

An Analysis of Financial Inclusion in India under PMJDY

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Abstract

The topic of financial inclusion, which is widely defined by RBI (2015) as providing the disadvantaged and marginalized segments of society access to the formal financial system, has gained substantial importance in cent years. Following the 2008 global financial crisis, policymakers are looking for ways to assure better societal involvement of the economically disadvantaged groups and there has been a renewed push for financial inclusion on global basis. Financial inclusion has a welfare-enhancing effect, which also necessitates political support for the entire process. This is also increasingly seen as a crucial driver of economic growth and poverty alleviation in the less developed and developing countries. In India, in recent years, Prime Minister Jan Dhan Yojana (PMJDY) is considered a path breaking effort in this regard.

Keywords: Financial inclusion and exclusion, banking service indicator, inclusive growth

1. Introduction

Increased investments in human capital and enhanced job creation are all benefits of having access to formal financial sector in an economy. Without proper access to formal financial services, people must rely on their own finite resources or expensive informal sources of funding, which restricts their ability to flourish. In terms of both access to financial services and deeper processes connected to it, the phrase "financial inclusion" has come to be widely accepted. It is currently a top priority for the governments and regulators globally because it supports no less than seven sustainable development goals. However, establishing financial inclusion of people in general and women in particular through the formal financial system is a momentous task. The lack of proper financial services, such as credit, insurance, and digital payment services, at a reasonable price are important obstacles that emerging countries must overcome.

In India, there are three different categories of financial service providers: official, semi-formal, and informal. By its very nature, financial inclusion concentrates on the function of formal financial institutions, such as scheduled commercial banks, public sector banks, regional rural banks, and cooperative banks. NGOs, MFIs, and SHGs are examples of semi-formal organizations, and they frequently have connections to formal financial institutions. Informal organizations include money lenders, friends, and family members, among others.

Despite government's initiatives to encourage the poor and vulnerable to seek refuge in legitimate financial institutions, the informal banking sector continues to be the go-to solution, particularly for obtaining credit in the rural sector. Although basic banking services have become more widely available in India over the years, the poor continue to be mostly excluded from these services. Since the social roots of bank control emerged in the 1960s, the concept of financial inclusion has been a part of India's larger policy discourse. The country's financial inclusion situation, however, has undergone fundamental changes over the past 20 years, and there is now more emphasis on bringing the underprivileged and marginalized groups into the mainstream of the financial system than ever.

Government of India and RBI have launched a number of schemes in recent years to increase financial outreach to the unbanked population. In order to provide basic banking services to those who are financially disadvantaged, the RBI introduced the no frill account in 2005. In this system, it let clients to open their bank accounts with either no balance or a minimum balance. While the no frill account has been seen as a ground-breaking effort, development of financial inclusion has witnessed the introduction of other significant measures including know your customer, Electronic Benefit Transfer, UPI, Direct Benefit Transfer, PMJDY, Banking Correspondents, and Mudra Loans.

2. Review of Literature

A study of the literature on financial inclusion by Gupte et al. (2012), illustrates that an ideal indicator of financial inclusion should have three characteristics: it should be easy to construct using the data at hand, it should be comparable between nations, and it should take into account numerous factors that have an impact on financial inclusion. Financial inclusion measurement is a difficult task. When examining the dimensions of demand and supply for financial services, it is preferable to employ a methodology that will account for regional variations in the degree of financial inclusion. (Beck et al., 2006; Sarma, 2008; Mehrotra et al., 2009; Kumar and Mishra, 2011).

According to Thyagarajan & Nair (2016), combating financial exclusion necessitates an all-encompassing strategy, which can include raising public understanding of financial products, money management, debt counselling, savings, and accessible credit. This can be accomplished by planning and implementing forceful education and job development initiatives in any region's unbanked areas.

Joshi (2019) has noted that the informal financial sector has various benefits from the perspective of an individual as it develops from local norms and culture. It is straighter forward, and is easily understood by consumers as transactions take place quickly and without the need for paperwork or security. Beck (2016) noted a shift in the financial inclusion argument over the past few years, from simply holding an account to actively using the account.

According to IFC (2015), Financial inclusion "can be measured along several main dimensions," Accessibility, usage, quality, influence on the choices made by economic agents, and impact on welfare are a few examples of these dimensions. No matter the dimension, the accessible data is frequently split into supply and demand sides.

