

Six Years of Pradhan Mantri Jan Dhan Yojana (PMJDY): Progress and Challenges

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- 11:27 AM, Sep 01, 2020
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The Pradhan Mantri Jan Dhan Yojna (PMJDY) was launched on 28 August 2014 as an ambitious financial inclusion initiative. It has been six years since the PMJDY was launched. It is therefore an appropriate occasion to review its progress in achieving the main goal of substantially enhancing the financial inclusion, and to identify challenges which need to be addressed.

There are two financial transaction needs of households. The first is Insurance. To insure oneself against a risk is to act in ways to help manage the risk and smoothen wealth. As marginal Utility of income declines with rising income, the wealth smoothing increases total utility. The second is opportunities to borrow, save, and invest. The PMJDY has an ambitious vision of operationalizing these two transaction needs for the unbanked in India.

Design of PMJDY

The design features and PMJDY statistics are from official sources¹. Initially, the PMJDY had six features which do involve the financial transaction needs of the households stated above.

- Universal access to banking services
- Basic savings bank accounts with overdraft facility of INR 10,000/- to every household

- Financial Literacy Program to promote savings, use of ATMs, getting ready for credit, availing insurance and pensions, using basic mobile phones for banking
- Creation of Credit Guarantee Fund to provide banks some guarantee against defaults
- Insurance – Accident cover up to INR 0.1 million and life cover of INR 30,000 on accounts opened between 15 Aug 2014 to 31 January 2015.

It should be noted that another initiative, Ayushman Bharat initiative, addresses the insurance needs for the health care for low-income households, in the health sector. Lack of health insurance is a significant cause of financial distress for low and middle-income households. The initiative is expected to cover over 100 million low-income families (approximately 500 crore beneficiaries, assuming average family size of 5). It provides coverage up to 0.5 million rupees per family per year for secondary and tertiary care hospitalization². This initiative is being refined and there are expectations that its coverage will increase in the future.

- Pension scheme for Unorganized sector

Since 28 August 2018, the following new features have been introduced.

- The focus of PMJDY scheme was shifted from ‘Every Household’ to Every Unbanked Adult’
- RuPay Card Insurance features were extended. Free accidental insurance cover on RuPay cards was increased from INR 0.1 million to INR 0.2 million for PMJDY accounts opened after 28 August 2018.

RuPay name is derived from the words ‘Rupee and ‘Payment’. It is India’s initiative for Debit and Credit Card payments, and create international payment networks. RuPay has collaborated with almost 600 international, regional and local banks across the country. RuPay is a product of National Payments Corporation of India (NPCI), the umbrella organisation that powers retail payments in the country. There has been a launch of NPCI International Payments limited (NIPL) to take the RuPay card business beyond India. RuPay card services have already been launched in Singapore, Bhutan, Maldives, Saudi Arabia, United Arab Emirates, Bahrain, Myanmar, Australia and South Korea.

- Overdraft facilities (OD) were modified. Overdraft limit was doubled from INR 5,000 to INR 10,000. The facility of OD up to INR 2,000 without conditions was also introduced. The upper age limit for Overdraft facility was increased from 60 to 65 years

The above suggests that the PMJDY is not static, but it is progressively revised towards more ambitious goals and its operations refined based on the learnings from its operations.

There are official indications that the PMJDY is to be further refined in the following directions.

- First, efforts are to be made to enhance coverage of PMJDY account holders under micro insurance schemes. Eligible PMJDY account holders will also be sought to be covered under PMJJBY (Pradhan Mantri Jeevan Jyoti Bima Yojna, a term life insurance scheme) and PMSBY. (Pradhan Mantri Suraksha Bima Yojana, an accident insurance scheme). Banks have already been communicated regarding implementing this refinement.

- Second, encouraging promotion of digital payments including RuPay debit card usage amongst PMJDY account holders through creation of necessary infrastructure across India.
- Third, improving access of PMJDY account holders to Micro-credit and micro investment such as flexi-recurring deposit.

It is suggested that the authorities consider simple investment products for PMJDY members as a way to further financial literacy, and expand options.

Progress in Six Years

There are several indicators which help assess the progress on an aggregative basis. For a fuller analysis, disaggregate data are however needed.

The Number of Accounts and Their Composition: Any Indian citizen who is 10 years or above can open an account under PMJDY scheme in any bank branch or Business Correspondent (Bank Mitra) outlet. Only those who do not have bank account are eligible.

