SHIV SHAKTI

International Journal of in Multidisciplinary and Academic Research (SSIJMAR)

Vol. 4, No. 3, June 2015 (ISSN 2278 – 5973)

Critical Review of Prime Minister Jan Dhan Yojana: A step towards Financial Inclusion

Daman Jeet*

*Asst. Prof., Dr. BR Ambedkar NIT, Jalandhar

Impact Factor = 3.133 (Scientific Journal Impact Factor Value for 2012 by Inno Space Scientific Journal Impact Factor)

Global Impact Factor (2013)= 0.326 (By GIF)

Indexing:

Introduction:

The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. Efforts are being made to study the causes of financial exclusion and designing strategies to ensure financial inclusion of the poor and disadvantaged. The reasons may vary from country to country and hence the strategy could also vary but all out efforts are being made as financial inclusion can truly lift the financial condition and standards of life of the poor and the disadvantaged.

- **What is 'Financial Inclusion'?**

  "Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income group.

  Unrestrained access to public goods and services is the sine qua non of an open and efficient society. **As banking services are in the nature of public good**, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy." (RBI Bulletin 2006)

  Objectives:

- To study the relevance of prime ministers's jan dhan yojna, it loopholes and drawbacks
- Suggest improvements for proper functioning of the scheme

The scope of financial inclusion

The scope of financial inclusion can be stretched in two ways:

- ✓ state-driven intervention through statutory enactments (for example the Community Reinvestment Act in US making it a statutory right to have bank account in France).
- ✓ voluntary effort by the banking community itself for evolving various strategies to bring within the realm of the banking sector the large strata of society.

Methodology:

Methodology used is secondary in nature. The sources reffered to are the articles from newspapers and reports published by government bodies.

RBI's Policy on 'Financial Inclusion':

- When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India places a lot of emphasis on financial inclusion.
- With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual Policy Statement of the year 2005-2006, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion.

Types of Financial Inclusions:

- **No-Frills' Account :**

In the Mid Term Review of the Policy (2005-06), RBI exhorted the banks to make available a basic banking 'no frills' account either with 'NIL' or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population , with a view to achieving greater financial inclusion.

The nature and number of transactions in such accounts would be restricted and made known to customers in advance in the most transparent manner.

All banks are advocated to give wide publicity to the facility of such 'no frills' account, so as to ensure greater financial inclusion.

- **'Simplification of (KYC) Norms :**

In order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the 'KYC' **'Know Your Customer'** procedure for opening accounts for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year has been simplified. This has been enabled to facilitate opening of bank accounts by those belonging to low income groups without documents of identity and proof of residence. In such cases banks can take introduction (or reference) from an account holder on whom full KYC procedure has been completed and has had satisfactory transactions with the bank for at least a period of six months. Photograph of the customer who proposes to open the account and his address need to be certified by the introducer (or refree).

- **Ensuring reasonableness of bank charges :**

Reserve Bank has been receiving several complaints from public about unreasonable service charges being levied by banks. In order to ensure fair practices in banking services, the RBI has issued instructions to banks making it obligatory for them to display and continue to keep updated, in their offices/branches as also in their website, the details of various services charges in a format prescribed by it. The Reserve Bank has also decided to place details relating to service charges of individual banks for the most common services in its website.

- **A hugely expanded bank branch and cooperative network and new organizational forms like RRBs**
- **A greater focus on credit rather than other financial services like savings and insurance, although the banks and cooperatives did provide deposit facilities**
- **Lending targets directed at a range of 'priority sectors' such as agriculture, weaker sections of the population, etc**
- **Interest rate ceilings**
- **Significant government subsidies channeled through the banks and cooperatives, as well as through related government programmes**
- **A dominant perspective that finance for rural and poor people was a social obligation and not a potential business opportunity.**

<u>September 1, 2014:</u>

September 1, 2014 was and will stay a historic day in the Indian Banking system. **1.5 crore bank accounts** were opened on a single day through financial camps set up in **77,000 locations**. Following on Prime Minister Narendra Modi's One Day promise, the Government had put its financial inclusion programme into action. The Pradhan Mantri Jan Dhan Yojana or PMJDY— involves opening bank accounts, aimed at the poor, may it be rural or urban.

PMJDY in detail:

Approximately only 58 per cent of Indian households have access to banking services. So the PMJDY's target is to open 7.5 crore bank accounts by January next year. Under this programme, people will be able to open **zero-balance accounts** with any bank, either public or private.

