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A Decade of Pradhan Mantri Jan Dhan Yojana : A Digital Pathway of Financial Inclusion

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In today's financial landscape, it is imperative to ensure that no one, especially the vulnerable and marginalized, is excluded from accessing financial services. To foster inclusive growth, it is crucial to dismantle barriers that prevent households from accessing financial services, regardless of their socioeconomic standing. As the Commission on Growth and Development remarked in 2008, "Growth is good, high sustained growth is better, and high sustained growth with inclusion is best of all." Inclusive growth can be achieved by supporting and uplifting economically disadvantaged sections of society.

Billions Left Behind: A Paradox of Our Times

Despite the rise of financial services, a staggering 38% of adults globally lack access to basic banking as per Global Findex 2014 report. This translates to limited options for saving, borrowing, and receiving wages. Factors like poverty, illiteracy, and a lack of physical bank branches create a chasm of financial exclusion. Rural population often at the bottom of the economic ladder, are in constant need of credit and represent the deficit unit in this context.

Financial inclusion seeks to bridge this gap. By ensuring everyone has access to basic financial tools it fosters a culture of saving and fuels economic growth, especially in rural areas. This ambitious goal of “Universal Financial Access” (UFA) has become a global priority. Initiatives like the US Community Reinvestment Act and the Maya Declaration stand as testaments to this transformative power of financial inclusion. They recognize its potential to empower individuals, stabilize economies, and create a more inclusive world. In 2005, the States established a **“Financial Inclusion Task Force”** to monitor the state of financial inclusion there.

To "recognize the critical importance of financial inclusion to empowering and transforming the lives of all our people, especially the poor, its role in improving national and global financial stability and integrity, "the founding members of the Alliance for Financial Inclusion, which was established in 2008,formally adopted the Maya Declaration in 2011.

The term "Financial Inclusion" gained prominence during a period when banks were closed in the United Kingdom due to concerns about limited access to physical banking facilities. In response, the financial inclusion scheme was initiated to ensure that all citizens had equal opportunities to access the various services offered by institutional banking, thereby improving their standard of living and enabling them to engage in income-generating activities. Recognizing its significance, policymakers have made financial inclusion a key policy pillar. Inclusive development is now widely understood as unattainable without financial inclusion. **Financial inclusion**

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has emerged as a paramount development objective at both international and national levels.

The Government of India has taken proactive steps to promote financial inclusion, appointing Dr. C. Rangarajan to lead a Commission on Financial Inclusion. The commission, established in early 2008, submitted its report emphasizing the transformative power of financial inclusion. As stated in the introduction, the committee recognized financial inclusion as a catalyst for social change. Access to finance for the poor and vulnerable was deemed essential for inclusive growth, serving as a means to empower these marginalized groups.

Evolution of the Financial Inclusion Policy in India:

After achieving its freedom, India set out itself to create a socialist society. Because banks hold people's money and are often seen as a reliable source of credit, they have considerable influence in the economy. In India, financial inclusion has a long and storied history.

The evolution of financial inclusion policy in India can be broadly categorized into four distinct phases.-

- Financial Inclusion: Phase I (from 1967 to 1980)
- Financial Inclusion: Phase II (From 1982 to 2005)
- Financial Inclusion: Phase III (From 2006 to 2014)
- Financial Inclusion: Phase IV (2014 onwards)

The Pradhan Mantri Jan-Dhan Yojana (PMJDY), launched on August 28, 2014, is a groundbreaking initiative aimed at promoting financial inclusion in both rural and urban areas under phase IV of Financial Inclusion. With a target of reaching approximately 75 million unbanked families, the campaign has been implemented with a sense of urgency, aiming to open 7.5 billion new bank accounts by January 26, 2015.To facilitate this ambitious goal, an online platform and local monitoring committees have been established, with the Minister of Finance overseeing the latter. As of December 2014 (in only 4 months), the PMJDY had achieved remarkable success, resulting in the opening of over 1 billion bank accounts and the distribution of over 800 million RuPay debit cards.

While twelve of the thirteen states initially included in the program achieved full financial inclusion, Mizoram and Manipur had lower coverage rates. This highlights the need for continued efforts to reach underserved populations and ensure equitable access to financial services across the country.

