. The transaction per account must be increased using technology or Business Correspondents services, which will help in making the scheme financially sustainable for the Government.

The Government aims to route the direct benefit in the form of cash transfer, pensions, LPG subsidy, and other subsidies directly into the accounts opened under PMJDY, to make certain that the accountholders have an incentive to carry out the transactions on the account. Conversely, the sustainability and profitability of PMJDY accounts cannot survive on welfare schemes only. It is believed by many financial and economic firms those other initiatives undertaken by the government like Make in India, skill India, etc needs to be linked with the platform scheme, the PMJDY. The scheme aims to build economic activities around rural villages that could help in generating employment opportunities. It is also necessary to make people aware through financial literacy programs about the benefits of saving and investment. As per the survey conducted in west Kenya by the Kenyan Government showed results that individuals who had better access to the formal savings account have led to an increase in the average daily investment in to the businesses by 38 to 56 percent.

Financial and Technological Illiteracy: Several initiatives have been initiated by the successive governments with a view of achieving financial inclusion but after all efforts more than 40 percentage of the population yet lacks the access to basic financial services like savings, investment, credit and insurance facilities. Financial illiteracy is a major roadblock. Financial services giant, Visa conducted a survey and revealed that around 65 percent of Indians are not financially literate. There is illiteracy as they suffer lack of awareness, basic knowledge and skills among the rural poor to make an informed decisions about savings, investments, credit and expenditure.

Providing banking facilities through the traditional branch led model to the uncovered areas is an expensive proposition for banks. With the introduction of technology in providing banking services to the last mile uncovered population is a boon. However, technology adoption for providing banking services to the masses is still at a very budding stage. Limited or no proper awareness about the financial products and services available along with security concern about online banking still continues. Educating the people on usage of ATMs, cards, e-banking is to be done promoting the secure manner of these options for transacting. All stakeholders, must keep financial literacy amongst their top priority, and should appropriately blend it with measures for consumer protection. It is strongly believed that financial literacy can be better achieved by including financial management as a part of the general education program in schools and colleges study material. Through media, educational camps, counselling centres, various campaigns and also through the use of innovative technologies simple messages in local language can be circulated amongst the rural people for creating awareness about financial product and services. Obtaining assistance from microfinance companies, Self Help Groups, FMCG companies having access to farmers and other financial institutions who are in constant contact with the weaker and underprivileged sections can play an essential role in increasing financial literacy.

Duplication of Accounts: The bait of getting an insurance cover, accidental death cover and overdraft facility may have been a factor for prompting people to open more than one PMJDY accounts in different banks by providing different identification documents like Aadhaar card, Voter Id card, PAN card - as there is no way of detecting duplicate accounts as a single centralised information sharing system is not maintained. Most of financial benefits and welfare schemes have struggled with on-boarding citizen information. An Aadhaar card linkage to the account of the beneficiaries is crucial for the success of the Pradhan Mantri Jan Dhan Yojana as then it is proceeded by biometric authentication which to a vary extend will eliminate the risk of duplication or fraud. However, implementing Aadhaar linkage at a national level will take some time. Hard - hitting account opening targets can be a reason for forcing the banks to neglect duplication, thus endangering the objective of the scheme. e - KYC an additional effort is an under - utilized technology. It is believed that a single centralised information sharing system must be established by all to weed out the issue of multiple accounts and the banks then can emphasis more on quality rather than being with quantity.

Managing the scheme ecosystem by Business Correspondents Model: Business Correspondents functions as intermediaries and representatives of the Banks in providing financial services to the unbanked. Currently, close to around 3.3 lakh villages are having business correspondent agents. Still, managing the assisted network-based ecosystem is a multifaceted and unwieldy task for the banks. Several bottlenecks of the Business Correspondent model have been seen in the past years: like

- Delay in disbursement of subsidies, benefits and remuneration granted under Direct benefit transfer schemes, MNERGA, pension schemes etc. to rural people.
- Only 2 percent commission is paid to the Business Correspondent as an incentive which leads misleading demands of commission from illiterate villagers for various transactions like depositing money, processing loans, withdrawal of money from account, without the bank's knowledge.
- Reputational risk is posed on the banking institution as the customer service provided by a Business Correspondent to the customers are found to be inadequate and inconsistent.
- Banks at times are not committed to monitor Bank Correspondents operations.

- No proper training is provided to Business Correspondent agent which effect their ability to deliver the services and handle the complaints.

As Business Correspondent model is key for connecting to the unbacked, it is elemental for PMJDY to overcome the above-mentioned shortcomings.

Economic Burden: Pradhan Mantri has launched the Jan Dhan Yojana as a bouquet of benefits linked to it like deposits, credit facilities, life insurance cover, accidental insurance over, direct benefit transfers and easy withdrawal by RuPay debit card. Keeping the accounts opened operative the bank offered direct cash transfer of welfare schemes in the accounts, kept added insurance claim system and sustaining the credit being provided by overdraft facilities making the accounts financially viable for banks and the Government. The proximate challenge for the banks is to device the plan by charting out a financially viable model for keeping the PMJDY accounts operative and providing the benefits attached to the accounts continuously such as to provide insurance cover and also card facility. There is the risk attached to the overdraft facility being provided could end up being the bad loans for banks as the scheme lacks its vision on spelling out as to how the banks can collect these bad debts. These bad loans can amount to a huge amount of non-performing assets for the banks. It can be quantified assuming that one account each for 75 million households, has an opportunity to avail an overdraft facility of Rs. 5,000 from these 60 percentages of the total households avails the overdraft benefit, amounts to Rs. 22,500 crores. Even the risk is weighted at 20 - 25 percentage, it would amount to Rs. 4,500 crores of non - performing asset. With instances of debt being waived in the past, people may end up considering these loans as freebies. Minimum balance deposited and maintained in the account and the number of transactions carried out in a year would determine the economic viability of this scheme. PMJDY is looked upon as a facilitator to attain financial inclusion. A wide range and thorough inclusive framework of Jan Dhan Yojana, with increase in financial literacy, improved technological infrastructure and self-sustaining Business Correspondent delivery model can result in better and effective financial inclusion. With firm determination and the ability, the challenges can be addressed and financial inclusion for all can be seen in the near future.

SUMMARY

The success of PMJDY will largely depend upon reaching the poorest of the poor in the country and end financial untouchability, in a country where 25 percent of the people live with an income of less than INR 40 per day. The critical aspects of the scheme are the delivery of banking services to the un-banked and under – banked considering the constrains of ICT, connectivity and financial literacy. The immediate need is to build economic activity around un-banked / under – banked villages so that the newly opened bank accounts remain active with regular transactions other than just Direct Benefit Transfers.

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