JAN DHAN YOJNA: ANALYSIS OF THE ONE-YEAR JOURNEY

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ABSTRACT

Financial inclusion is one of the foundation pillars on which India's development rests. It has far reaching impact on the socio-economic lives of people, as it ensures that everyone in the society gets access to social, economic and political opportunities without any discrimination. This facet is strongly linked with the concept of inclusive growth. Financial inclusion started in India more than century ago, however it is only in the twenty first century that paramount importance is being given to it by the public policies also. This report gives a detailed account of the Financial Inclusion process in India with an in-depth focus on analyzing the Pradhan Mantri Jan Dhan Yojna, as it marks its first anniversary since inception.

Methodology

The project report aims at analyzing the journey of Financial Inclusion in India. The study requires the analysis of secondary research data and an extensive use of primary data.

The primary research was conducted in association with MFI Grameen Koota for the villages of villages, Hukunda and Kokkare Hosahalli, villages of Gulbarga district, Thirumanahalli, Shivanapura and other villages of South, North and Central Karnataka. The surveys conducted and the direct interaction gave us an insight into the ground reality of the financial inclusion plan in India.

The secondary resources used are:

- Financial Inclusion Reports published by RBI and Government of India Committees international institutions like International Monetary Fund and World Bank
- Scholarly research books, journals and articles.

The financial inclusion reports have developed a sound theoretical foundation for this report. The analysis and review has provided us with core valuable insights.

This report is divided into four sections. Section one gives an introduction of Financial Inclusion and the measure of degree of financial inclusivity in India as defined by the Crisil Inclusix index. It gives a short overview of past Financial Inclusion schemes like Swabimaan and finally the objectives of our study. The second section is the review of literature, which starts with the history of Financial Inclusion in India with a focus on the microfinance institutions. This section also covers Pradhan Mantri Jan Dhan Yojana in detail, touching upon its objectives, strategies and schemes introduced/linked with it. We then look at the challenges faced. The third section gives a detailed overview of our primary research, essentially with respect to the MFI Grameen Koota. This section also explores the introduction of the concept of Islamic banking under PMJDY. The last section covers conclusions, which will be corroborated from on field research, and recommendations on how further measures can be taken to improve the current schemes.

INTRODUCTION

Financial Inclusion is defined as providing basic financial services to all sections of the society. It focuses on including strata of individuals who have been left out and have not been able to reap the benefits of financial services in economic growth.

Rangarajan Committee (2008)[1] defines financial inclusion as " *the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost." (Report of the Committee on Financial Inclusion, 2008).* The report laid out objectives of "comprehensive financial inclusion". The National Rural Financial Inclusion Plan (NRFIP)[1] was proposed to improve existing mechanisms, develop new models for deeper penetration and technological advancement. The plan included identifying rural households who don't have access to formal credit and then charting out a State Level Rural Financial Inclusion Plan (SLRFIP)[1] to allocate targets to different institutions like cooperative banks, NBFCs, MFIs, etc. The Committee further recommended the establishment of National Mission on Financial Inclusion (NaMFI)[1], for the purpose of policy directives and having representation from all stakeholders.

CRISIL (2013)[2] came out with a Financial Inclusion index namely Crisil Inclusix that encapsulates various forms of financial services- Credit, Deposits, Insurance and Pension Services- into one metric. The index uses 'non-monetary' parameters like the number of people whose lives are impacted by these financial services. The index gives a panoramic view of financial Inclusion at national, regional, state and district level. Inclusix rating of India improved from 40.1 in 2011 to 50.1 in 2013[2]. However there are vast region-wise and state-wise differences, with Southern states ranking much higher than the Eastern and Northeastern states. **(Details in Annexure 1)**

Financial inclusion plan of 2012 i.e. "Swabimaan" focused on opening 'no-frills' accounts. However, only 20 percent of the bank accounts opened under this plan were operational. Also, the plan only targeted villages having population more than 2000. Out of nearly 6 lakh villages only 74000 could be covered under this mission by March 2012. The Financial Inclusion scheme under our current Prime Minister i.e. Pradhan Mantri Jan Dhan Yojana (PMJDY) targets individual unbanked households in both urban and rural India. The individual accounts opened under PMJDY are categorized as Basic Savings Bank Deposit Accounts (BSBDA). However, the plan has serious shortcomings. Duplicity of bank accounts is possible since many of these accounts were opened in special camps without prior screening. Also, banks already suffering from huge NPAs on their balance sheets may face even more pressure due to the possibility of defaults on the overdraft facility.