PMJDY after a decade- An Assessment

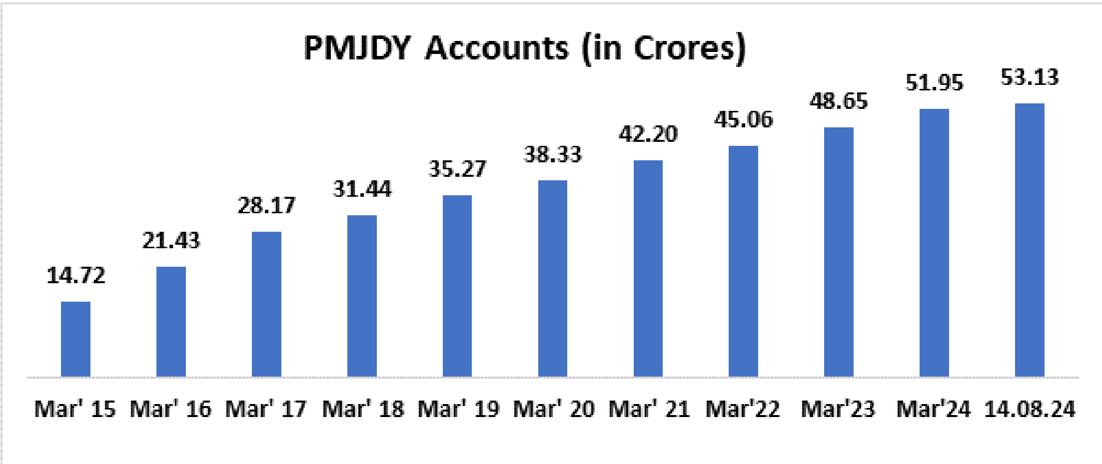
As the Pradhan Mantri Jan Dhan Yojana (PMJDY) celebrated its tenth anniversary, Prime Minister Narendra Modi lauded the scheme as a transformative achievement in financial inclusion. He emphasized its pivotal role in empowering crores of Indians, empowering millions and restoring dignity to marginalized sections of society. This ambitious initiative has resulted in the opening of over 53.13 crore bank accounts, with a remarkable 29.56 crore beneficiaries being women – a figure surpassing the entire population of the European Union and nearly equaling that of the United States.

The scheme's launch on August 28, 2014, was a resounding success. Banks conducted 77,892 camps nationwide, leading to the opening of approximately 1.8 crore accounts – an achievement subsequently recognized by Guinness World Records.: *"The most bank accounts opened in 1 week as part of a financial inclusion campaign is 18,096,130 and was achieved by Department of Financial Services, Government of India from 23 to 29 August 2014."*The launch of PMJDY marked a watershed moment in India's financial inclusion journey, surpassing the scale and impact of previous initiatives. While earlier governments, such as the UPA government with its no-frills accounts scheme, had made strides towards financial inclusion, these efforts lacked the widespread reach and transformative impact achieved by PMJDY.

A. PMJDY Accounts

The Pradhan Mantri Jan Dhan Yojana (PMJDY) has witnessed remarkable growth over the past decade, with 53.13 crore accounts opened, including a significant 29.56 crore accounts held by women. This expansion has brought banking services within reach of 99.95% of villages, empowering rural communities. With 35.37 crore accounts in rural and semi-urban areas and 17.76 crore in urban areas, PMJDY has contributed to a more inclusive financial landscape, fostering economic participation and driving growth.

This significant increase in the number of bank accounts, particularly among women and rural residents, underscores the transformative impact of PMJDY on financial inclusion in India. By providing access to formal banking services, the scheme has empowered millions of individuals, especially those traditionally marginalized, to participate in the formal economy.



