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Editorial

Impact of Pradhan Mantri Jan Dhan Yojana in Fostering Financial Inclusion: A Socio-economic Critique

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ABSTRACT

Primary objective of Pradhan Mantri Jan Dhan Yojana (PMJDY) was to strengthen financial inclusion in India. This article examines whether the PMJDY has succeeded in its objective and how financial inclusion has helped the poor in improving the quality of their lives. As such, financial inclusion is the foundation stone for equitable socio-economic growth, poverty alleviation and mitigation of inequalities in the communities characterized by high power distance. Before the launch of PMJDY on 28 August 2014, largely the poor were excluded from formal banking systems and largely depended on informal and exploitative micro-credit ecosystems which created a vicious cycle of indebtedness and impoverishment. This article reviews how and to what extent PMJDY has helped in expanding the access of financial services to the vulnerable sections of society, and whether the new accountholders under the scheme are using the services. The article also looks at the quality of banking services offered to the poor under PMJDY. The article also examines the bottlenecks in effective implementation of PMJDY. The article is useful for researchers, academics, public policy experts, and socio-political activists.

KEYWORDS: Pradhan Mantri Jan Dhan Yojana (PMJDY), Financial Inclusion, Social Inequalities, Poverty, Quality of Life, India

INTRODUCTION

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The poor had traditionally been excluded from formal banking and credit ecosystem despite the interventions of the government of India aimed at financial inclusion such as nationalization of commercial banks in 1969, establishment of regional rural banks in 1975, Self-Help-Group bank linkage program in 1992. As per the Census 2011 data, 41.3% of eligible adults in the country did not have bank accounts. However, PMJDY launched on 28 August 2014 proved to be a gamechanger in onboarding the poor in the formal banking and credit ecosystem (Khuntia, 2014, Gupta, 2023, Patnaik et al., 2015, Verma & Garg, 2016, Nimbrayan et al., 2018, Dwivedi, 2022). According to Global Findex Database 2021, only 22% of eligible adults in the country do not have bank accounts (Klapper et al., 2021). Thus, PMJDY has brought about 20% of the financially excluded people into the fold of formal banking and credit framework. It is a major accomplishment in view of the government's mission of absolute financial inclusion in the country in due course. As such, financial inclusion is viewed as a process of ensuring access to apt financial products and services needed by the vulnerable sections of society at an affordable cost without compromising trust, transparency and accountability.

The poor are generally suspicious of the robustness of the banking systems due to incidence of insolvencies of rural regional banks as well as the cooperative banks at the local level. However, PMJDY has been rolled out with effective financial literacy campaigns to onboard the people who are wary of complex banking transactions (Verma & Garg, 2016, Jalota et al., 2024, Kaur et al., 2025) Further, PMJDY has inculcated financial resilience among the poor who can now handle unexpected expenses or sudden loss of income in the short run (Gupta, 2023). They can meet the exigencies of life with savings in their bank accounts. Savings are further augmented by the direct benefit transfers under various schemes of the government of India and the state governments. Furthermore, banks accounts opened under PMJDY have invariably been linked to insurance and pension schemes of the government, thereby motivating people to leverage the banking services (Kaur & Singh, 2015). On the other hand, even the banks benefit in terms of deposits of large numbers of small account holders. Thus, the banks have huge deposits which can be used in funding institutional credit mandates. At the same time there is flip side of large number of zero-balance and inoperative accounts in terms of huge overhead costs for the banks (Dutta & Das, 2017). However, things are changing for the good after the phenomenal rise of direct benefit transfers (Agarwala et al., 2022, Agarwala et al., 2023).

PMJDY is characterized by universal access to banking services, basic savings bank account with overdraft facility, financial literacy programs, creation of a credit guarantee fund, micro insurance, and above all, universal pension scheme for the unorganized sector. Universal access to banking services was activated through nation-wide mapping of the potential beneficiaries and ensuring that each one of them had access to physical bank branch or technology-enabled bank agent known as ‘Bank Mitra’ or ‘Bank Sakhi’ within five kilometers of person’s residence. Bank Mitras and Bank Sakhis help the PMJDY accountholders through handheld ATMs with biometric identification facility. Under PMJDY, sub-service area covering 1000-1500 households were identified to optimize the banking services without any functional gaps. Likewise, the idea of basic savings bank account with overdraft facility attracted the poor who saw it as an opportunity to come out of the vicious cycle of formidable clutches of the neighborhood moneylenders proverbially called *Sahukars*’. Eligible accountholders can avail themselves of an overdraft facility of up to INR 10,000 based on their financial transactions and credit history.