The Sasana Statement on Financial Inclusion Indicators (2012) must be mentioned in any preliminary discussion of the measurement of financial inclusion. To advance the cause of financial inclusion, it emphasizes the necessity of creating composite indicators or indices of financial inclusion at the national and international levels. The importance of developing and standardizing these dashboards in order to facilitate cross-country comparisons was also emphasized in the statement.

3. Objectives of the Study

In line with the above discussion, the present paper attempts to analyze financial inclusion of the marginalized section of the society in India across all states and union territories over the period 2015-2023. The specific objectives of the study are:

1. To analyze India's performance in achieving financial inclusiveness on the basis of three crucial dimensions of banking services -availability, access and usage.
2. To check the effectiveness of PMJDY in achieving financial inclusion from 2015-23.
3. To study the strategies adopted by Govt. for strengthening financial inclusion.
4. To study the determinants of financial inclusion in India.
5. To understand the role of banks in financial inclusion.

4. Significance of the Study

In the year 2014, Pradhan Mantri Jan Dhan Yojana was launched by the ministry of finance, Government of India. Its main objective is to promote financial inclusion in the country. A unique integrated vision of the government is the JAM trinity comprising three components: Jan Dhan Bank account, Aadhar unique identity number and mobile phone.

The basic services provided by the PMJDY are the following:

4.1 Basic Savings Bank Deposit Account

- a) People can open savings bank account with Zero balance.
- b) Minors (i.e., less than 18 years) are also eligible to open account.
- c) No penalty will be imposed for not maintaining minimum balance.
- d) Only people with minimum balance will be given cheque books.

4.2 Overdraft facility

- a) People with zero balance in their account are allowed to use overdraft facility
- b) Originally the overdraft amount was Rs.5000/- but the government of India raised this amount to Rs.10,000/- for accounts opened after 28.08.2018.
- c) This facility will depend on balance of the last 6 months.
- d) The overdraft must be returned within 3 years with the required interest rate.
- e) Women get preferences to access this facility.
- f) Only one account holder of a family can gets this facility.

4.3 Accident insurance

- a) Under this scheme, accidental insurance is given free of cost.
- b) Initially the amount was 1 lakh rupees but government of India raised this amount to 2 lakh rupees for accounts opened after 28.08.2018
- c) Its premium is given by National Payment Corporation of India (NPCI).
- d) Union Government employees and Income tax payers are not eligible for accident insurance.

5. Methodology used

The study uses secondary data at an aggregate level, for the period 2015-2023, to assess financial inclusion in terms of banking services and Mudra loans.

The study considers the three crucial dimensions of banking services – availability, access and usage to assess financial inclusion, which are evaluated by considering the following indicators –

1. **Availability** - No. of PMJDY accounts, Mudra loans
2. **Access** - Deposits in PMJDY account (CASA, Current account and Saving Account)
3. **Usage** – No. of RuPay debit cards issued under PMJDY

6. Data Collection and Analysis

The figure below is a pictorial representation of the overall state strategy follow in India

Progress under Pradhan Mantri Jan Dhan Yojana

The socio-economic impact of financial inclusion has been studied by the number of PMJDY account, Deposits in PMJDY account of people, Number of RuPay debit cards issued to PMJDY account holders before and after COVID19 in the study area.

PMJDY is the flagship scheme of financial inclusion in India. Its performance since 2015 is summarised in the following table:

Table No. 01: financial inclusion initiatives in India

Year	No. of PMJDY account (Percentage increase)	Deposits in PMJDY account (Percentage increase)	Number of RuPay debit cards issued to PMJDY account holders (Percentage increase)
2015-16	45.60%	12.76%	35.02%
2016-17	30.93%	72.05%	23.68%
2017-18	11.37%	22.70%	6.82%
2018-19	12.23%	21.64%	17.96%
2019-20	8.29%	21.27%	5.05%
2020-21	10.84%	21.62%	6.48%
2021-22	6.72%	13.95%	2.28%
2022-23	7.85%	18.49%	4.10%

Source: Researcher's Own Compilation Using Information from PMJDY.gov.in

Analysis

It can be observed from the above table that, we have taken data mainly for three parameters like number of accounts opened in bank branches, amount of money deposited in the bank and distribution of RuPay card to the PMJDY account holders.

Since the aim of Pradhan Mantri Jan Dhan Yojana has been to include poor sections of society under financial inclusion by allowing them to open their account with zero balance, this scheme single handedly worked wonders to bring the unbanked in the fold of the formal financial inclusion system. From the above table we try to understand what is the exact trend or pattern of account opening, money deposited in bank account and distribution of RuPay Card in financial year 1 April to 31st March (From 2015-2023).