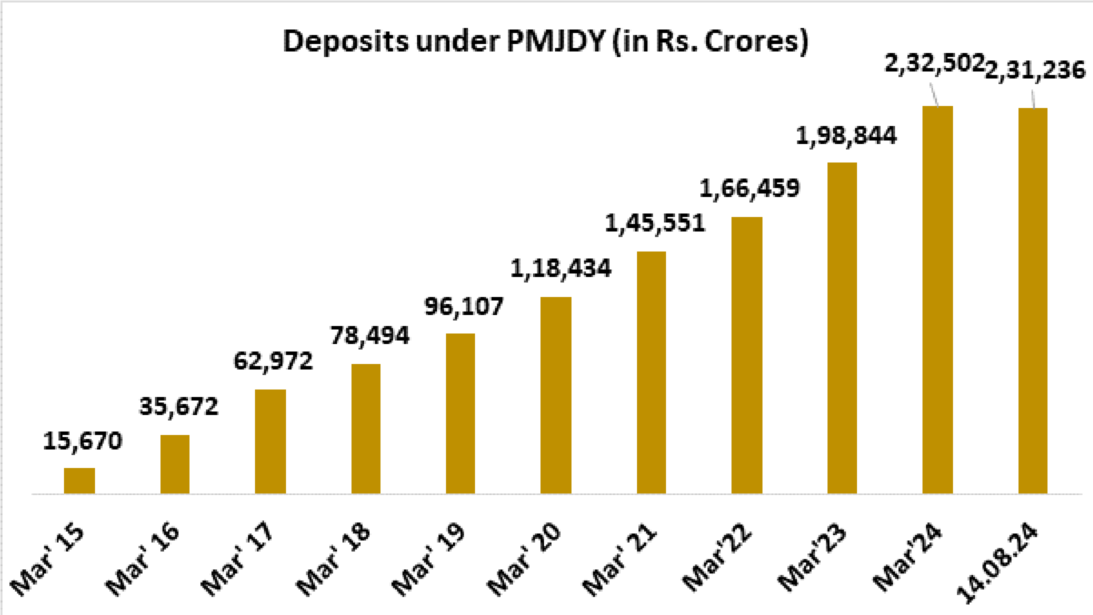
Source: pib.gov.in

B. Deposits under PMJDY accounts

As of August 14, 2024, these newly banked individuals have, on average, deposited ₹4,200 into their savings account, the total deposits reaching a significant milestone of Rs. 2.31 lakh crore. This substantial increase in deposits, coupled with a

3.6-fold increase in the number of accounts, underscores the growing trust and confidence of the public in the formal banking system.

The rise in deposits can be attributed to various *factors, including increased financial literacy, government initiatives promoting digital payments, and the convenience offered by PMJDY accounts.* These factors have collectively encouraged individuals to save and invest their money through formal banking channels.The increasing deposits in PMJDY accounts signify a *positive trend* towards financial inclusion and economic empowerment. As more and more people embrace formal banking services, it can lead to a more robust and resilient financial system in India.

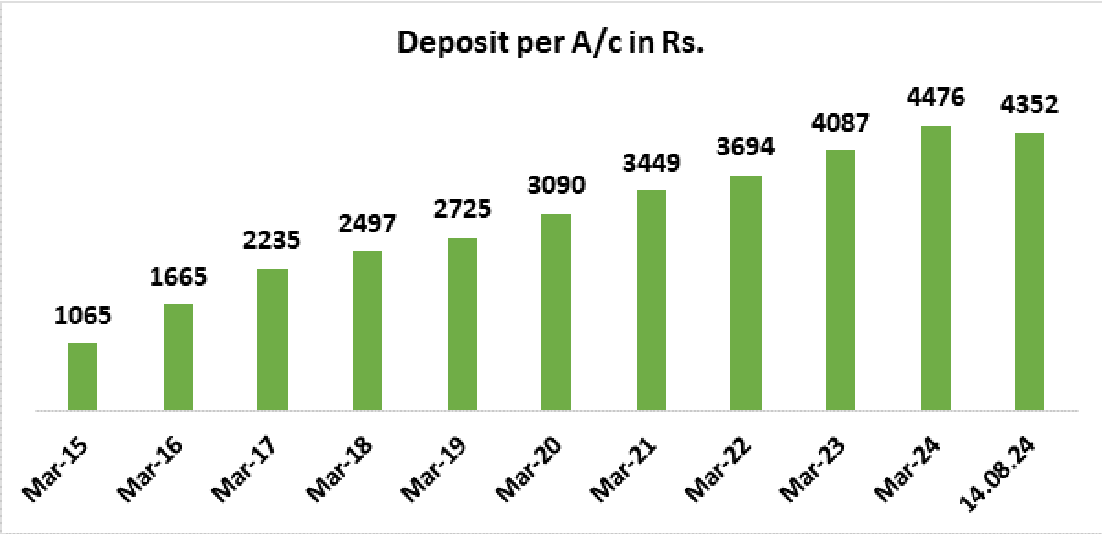


Source: pib.gov.in

C. Average Deposit per PMJDY account

As of August 14, 2024, the average deposit per Pradhan Mantri Jan Dhan Yojana (PMJDY) account stood at Rs. 4,352. This represents a significant increase compared to the initial stages of the scheme. The rise in average deposit per account indicates a growing trend of savings among PMJDY account holders, suggesting that the scheme has successfully inculcated a savings habit among the target population.

This increase in average deposits can be attributed to various factors, including increased financial literacy, growing trust in formal financial institutions, and the expanding range of financial services offered through PMJDY accounts. As more and more individuals utilize their PMJDY accounts for various financial transactions, the average deposit per account is likely to continue to grow.



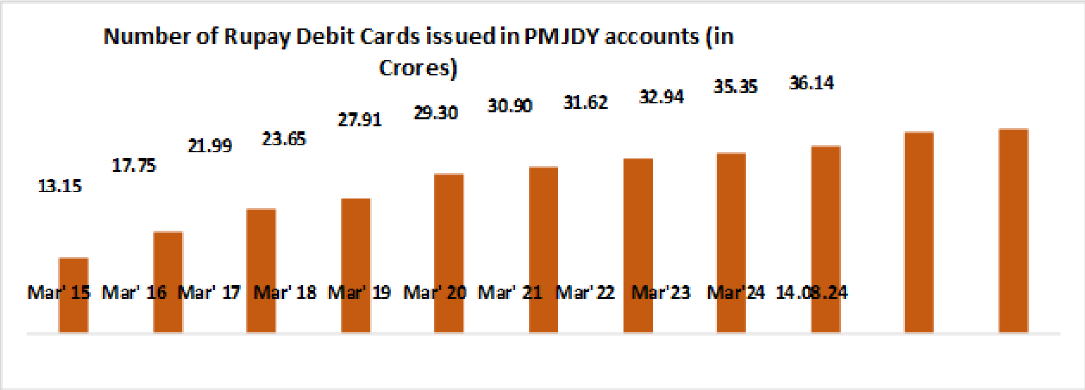
Source: pib.gov.in

D. RuPay Card issued to PMJDY account holders:

The Pradhan Mantri Jan Dhan Yojana (PMJDY) has significantly contributed to the growth of digital payments in India. A significant milestone was achieved with the issuance of over 36.14 crore RuPay debit cards to Pradhan Mantri Jan Dhan Yojana (PMJDY) account holders in a decade. This substantial increase in RuPay card adoption reflects the growing digitalization of the Indian economy and the increasing reliance on cashless transactions. The widespread adoption of RuPay debit cards issued under PMJDY, combined with the transformative impact of mobile-based payment systems like UPI, has propelled a dramatic increase in digital transactions. This surge, evident in the staggering growth from 14.71 billion transactions in FY18 to 1139 billion in FY23, underscores the profound impact of these initiatives on India's financial landscape. Similarly, UPI transactions have increased from 920 million to 131.2 billion, and RuPay card transactions have grown from 670 million to 1.26 billion during the same period.

E. Jan Dhan Darshak app

PMJDY has harnessed the power of digital technology to bridge the financial divide. **The Jan Dhan Darshak app,** an integral part of the scheme, provides a user-friendly platform for locating banking touchpoints such as bank branches, ATMs, and banking correspondents across the country. Over 1.3 million banking touchpoints have been mapped on the app, ensuring accessibility for even the remotest villages.It is crucial to note that the usage of RuPay cards has increased over time, indicating a shift in consumer behavior towards digital payments. This trend is further supported by the increasing number of PoS and mPoS terminals being deployed across the country.The widespread distribution of RuPay cards has facilitated greater financial inclusion, enabling millions of Indians to access a range of financial services, including ATM withdrawals, point-of-sale (PoS) transactions, and online purchases. This has contributed to the overall growth of the digital payment ecosystem in India.