Know-Your-Customer rules for The Jan Dhan scheme are much simpler. An Aadhaar card is enough of a proof to open a Jan Dhan account on the spot. Attested NREGA cards, voters' ID card are the other documentary proofs that are allowed. For those who don't possess even these, simplified rules regarding proof of identity and address allow opening a more basic account.

The scheme offers a couple of giveaways too:

- ✓ Accident insurance of up to rupees 1 lakh comes free with each account.
- ✓ Those opening accounts before January 26 next year will also get life cover of rupees 30,000.
- ✓ Once operative for at least six months, holders may also be offered an overdraft facility, first for rupees 2,500 and then for rupees 5,000.
- ✓ Each accountholder will bag a RuPay debit card and will be able to access a basic form of mobile banking.

Relevance:

Right now, most Indian households rely on unsculpurous money-lenders for credit and on the Saharas for their savings needs. Bank accounts for all may solve this problem.

If bank accounts become the median, it will also be easier for the Government to directly pay all subsidies into the accounts of the poor, instead of dispensing them through the vast, absorbent network of government agencies.

Premises of the bill:

The premium on accident insurance will be borne by the National Payments Corporation of India.

But it cannot also pay the life insurance benefit tacked on at the last minute. In that case, the government's go-to pawn, the Life Insurance Corporation, may be roped in. There is also the question of how banks will service these accounts once they're operational. Will banks be interested in providing good service if the account is zero-balance?

While the Centre has promised to 'reimburse' the costs, the quantum and mechanics of compensation are unclear at the moment.

Why should we care?

Easy access to the banking system and freedom from money lenders can materially lift India's economic prosperity. Direct subsidy transfers can save money now lost in leakages.

Drawbacks:

- ❖ Easy access to the banking system, freedom from money lenders and direct subsidy transfers can save money now lost in leakages but that's the long-term dream. The costs of the Jan Dhan Yojana are front-ended.
- ❖ If the Government takes on all the costs, this will be another welfare scheme to be funded by the tax payer (if insurers or banks end up footing some of the bill, they may pass it on to us).
- ❖ A section of the government has raised concerns about the use of debit cards, a critical component of the scheme, while making a case for **slow roll-out, logistical issues and possibility of misuse**. The process of receiving an ATM card — through post followed by a separate mail with the pin number — in distant parts of the country can slow down the process of roll-out while adding to the distribution costs. The logistical and financial implications of setting up ATM machines across the country are huge.
- ❖ Multiple accounts to get more insurance-
- ✓ Jan Dhan scheme gives Rs. 1 lakh insurance on each account.
- ✓ To get large insurance or overdraft facility, same person might open multiple accounts in multiple banks- one with Aadhar card, one with PAN card, one with voters card.
- ✓ In order to meet the 'targets', sarkaari banks may also overlook nuisance. Since Government is the majority shareholder in sarkaari banks, Chairman and board of directors have pressure from Government.
- ❖ Money laundering-

JDY accounts could be used for money laundering and Hawala operations.

- ✓ Smurfing

  Hawala Operators can spilt the whole amount (say 1 crore) into several small units into several JDY accounts. Then send money overseas without coming under the watchful eyes of Income tax or Enforcement directorate.

- ✓ Money Mules

  Money mules would be the individuals with JDY accounts, who facilitate Hawala operators to send money via their account.

- ❖ Insurance thuggary in small fonts
- ✓ Jan Dhan gives you free accident insurance cover worth Rs.1 lakh.
- ✓ But there is a secret condition- you must use RuPay debit card atleast once every 45 days.
- ✓ This is not possible for poor families

Why this secret condition?

- Because insurance money doesn't fall from sky. Even if you're getting it for free, still someone has to pay the premium, right? In this case, Modi is not paying the premium. (Because he wants to keep fiscal deficit low).
- Your premium is paid by NPCI. National Payments Corporation of India owns the rupay card system. Therefore, they want you to frequently use the card.

Suggestions that can be offered for effective implementation of the yojana:

- ❖ **Online-biometric**

  A section within the government has informally communicated to the Finance Ministry its concerns regarding the use of debit cards for the scheme's implementation and has instead, suggested a greater dependence on online-biometric based transactions through the Business Correspondent model. The push for online-biometric based withdrawals through Business Correspondents is based on the ease of introducing the system and ensuring last mile delivery.

The lack of ATM branches in the country especially in rural areas limits the use of such cards, particularly given how those in rural areas may not be well-versed with the use of such cards. The logistical and financial implications of setting up ATM machines across the country are huge. It is much simpler to give the far cheaper smart phones and finger print sensors to each Business Correspondent

The greatest concern voiced by a section of the government opposed to debit cards being key to the scheme is the potential of misuse. Officials say there is a possibility of all debit cards being appropriated by powerful vested interests in the villages, who can then misuse them. On the contrary, a withdrawal through a biometric authentication system can be done only by the individual concerned.