- The rise in number of PMJDY accounts has been impressive. Their number rose from 179.0 million at the end of the first year in August 2015 to 403.5 million in August 2020, end of the sixth year. This represents a simple average rate of growth of 37.6% per year.
- PMJDY accounts from rural areas constituted 63.6% of the total, while 36.4% of the accounts were urban. Given that rural areas are traditionally underserved, this suggests less uneven distribution of financial inclusion. 55.2% of the PMJDY accounts were held by women, and 44.8% by men. This proportion again gives weight to the women who have traditionally less access to financial inclusion. This bodes well for expanding opportunity sets for women in both rural and urban areas.

To assist women PMJDY account holders cope with the economic impact of the Covid-19 pandemic, under the PM Garib Kalyan Yojana, an amount of INR 500 per month for three months (April 2020 to June 2020), was credited to the accounts of women account holders. A total of INR 307.0 Billion has been credited in accounts of women PMJDY account holders during April-June, 2020.

In August 2020, out of total 403.5 million PMJDY accounts, 348.1 million (86.3%) were operative. As per the RBI (Reserve Bank of India) guidelines, a PMJDY account is treated as inoperative if there are no customer induced transactions in the account for over a period of two years.

A mobile application was launched to provide a citizen centric platform for locating banking touch points such as bank branches, ATMs, Bank Mitras, Post Offices, etc. in the country. Over 0.8 million banking touchpoints have been mapped on the GIS App. The facilities under Jan Dhan Darshak App could be availed as per the need and convenience of common people. The web version of this application could be accessed at the link ³.

This app is also being used for identifying villages which are not served by banking touchpoints within 5 km. Identified villages are then allocated to various banks by concerned SLBCs (State Level Banker's Committee) for opening of banking outlets. The efforts have resulted in

significant decrease in number of such villages from 11278 in October 2019 to 1198 in July 2020.

Deposits in PMJDY Accounts: The total deposits in the PMJDY accounts have increased from INR 229 Billion in August 2015 to 1307 Billion in August 2020, for an average simple growth of 95.1% per year. This is an impressive rate of growth, compared to 37.6 % yearly growth in the number of accounts. This has led to the average deposit per account increasing from INR 1279 in August 2015 to INR 3239 in August 2020, a simple average growth of 42.2% per year. This suggests growing use of the PMJDY for savings purposes, an essential financial need of the households.

Direct Benefit Transfer: The PMJDY accounts are also for Direct Benefits Transfer (DBT), reducing errors and misappropriation of benefits. Based on data from the participating Banks, about 80 million PMJDY accountholders receive direct benefit transfer (DBT) from the Government under various schemes. To ensure that the eligible beneficiaries receive their DBT in time, the Finance Department takes active role in identification of avoidable reasons for DBT failures in consultation with the DBT Mission, NPCI, banks and various other Ministries. With close monitoring in this regard, through regular VCs (video conferencing) with banks and NPCI, the number of DBT failure due to avoidable reasons has observed significant decline from 0.523 million (0.20%) in April 2019 to 0.11 million (0.04%) in June 2020.

RuPay Cards Issued: The number of Rupay cards issued has increased from 157.4 million in August 2015 to 297.5 in August 2020, a simple average growth of 31.5% per year. While detailed data is not available, the indications are that their usage has been increasing. RuPay reported 1 billion transactions through both online and offline merchant payment modes in financial year 2019, a nearly 70% jump compared to the 667 million transactions in financial year 2018.

Challenges

The three challenges noted below are interrelated. But they do need to be urgently addressed if the full potential of PMJDY for its members, other stakeholders, and for policy refinements is to be realized.

PMJDY is among the most ambitious financial inclusion schemes in the world, with potential to vastly expand the opportunity and choice sets of low and lower-middle income persons in the country. This expansion can help create new human skills and new growth nodes, particularly in districts and talukas.

But for this potential to realize, there should be data gathering, data reporting, and data accessibility to undertake data analytics and data mining. Broad dash-boards and periodic communication of data are inadequate.

The first challenge therefore is to enable data mining and data analytics, and use of Artificial Intelligence (AI) techniques to be undertaken of PMJDY operations. After taking appropriate precautions for privacy and others, the possibility on monetizing PMJDY data could be explored.

The second challenge is to ensure that there is minimum variation in transaction costs associated with PMJDY operations be the individuals. Rigorous quantitative studies of such transaction costs are needed.

The third challenge is to undertake decentralized studies of the socioeconomic impact of PMJDY on the households and communities. Researchers, academic institutions and think tanks, whether public or private, should be encouraged to undertake such studies, which are open to the public.

1. <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1649091> Accessed on 30 August 2020
2. <https://www.india.gov.in/spotlight/ayushman-bharat-national-health-protection-mission> Accessed on 1st September 2020
3. <http://findmybank.gov.in>

Image Credits: National Portal of India