Source: pib.gov.in

F. Direct Benefit Transfer (DBT)

PMJDY has also played a crucial role in the success of Direct Benefit Transfer (DBT) schemes, ensuring that government benefits reach the intended beneficiaries without leakage. Over 65 million PMJDY account holders have received benefits under various DBT schemes. During the COVID-19 pandemic, PMJDY was instrumental in delivering one-time ex-gratia payments to 20.64 million women account holders under the Pradhan Mantri Garib Kalyan Yojana.

These statistics highlight the transformative impact of PMJDY on India's financial landscape, empowering millions of citizens and driving the country's digital economy.

A state-wise analysis reveals significant disparities in PMJDY account penetration. Uttar Pradesh, India's most populous state, exhibits the highest penetration of PMJDY accounts, reflecting the scheme's reach across diverse demographics. In contrast, Lakshadweep demonstrates the lowest penetration. Notably, 15 states, including Bihar, West Bengal, and Maharashtra, have achieved significant milestones by opening over 1 crore accounts each, underscoring the widespread impact of the scheme

A Transformative Impact:

A key component of the 'JAM trinity' – encompassing Jan Dhan Yojana, Aadhaar, and mobile technology – this scheme has exerted a transformative influence on the financial and banking landscape of the nation

The surge in bank account openings under PMJDY, exceeding half a billion, has significantly increased the demand for banking services, prompting commercial banks to expand their infrastructure. This expansion is evident in a 46% increase in the number of scheduled commercial bank branches nationwide. Of these branches, 35% are located in rural areas, 28% in semi-urban areas, 18% in urban areas, and 19% in metropolitan areas.Furthermore, the number of ATMs has grown by 30%, from 166,894 in June 2014 to 216,914 in 2024. This growth is even more pronounced in Point of Sale (POS) terminals, which have surged from 10.88 lakh to 89.67 lakh over the past decade, facilitating greater access to financial services across the country.

The advent of payment solutions like UPI, launched two years after PMJDY, has revolutionized banking transactions in India. The Reserve Bank of India, in its June 29, 2024 Report on Currency and Finance, highlighted the profound impact of

PMJDY, launched in 2014, in accelerating the nation's financial inclusion agenda. The Pradhan Mantri Jan Dhan Yojana (PMJDY) has been instrumental in driving India's digital transformation. The digital technological revolution has significantly expanded the functionality of bank accounts, transforming them from mere instruments for deposits and credit into powerful payment intermediaries. According to the World Bank's 2021 Findex database, bank account ownership among Indian adults (aged 15 and above) surged from 53 percent in 2014 to 78 percent in 2021."Between FY 2018-19 and FY 2023-24, the total number of digital transactions soared from a modest 2,338 crore to an impressive 16,443 crore. Similarly, UPI transactions have skyrocketed from 535 crore to 13,113 crore during the same period. The adoption of RuPay cards has also seen significant growth, with transactions increasing from 67 crore to 96.78 crore between FY 2017-18 and FY 2023-24.These figures underscore the transformative impact of PMJDY in empowering millions of Indians, especially those from rural and marginalized communities, by providing them with access to formal financial services and promoting digital literacy.

PMJDY accounts have become the cornerstone of the government's Direct Benefit Transfer (DBT) system, facilitating faster and more efficient delivery of benefits to the underprivileged. This, coupled with the JAM trinity (Jan Dhan, Aadhaar, and Mobile), has significantly reduced inefficiencies by weeding out ineligible or fake beneficiaries. According to the Reserve Bank of India's Report on Currency and Finance (June 29, 2024), DBT and other governance reforms have resulted in a substantial gain of Rs 3.48 lakh crore in the implementation of government schemes like MGNREGS and PM-Kisan by March 2023.