And why burden the rural poor with that and the complications that brings when there is a much simpler option.

What are the Problems with BCA model?

- ✓ They get 2% commission on each transaction. Monthly income ~2000 rupees.
- ✓ As a result, they quickly lose interest in this game, being some other side jobs. So, BCA are never available when customer needs them. 47% of the BCA are untraceable. (says RBI survey)
- ✓ Allegations of malpractice. For example

1. For opening new account, they ask separate 100 rupees as 'service charge' (although no bank or RBI has authorized such payment).
2. Some BCA ask separate commission / bakshish from illiterate villagers for withdrawing money from account (beyond the official 2%)
3. For loan processing too, they demand separate commission, outside bank's knowledge.

Jan-Dhan relies on the failed BC model=> Jan dhan will fail as well.

- ❖ To multiple accounts to get more insurance-

- ✓ **RBI suggestion:** banks should establish a single information sharing system to weed out such multiple accounts.
- ✓ **Counter argument:** State bank of India has made clear guidelines that even if multiple accounts of same person, he will get only 1 lakh cover. And since all accounts are put under Core banking solution (CBS) platform = duplication / mischief unlikely.
- ✓ PMJDY aims to make all scheme-subsidy payments directly to Jan-Dhan bank accounts. But this Direct benefit transfer (DBT) itself is a failure because:

- Aadhaar project is yet to cover all residents.
- Aadhar project facing court cases.
- UPA Government had to admit in court that "Aadhar-number" is not compulsory to get Sarkaari-scheme benefits=> Juntaa won't be motivated to get Aadhar cards=> Jan Dhan will have trouble transferring money.
- AT BCA level, Biometric authentication (finger scan) = showing 25-30% errors. So citizens will have difficulty in withdrawing money even if they've Aadhar card.

Under the Pradhan Mantri Jan Dhan Yojna a lot of frivolous and fake accounts are poised to be opened to avail benefits of all the government subsidies. Also, the already existing account bearers may be looking for opening new accounts under the Pradhan Mantri Jan Dhan Yojna to have an access to over draft facilities as well as the accidental insurance and life insurance incentives. This can lead to possible cost over runs on the part of the government. No exclusive policy measures have been spelt out for such frivolous account bearers.

Conclusion:

Yojana: 5.52 crore a/cs opened, deposit of Rs 4,268 cr mobilized
As sheer numbers go, the scheme has started off with a bang. But the question is whether these accounts will actually generate the promised 'Dhan' for all those who have signed up for it.

JDY is just old wine (no frills account) in new bottle (Jan Dhan Account). When earlier scheme did not improve financial inclusion, there is no chance, new one will succeed.

To sum up, banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology and expertise available with them as well as the MFIs and NGOs. It may appear in the first instance that taking banking to the sections constituting “the bottom of the pyramid”, may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be a very profitable proposition. Financial inclusion can emerge as commercial profitable business. Only the banks should be prepared to think outside the box!

Bibliography

[Banking] PM Jan Dhan Yojana: Salient Features, Benefits, Limitations & truckload of criticism. (2014, October 14). Retrieved October 5, 2014, from http://mrunal.org/2014/: http://mrunal.org/2014/10/banking-pm-jan-dhan-yojana-account-salient-features-benefits-limitations-criticism.html

Anonymous. (2014, October 14). *[Banking] PM Jan Dhan Yojana: Salient Features, Benefits, Limitations & truckload of criticism*. Retrieved October 16, 2014, from http://www.naukritotal.com: http://www.naukritotal.com/banking-pm-jan-dhan-yojana-salient-features-benefits-limitations-truckload-of-criticism/

Anonymous. (2014, September 1). *All you wanted to know about: Jan Dhan Yojana*. Retrieved September 15, 2014, from http://www.thehindubusinessline.com: http://www.thehindubusinessline.com/opinion/all-you-wanted-to-know-about/article6370254.ece

Ghunawat, V. S. (2014, September 15). *India Today in*. Retrieved November 18, 2014, from http://indiatoday.intoday.in: http://indiatoday.intoday.in/story/jan-dhan-yojana-raghuram-rajan-pradhan-mantri-reserve-bank-of-india/1/382992.html

Leeladhar, V. (2006). *Taking banking services to the common man-Financial Inclusion.* RBI.