Other measures for financial inclusion have also been taken. Three insurance schemes have been started. Micro Units Development and Refinance Agency Ltd (MUDRA)[3] Bank was launched on 8 April 2015, with the aim of providing organized financial banking services to the micro businesses sector. The principal objective of the MUDRA Bank is to bring stability to the microfinance system through regulation and inclusive participation. It aims to increase competition among MFIs by providing finance and credit support to them and by setting up accreditation and performance rating system. It will also give structured guidelines for loan recovery and provide a Credit Guarantee scheme to the lenders. MUDRA Bank has launched three loan instruments[3]: *Shishu* covers loans up to Rs 50,000, *Kishor* covers loans above Rs 50,000 and up to Rs 5 lakh and *Tarun* covers loans above Rs 5 lakh and up to Rs 10 lakh.

Objective

The Objective of the report is to look at the Financial Inclusion journey covered so far, with the main focus on the ground level implementation of Jan Dhan Yojana. The analysis explores the extent of the scheme's success, challenges that people are facing and the supply as well as demand side constraints

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[1] "Report of The Committee on Financial Inclusion", NABARD 2008. Available at: https://www.nabard.org/English/report_comfinancial.aspx. Website last visited on 17th June'15.

[2] "CRISIL Inclusix: An index to measure India's progress on financial inclusion", CRISIL (June, 2015). Available at: http://www.crisil.com/pdf/corporate/CRISIL-Inclusix-Volume-III.pdf. Website Last visited on 17th June'15

[3] "MUDRA – Micro Units Development & Refinance Agency Ltd.". Available at: http://www.mudra.org.in/ Website last visited on: 29th June '15.

SECTION 2: REVIEW OF LITERATURE

Historical Developments

Financial inclusion in India can be traced back to the cooperative movement of 1904[4], under which rural cooperatives were set up. However, the definite process of Financial Inclusion started with the two bank nationalization phases (fourteen banks in 1955 and six in 1980)[4]. Also, in March 1980, banks were told to provide support for the implementation of 20-point program to improve the conditions of weaker sections of the society. Other financial inclusion measures that were taken were priority sector lending and issuing Kisan Credit card[5]. In 2000, according to many findings, exclusion from banking system results in 1 percent loss in GDP. According to 2011 census, only 58.7 percent (14.48 crore out of 24.67 crore households) had access to financial services. When considering the rural areas, only 54.46 percent (9.14 crore out of 16.78 crore households) were utilizing banking services[6].

In India, indigenous rural financing has existed since a long time. However the informal sector is generally regarded as profit seeking and exploitative and this thinking has led to its displacement without substituting with alternative sources. Reality is that it is the informal lenders who need to be weeded out and for this there is a need to support and strengthen the indigenous informal system. However, rural financing is not sufficient by itself as it faces issues like high loan default incidence, high transaction costs, absence of collateral and lack of consumption related financial products.

In his work on microfinance, SL Shetty[7] has highlighted the various virtues of microfinance. Microfinance emphasizes upon lending to women, which will ensure that both household consumption and capital needs for microenterprises are taken care of. By lending to Joint Liability Groups, problems like adverse selection, moral hazard, and monitoring and legal enforcement are abated to a great extent. Also, it will provide a paradigm shift in development strategy by making it more inclusive and people centric. Rangarajan Committee (2008)[1] recommended recognizing NBFCs as microfinance institutions (MFIs) and bringing greater legitimacy, accountability and transparency in the working of MFIs.

In rural India, group financing has been in vogue as members come together from similar occupational backgrounds, common religious, cultural and social traits to form Self Help Groups (SHGs). NGOs have been serving as the promotional agencies for SHGs as they assist the poor with group formation and in setting common goals for them. However, regional differences in performance and internal health of SHGs are a major point of concern. Rangarajan Committee (2008)[1] recommended increasing the outreach of SHGs, providing them a legal status, encouraging SHGs to offer wider variety of products and making Federations of SHGs.

Current Financial Inclusion Scheme: Pradhan Mantri Jan Dhan Yojana (PMJDY)[8]

Jan Dhan Yojana is the pet project of Prime Minister Sri Narendra Damodardas Modi, brought to fore in his Independence Day speech. The tag line for the scheme is 'Mera Khata – Bhagya Vidhata', essentially meaning that a person's destiny would be linked to his/her account. This has been the essence of the scheme, to provide core-banking services, so that each household must have at least one banking account. Jan Dhan Yojana is a major step towards inclusive growth. Financial inclusion ensures better financial management by the poor for themselves, which opens up a plethora of opportunities.