One of the significant achievements of PMJDY has been its role in facilitating the disbursement of funds under various government schemes, including the **PM Swanidhi scheme**. Additionally, PMJDY account holders have benefited from healthcare initiatives like **Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PMJAY)**.During the COVID-19 pandemic, PMJDY proved to be a lifeline for millions of women. Direct benefit transfers were disbursed to over 29.5 crore women PMJDY account holders, providing crucial financial support during a time of crisis.

Challenges still remain

While the Pradhan Mantri Jan Dhan Yojana (PMJDY) has been a remarkable success in terms of financial inclusion, a **notable disparity exists in the participation of public and private sector banks**. Public sector banks dominate the PMJDY landscape, holding over **96% of the total 41.53 crore Jan Dhan accounts.** In contrast, private sector banks, despite benefiting from a stable regulatory environment, have shown limited enthusiasm for this government-led initiative.**While regional rural banks held 9.91 crore accounts, private sector banks held only 1.64 crore** accounts.This disparity highlights a broader trend in the Indian banking sector, where private banks often prioritize shareholder value and profitability over social responsibility. While public sector banks are obligated to serve the needs of the under- served and marginalized sections of society, private sector banks tend to focus on highnet-worth individuals and corporate clients.

To address this imbalance, the Reserve Bank of India (RBI) has implemented regulations requiring banks to allocate a significant portion of their loan portfolio (40 percent) to the priority sector, including agriculture (a 45 percent share). However, the effectiveness of these regulations in ensuring equitable access to credit remains a subject of debate.

Incentivizing the participation of private sector banks in Financial Inclusion: A Regulatory Perspective

While opening bank accounts for the unbanked population is a crucial first step towards financial inclusion, extending credit to these marginalized groups remains a significant challenge. Private banks, often driven by profit motives, may be hesitant to engage in social banking initiatives.

To incentivize private sector participation in financial inclusion, a regulatory framework could be implemented. One such measure would be to classify liability accounts, such as those under the Pradhan Mantri Jan Dhan Yojana (PMJDY), as part of the priority sector. This would mandate banks to maintain a certain proportion of such accounts, aligning with their market share. Additionally, a system similar to the Priority Sector Lending Certificates (PSLC) could be introduced, allowing banks to trade PMJDY account certificates on platforms like e-Kuber. By implementing these regulatory mechanisms, we can encourage private banks to actively contribute to financial inclusion, broadening the reach of financial services and fostering a more equitable financial system.

Only through stringent regulatory mandates can we compel private banks to play a meaningful role in financial inclusion. The PMJDY experience underscores this point, demonstrating that private banks cannot be solely relied upon to contribute to social goals without external pressure. This highlights the need for a regulatory framework that incentivizes private banks to engage in social banking initiatives.

For India to successfully achieve its ambition of becoming the world's third-largest economy, it is essential that the banking sector, including private players, actively contributes to and supports the nation's development goals. A purely profit-driven, "unsocial" banking culture is incompatible with the country's aspirations for inclusive growth. By implementing appropriate regulations, we can ensure that private banks contribute to the financial well-being of all citizens, particularly those in marginalized communities.

The Way Ahead

The substantial number of bank accounts opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY) presents a unique opportunity to revolutionize India's social welfare programs. By leveraging these accounts for targeted benefit transfers, a paradigm shift from supply-side to demand-side interventions can be achieved. This shift has the potential to empower beneficiaries, reduce leakages, and enhance the efficiency of welfare programs.

The World Bank has lauded India's remarkable progress in financial inclusion, attributing it to the transformative power of the Jan Dhan-Aadhaar-Mobile (JAM) trinity. India has demonstrated remarkable progress in financial inclusion, achieving an 80% inclusion rate in a mere six years – a feat that would have required nearly five decades through conventional methods. This rapid acceleration is credited to the robust Digital Public Infrastructure (DPI) that underpins the JAM trinity.India has also developed one of the world's largest government-to-person (G2P) transfer systems, leveraging DPI to disburse over $361 billion directly to beneficiaries through 312 central government schemes. This efficient and transparent system has revolutionized the delivery of public services and welfare benefits.

In the long term, this approach can strengthen the self-reliance of vulnerable populations, particularly those residing in drought-prone regions. By providing them with the financial means to invest in their livelihoods, the PMJDY can contribute to poverty reduction and sustainable development.

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