Here, instead of using the data directly, we have calculated the percentage increase in data over successive periods to understand the trend or pattern in financial inclusion like account opening, deposition of money, loans, and RuPay Cards distribution etc., the three key elements of this program.

6.1) Number of PMJDY Account

Data I Table 01 shows that during financial year 2015-16, there was an increase of 45.60 % account holders under PMJDY scheme. This huge percentage increase in account number was mainly because PMJDY scheme had been freshly launched. The main attraction was people could open their account with zero balance. This coupled with GOI's announcement that welfare schemes money will be directly transferred to their account worked as a major incentive for opening new accounts.

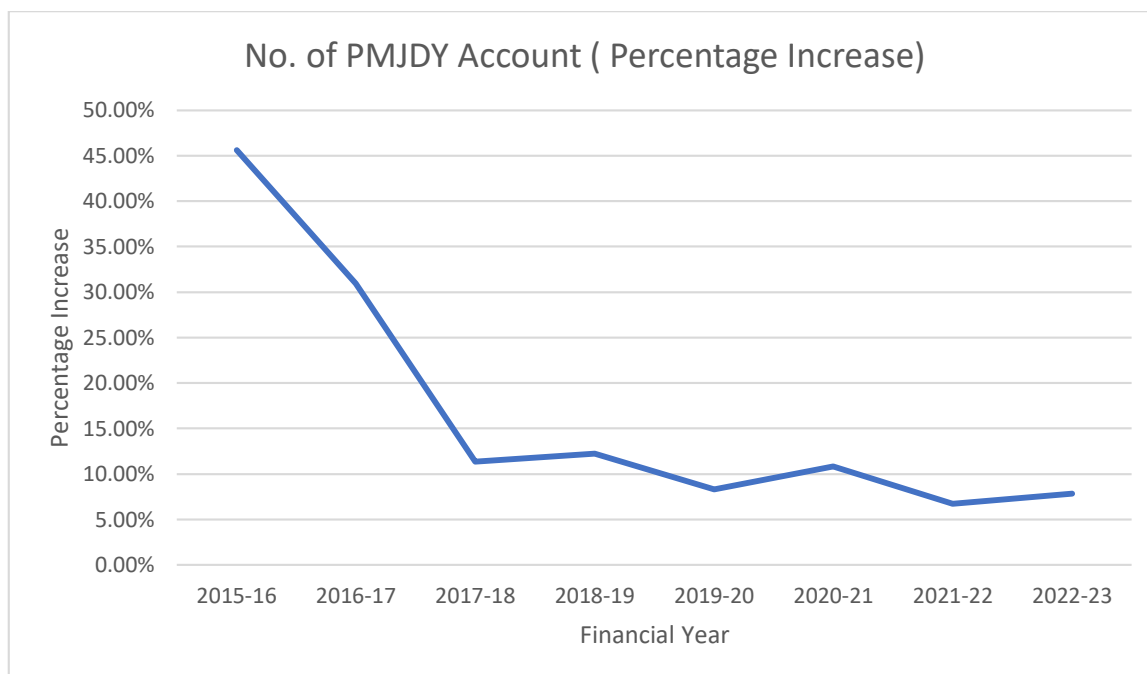
The reason for percentage increase in data that decreased from 45.60% to 30.93% in the financial year 2016-17 could be attributed to demonetization in November 2016.

The commercial banks were overburdened with the task of exchange of notes and hence the GOI decided to put the account opening job on hold for some time.

Introduction of GST by the GOI on 1st July, 2017 resulted further decrease in the opening of accounts. A casual interaction with few of the account holders revealed many people feared if they opened their account then they will be subject to more taxation. Although, GST is an indirect tax, lack of information and belief in rumors resulted in considerable decline in opening of accounts in the above period. There has been a slight increase in data from 11.37% to 12.23% in the financial year 2018-19.

There is no denying of the fact that many economic activities slowed down during 2019-2020 owing to COVID-19 and this has been clearly reflected in the decline of percentage increase in data that decreased from 12.23% to 8.29%. People preferred to save the money with themselves in order to avoid the uncertainties looming over them during COVID-19.

Our data in the subsequent years indicate slow recovery in the opening up of new accounts under PMJDY which is reflected in the lower percentage increase from 8.29% to 10.84% in 2020-21 and again decreasing to 6.72% in the year 2022-23.

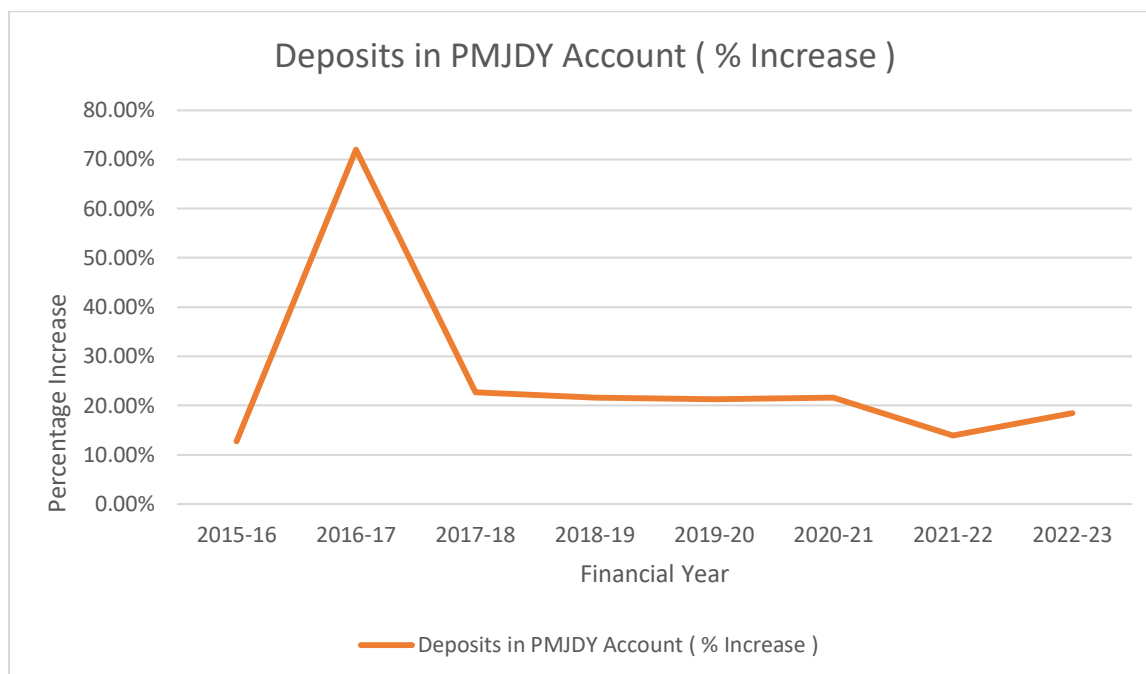
Diagram-01

Source:

Researcher's Own Compilation Using Information from PMJDY.gov.in

6.2) Deposits in PMJDY account

Our data show that in the initial couple of years of launching of Pradhan Mantri Jan Dhan Yojana people deposited small amount of money in their accounts. During financial year 2015-16 there was only 12.76 percentage increase in money deposit in PMJDY Account. In the subsequent year because of demonetization in November, 2016, there was an exponential increase in deposits of old currency notes of Rs.500/- and Rs. 1,000/- in the bank accounts. Because of this, percentage of deposited money increased from 12.76% to 72.05%. Easily, this can also be observed from the diagram below. The after effect of demonetization cause a huge decline in the bank deposits during 2017-18. So, this can be observed from below line diagram that huge fall in deposited money from 2016-17 (72.05%) to 2017-18 (22.70%). Afterwards 2017-18, deposition of money in PMJDY account is near about 21%. During financial year 2021-22, it decreased to 13.95%. Again, in 2022-23, it increased from 13.95% to 18.49%.