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[4] Dr. Amit .Kumr .Singh, Dr. Suneel Kumar, Amandeep Singh, "*Financial Inclusion: A Study of Trends and Initiatives*". Available at: http://world-finance-conference.com/papers_wfc2/85.pdf. Website last visited on: 29th June '15.

[5] Reserve Bank of India, https://www.rbi.org.in/scripts/chro_1968.aspx. Website Last visited: 24th June'15

[6] Government of India (2014), "Pradhan Mantri Jan-Dhan Yojana: A National Mission on Financial Inclusion". Available at: http://financialservices.gov.in/banking/PMJDY%20BROCHURE%20Eng.pdf. Website Last visited: 24th June'15

[7] Shetty, S.L. (2012). *Microfinance in India-Issues, Problems and Prospects: A Critical Review of Literature*. New Delhi: Academic Foundation.

Mission Mode Objectives[8]

The mission mode of PMJDY has six pillars. The first is 'Universal Access of Banking Facilities'[8]. In this each district is divided into Sub Service Areas (SSA's) with population of 1000 to 1500 households in and around 5km distance so that there is easy access of distribution of banking services under PMJDY. In the current plan all 6 lakh villages are required to be mapped to service areas so as to have at least one fixed point. Coverage of J&K, North East etc. regions where the telecommunication connectivity is weak will be covered under second phase (15th August'15 to 15th August'18). The second pillar is 'Providing Basic Banking Accounts with overdraft facility and RuPay Debit card to all households'[8]. It means opening a basic account for all uncovered households by August'15. The overdraft facility will be provided as per the operation/credit history of the previous six months. The third pillar is 'Financial Literacy Program' which includes educating people about the financial services provided under this scheme. The fourth Pillar is 'Creation of Credit Guarantee Fund'[8] to look after the defaults of overdrafts. The fifth pillar is 'Micro-Insurance' which means providing Rupees One lakh insurance cover to the people who need it. The last pillar is 'Unorganized sector Pension schemes like 'Swavalamban'. The government is trying to give major emphasis on first three pillars in the Phase 1, 15th August'14 to 15th August'15, and the rest in the Phase 2, 15th August'15 to 15th August'18.

Strategy for Achieving Objectives

The strategy for achievement of objectives will involve public private partnerships and bringing together all stakeholders. Post Offices currently have Gramin Dak Sewaks that could become Mitrs (Business Correspondents). Also, fixed point online Mitrs have been planned. New technology is also aiding in Financial Inclusion. Mobile banking and RuPay play a vital role in making these bank accounts operational. In 2013-14, PSBs opened 7840 bank branches across the country out of which 75% were in rural areas. There is a target of setting up 50000 BCs, which is quite challenging given the current constraints. Department of Telecom has already been told to look into the issue of poor or no connectivity.

Recently Launched Schemes

The main cause of concern after opening accounts under PMJDY was the usability of bank accounts by new bank account holders. In order to make them operational, government introduced three schemes and linked them to newly opened bank accounts.

The first scheme, Atal Pension Yojana aims to bring people under National Pension scheme. Depending upon the contribution, the scheme aims to provide a monthly pension of Rs. 1000, 2000, 3000, 4000 and 5000 respectively from the age of 60 years.[9] All the transactions will happen through bank accounts.

The second scheme launched by Prime Minister is Jeevan Jyoti insurance scheme. This scheme will provide life, renewable annually, insurance for death. All the transactions will happen through a savings bank account and premium will be deducted from savings account through 'auto debit' facility[10]. This auto debit consent has to be given while enrolling for this scheme. Individuals, who leave the scheme in between, due to some extraneous circumstances, could join back with the submission of good health certificate[10].

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[8] Government of India (2014), "*Pradhan Mantri Jan-Dhan Yojana: A National Mission on Financial Inclusion*". Available at: http://financialservices.gov.in/banking/PMJDY%20BROCHURE%20Eng.pdf. Website Last visited: 28th June'15

[9] Ministry of Finance. "*ATAL PENSION YOJANA JAN DHAN TO JAN SURAKHSHA- Guaranteed Pension by Govt. of India*, Department of Financial Services". Available at: http://financialservices.gov.in/jansuraksha/APY_Brochure.pdf. Website Last visited: 24th June'15

[10] Ministry of Finance. *RULES FOR PRADHAN MANTRI JEEVAN JYOTI BIMA YOJANA*, Department of Financial Services, June 24. Available at: http://financialservices.gov.in/jansuraksha/final%20rules%20PMJJBY.pdf. Website Last visited: 28th June'15

The third scheme launched is Suraksha Pradhan Mantri Suraksha Bima Yojana (PMSBY)[11] – Insurance Sirf Ek Rupay Mein. