Pradhan Mantri Jan DhanYojana : Need for a Strategic Action Plan

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The Prime Minister, Shree Narendra Modi, recalling the bank nationalization in 1969 with the avowed objective of spreading the reach of the financial system to the doorsteps of the poor, expressed regret that 68 years after Independence, not even 68 per cent of the population has bank accounts. In order to accelerate the process of financial inclusion and recognizing the specific financial needs of the poor the PradhanMantri Jan DhanYojana [PMJDY] was launched on 28th August 2014 which is a landmark initiative to link the hitherto excluded poor with the bank through the Bank Account and a step towards bringing them into economic mainstream. This article briefly highlights the PM's concern, PMJDY, Government and RBI's initiatives, banks' response, performance as on end-January 2015 and aspects of formulating a strategic action plan to achieve the end-objectives of the PMJDY, rather than merely opening bank accounts.

Prime Minister's concern

The Prime Minister had emailed 700,000 bank employees urging them to support the initiative, between 25th and 28th August. Banks instantly responded to this new initiative of financial inclusion. Banks, organizing around 77,852 camps in 600 districts across the country, facilitated around 15 million Indians to open bank accounts on 28th August 2014 when the Prime Minister rolled out the Government's ambitious PMJDY with a promise to end "financial untouchability". He said that if 40 per cent Indians are not part of the economy, how can the country be successful in eradicating poverty. This is his/her big right. The right to operate a bank account will provide security in life. He informed that welfare payments would be transferred directly into the accounts, helping the "fight against corruption". Never before would insurance companies have issued 1.5 crore accident insurance policies on a single day. Never before in economic history would 1.5 crore bank accounts have been opened on a single day. Never before has the Government of India organised a programme of such scale [over 77,852 locations] with the participation of so many Chief Ministers, Union Ministers, Government and bank officials," PM said while launching the scheme.

The PMJDY

The PMJDY envisages opening 150 million bank accounts [two each from 75 million households] by January 26, 2015. The PMJDY, as against the "no-frills account" scheme, is a significantly improved one and quite comprehensive; offering to an unbanked household who opens a bank account before 26th January, 2015 a package comprising three basic products viz. [i] Overdraft facility of Rs.5,000 [ii] Debit card of RuPay—an Indian payment gateway like Visa and Master card-- and[iii] Insurance cover of Rs.1lakh for accident and of Rs.30,000 for life. The beneficiaries, who already have bank accounts, are also eligible to get these benefits. Besides, the major policy change in the PMJDY, as compared to the earlier efforts of financial inclusion, is to

[i] Target households instead of villages

[ii] Cover rural and urban areas against rural ones

[iii] Simplify Know Your Customer norms to encourage opening bank account

[iv] Pursue digital financial inclusion with special emphasis on monitoring by a mission headed by the finance minister.

Acknowledging the cumbersome procedure involving KYC requirements that proved to be the major factor discouraging the hitherto unbanked households to open bank accounts, RBI has relaxed the norms to help them open a bank account. Also, the new bank accounts are backed by biometrically-verified Aadhaar cards and banks can feel free to undertake detailed due diligence to weed out frauds or duplicates.

The number of people added to the country's banking system in the past five months is higher than that in the period from 2001 to 2011. According to census data, only 36% of Indian households had access to banking services in 2001 which increased to 59 % in 2011. According to the PMJDY website, more than 127 million new bank accounts have been opened since launch of the scheme on August 28, 2014, taking the number of households in the country with at least one individual bank account to 210.5 million. However, the speed of linking the accounts with Aadhar numbers has been very low indicating that only 35% of all new bank accounts are linked with Aadahar as on 4th February 2015 to ease the process of direct transfer of cash subsidies and other benefits under 36 schemes to beneficiaries through their bank accounts. For instance, linking bank accounts with Aadhar stands at only 11 per cent in Bihar, and 16 per cent in Uttar Pradesh. Besides, a high proportion of these accounts continues to be inoperative. Until the end of January, 67 per cent of the new accounts opened were without any balance. As on 5th February 2015, under the PMJDY 127.65 million bank accounts have been opened [of which 84.34 million are

Zero balance accounts] with balance of Rs.1,09,281.4 million and 112.80 million Rupay cards issued. In 10 important States with a population of 1210.13 million [2011 Census] of the country, 117.94 million i.e. 61.24 per cent have bank accounts. While 61.24% hold Aadhar cards only 35.01% are Aadhar seeded accounts of total bank accounts.

Government's decision to use these bank accounts linked to Aadhaar as the primary vehicles for direct benefit transfers of subsidies under various Government-programs can help beneficiaries and banks keep bank accounts operational on one hand and on the other, the Government can save significant costs being incurred under subsidies when given in kind and prevent leakage of subsidies. Besides, for the banks, the accounts may turn out to be viable because of the 2 to 3 per cent fee promised on all payments. Government's proposal to route cash transfers in lieu of subsidies in kind through these accounts would be a step towards a comprehensive reform of the subsidy regime for a number of essential commodities.

The scheme provides social security through insurance cover and pension payment. This is indeed a significant policy intervention when there is not even a rudimentary social security cover for a very large number of poor households. The accident and life insurance component under the scheme will surely go a long way to bless daily wage earners and blue-collar workers in the unorganized/informal sector who have higher risk-profile than their counter parts in the organized sector. In view of substantial number of beneficiaries, insurance companies will need to man their offices with adequate and trained staff who shall have a human face while processing their claims for payments, with concerns that deserving/rightful claims do not get rejected. The HDFC ERGO will be the insurance company to provide RuPay debit card covering personal accident and permanent disability insurance of Rs1 lakh to the cardholder subject to the condition that the card is kept in activated condition.