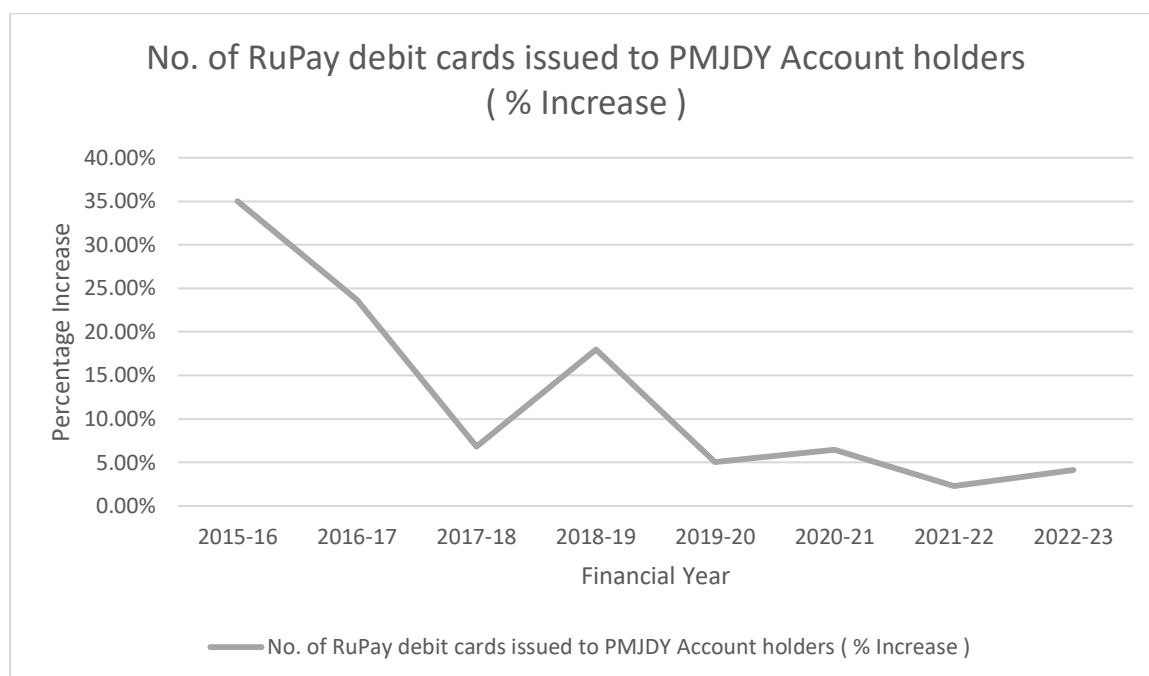
Diagram-02

Source: Researcher's Own Compilation Using Information from PMJDY.gov.in

The inverse V shaped diagram indicates the sudden surge of deposits in bank accounts in during 2016-2017 and then the sudden fall in deposits following demonetization. Looking at the diagram 2 one can say that, it follows a constant pattern from 2017-18 till 2020-21. It is also observed that there was a slight decrease in deposits in PMJDY accounts in 2021-2022 which gradually started showing an upward trend again 2022-2023. The line shows a zig-zag pattern because of varied reasons including demonetization, introduction of GST etc. during the period from 2015 to 2023.

6.3) Number of RuPay debit cards issued to PMJDY account holders (Percentage increase)

As can be observed from the above table, the number of RuPay debit cards issued to PMJDY Account holders has been decreasing continuously from financial year 2015-16 to 2017-18. From financial year 2017-18 to 2018-19, it increased from 6.82% to 17.96% but from 2018-19 onwards the percent increase for holding RuPay debit card has been consistently decreasing revealing peoples' preference for cash in place of digital payment.

Diagram 03

Source: Researcher's Own Compilation Using Information from PMJDY.gov.in

7. Conclusion and suggestions

The primary results of this study have been compiled and presented here to demonstrate how loan disbursements have been made possible by the PMJDY to accomplish the intended goals. Our conclusions from the above analysis above are as follows:

- a. This study makes it quite evident that financial inclusion is more than just having access to credit. The poorer marginalized segments of society must be able to use their accounts and related financial items in order for there to be truly financially included. It is important to make sure that the account is used continuously by the account holder herself but not by any other member of the family. The account holder should be required to physically appear in person in the bank at least once in a month.
- b. While financial institutions operate with a profit-oriented motives, financial inclusion must be achieved with a social service-oriented mindset. While conducting this study many branch authorities informally admitted that they are extremely careful when giving credit to the financially weaker population lest it may increase non-performing assets (NPA). For the simple reason that they believed they would be held accountable for loan default, they had little interest in fostering financial inclusion.
- c. India has to have a decentralized system for financial inclusion. Because of the current top- down methodology, local branches have very little actual autonomy to modify their operations to suit local circumstances. Even if the branch authorities are aware of the necessity of a segment specific plan for street vendors (PNB, for instance, created a scheme for rickshaw pullers a few years ago), they have made it informally clear that the procedure is time-consuming and requires numerous approvals. As a result, they react slowly to the actual requirement of the beneficiaries.

Our study shows there is ample scope for improvement in the method of disbursement of loan to the people when it comes to the execution of the schemes under financial inclusion for the underprivileged. The primary discrepancy appears to be between the excessive focus on resolving concerns linked to access and the flagrant disregard for other aspects.

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