PMJDY has facilitated a structured financial literacy program for the beneficiaries through financial literacy camps and financial literacy centres in the sub-service areas. Financial literacy programs focus on basic operations in managing the bank accounts, digital security, power of interest compounding, and rights of the accountholders. PMJDY has provided protective shield to the participating commercial banks to manage potential non-performing assets owing to overdraft facility through a specialized credit guarantee fund. Furthermore, every accountholder under PMJDY is covered under accidental insurance under Pradhan Mantri Suraksha Bima Yojana (PMSBY) and basic life insurance under Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY). In addition, PMJDY serves as the primary gateway to plug beneficiaries directly into Atal Pension Yojana. Thus, direct benefit transfer, overdraft facility, micro insurance and pension have ensured successful implementation of PMJDY and its acceptance among beneficiaries. Yet, the job will remain unfinished till all the eligible people are brought under the net of PMJDY.

ROADBLOCKS IN IMPLEMENTATION OF PMJDY

One of the major reasons why many people are still hesitant to open their bank accounts under PMJDY is lack of confidence induced by initial paperwork and the mandatory procedure of electronic Know Your Customers (e-KYC). Moreover, women in rural areas are constrained to step out of their households and reach the bank branches which are located at a distance. Even if they have opened their accounts, women are less likely to regularly operate the same. No wonder, 32% of women have inoperative accounts as compared to 23% of male account holders (Klapper, 2021). It has been observed that earlier financial exclusion was reinforced by systemic inefficiencies, high incidence of impoverishment, and lower literacy rates among rural adults in the country (Dev, 2006). Thorat (2007) mentioned distance between households and bank branches in rural areas and absence of additional benefits for opening the bank accounts as major bottlenecks in effective implementation of PMJDY. Furthermore, most of the accounts under PMJDY remained inoperative and cosmetic for long, which inadvertently increased overhead expenses of the commercial banks participating in the scheme.

RECOMMENDATIONS AND THE WAY FORWARD

While PMJDY has made significant headway in fostering financial inclusion, there are large number of people on the fringe who are still outside the ambit of universal access to banking. Following measures may help in reaching out to all the poor who are eligible for PMJDY accounts:

- **Transitioning from Basic Savings Accounts to Micro-credit:** Banks need to leverage big data analytics and AI algorithms to analyze historical direct benefit transfer flows and RuPay Debit Card transaction records to collate meaningful patterns regarding spending habits of PMJDY accountholders and develop their credit-scoring profiles. Insights from such an exercise may help the banks to roll out low-cost micro loans and productive credit options without formal collaterals for the benefit of PMJDY accountholders.
- **Retaining Banking Correspondents (Bank Mitras and Bank Sakhis) and Enhancing their Technical Wherewithal:** The compensation and incentives of the Bank Mitras and Bank Sakhis need restructuring to reduce their turnover. At the same time, it is important to upgrade the hand-held terminals used by them by integrating iris-scanning modules for seamless biometric authentication.
- **Targeted Digital Financial Literacy Initiatives:** Financial literacy campaigns should pivot from basic account opening tutorials to specialized digital defense and safety training vis-à-vis banking and financial transactions. PMJDY accountholders must be empowered to develop safe digital transaction habits, and sensitivity towards fraud prevention.

- **Product Bundling and Micro-Wealth Creation:** Commercial banks participating in PMJDY should design micro-endowment products, automated micro-SIP (Systematic Investment Plans), and low-ticket gold accumulation schemes. These measures will enable low-income households to build diversified asset portfolios.

CONCLUSION

PMJDY has largely succeeded in stimulating universal household banking in India through the judicious use of technology and government's focus on timebound outcomes. Thus, the number of PMJDY accountholders has increased many fold since inception of the scheme. Yet the task is unfinished as the target of universal access to banking services has not been accomplished. Besides, there remain issues like low usage of PMJDY accounts in terms of financial transactions, digital frauds, low penetration of financial literacy, and even lower incidence of micro-credit. PMJDY can turn the table by addressing the structural barriers and converting the savings accounts into micro-wealth creation platforms.

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