The PMJDY will be implemented in two phases viz. [i] in the first phase [August 15, 2014 to August 14, 2015] all households will be covered with at least one basic bank account and routing of subsidies to such accounts under Direct Benefit Transfer scheme [ii] in the second phase [August 15, 2015 to August 14, 2016] insurance cover would be provided and payment of pension under the Swavalamban scheme through business correspondents.

Strategic Action Plan

PMJDY's focus to bring all households under the mainstream of banking by first opening bank accounts will, indeed, have a significant impact to accelerate country's economy in the course of time. All banks in public, private and cooperative sectors along with RRBs should chart out a road map to implement the directives issued by the RBI and Government by March 2016. Opening bank accounts may not immediately become viable but it can be over a period of time when Government makes all payments through these bank accounts under Direct Benefit Transfer scheme and banks and insurance companies put in serious and committed efforts to mobilize savings, credit and insurance through their innovative savings, credit and insurance products accompanied by appropriate marketing strategies. Besides, following strategic actions can contribute to improve operational viability and achieve objectives of the PMJDY.

- Field experiences of four months suggest the immediate need for the Government in consultation with the RBI to remove all misunderstandings and confusion with regard to the mandated benefits under the scheme by bringing out a comprehensive booklet which must also describe the responsibilities of the bank account holders and crystalize the role, functions and responsibilities of the implementing agencies, viz. banks, insurance companies, departments of State Governments. For this, Government and NABARD can undertake a pilot project in each State to understand the bank account holders' perception and banks' capability to serve these new clients in the light of the concept of the PMJDY.
- Panchayati Raj Institutions at village level must ensure that by March 2016 all households should have bank account which must be monitored by the Lead Bank at block, district and State level on a quarterly basis.
- Government and banks in an effective coordinated manner will have to launch a massive village-wise structured campaign to create full awareness among poor households for their better understanding of the PMJDY and improve the level of education/financial literacy that can help them avail the benefits under the scheme along with their responsibilities attached with it. Fundamentally Panchayati Raj Institutions at all levels will need to be involved in this campaign after their members have been fully trained to understand the scheme and its targeted aims, rather than only opening bank accounts. NGOs, Civil Society, Print and electronic media will have added role in this area.
- Banks will have to put in place client-friendly procedure that can encourage /motivate beneficiaries/clients to operate the bank account, rather than allowing it to remain dormant, since Financial Inclusion aims at continuous operations/transactions in the bank account already opened.

• The Rangarajan Committee on Financial Inclusion revealed that over 95% of adults in country's 256 districts did not have bank loans. Banks under the PMJDY will, therefore, need to commit and ensure that beneficiary uses overdraft facility to acquire income-generating assets, pursue economic activity, generate income and ultimately converts overdraft facility into loan and establishes her/his credibility to access more amount of short-term loan in due course. This calls for concern, commitment and accountability of all stake-holders under the PMJDY to make it result-oriented. Effective Management Information System will need to be established to monthly monitor the end-use of the overdraft facility and half yearly review of the impact created on income-generation and settlement of the overdraft facility.

• Financial literacy and debt counseling introduced by the RBI is a sine qua non to achieve the aims/objectives of the PMJDY since the very foundation of the financial stability rests on managing all the costs involved or risks associated in the financial inclusion, viz. cost of overdraft, insurance cover, non-repayment/unsettled overdraft facility in the event of zero-credit balance, among others, It is imperative that all intended beneficiaries of the PMJDY must understand their statutory obligations before claiming the benefits/rights under the scheme. If past field experiences are any guide, most beneficiaries of Government sponsored schemes have, unfortunately, developed a culture to receive freebies and politically expedient subsidies. The syllabus of the financial literacy and debt counseling should be pilot-tested in most districts of the country and appropriately redesigned to match the needs under the PMJDY to achieve its end-objectives. Financial literacy should focus sharply on the capacity building of the beneficiary.

• Banks can mobilize savings by motivating beneficiaries and extending bank credit hassle-free on lines of SHGs under SHG-Bank-Linkage Program since India's household savings have been declining since 2009-10, together with strong compositional shifts from financial to physical savings. Ingenuity of bank staff and innovative savings schemes can help banks mobilize significant amount of deposits as is evident from Saradha, Sahara and the multitude of informal fund-raising schemes that have sprung up in recent years across the country prove that rural folk have sizeable savings to invest.

• Banks should perceive Financial Inclusion as a business opportunity, rather than a compulsion, and use it as a means to expand the resource base of country's financial system, protect low-income groups from being exploited by moneylenders and improve the effectiveness of the system to reduce the scope of the unorganized sector.

• Some critics have voiced their concern about the likely economic burden of 15 crore overdraft facilities, each of Rs.5,000 without any collateral in the event of these drafts not having been settled. In this case, it is necessary to evolve basic guidelines for providing overdraft facility as most banks have already past experience of providing overdraft of Rs.155 crore under 3.9 million " No-frills Account out of 18.2 million. This field-based study should provide concrete information on

[i] Why only 3.9 million out of 18.2 million were issued the overdraft facility, leaving a very large number out?

[ii] What has been the ultimate fate of the overdraft facility in respect of its use and settlement or becoming NPA?

Before providing the overdraft facility under the PMJDY, there is need to conduct comprehensive pilot studies in each district to assess the beneficiary's perception and understanding on the use of overdraft facility, its on-time settlement and the actual requirements as envisaged under the scheme. Overdrafts can be extended solely at the banks' discretion, based on the history of the account-holder. ®

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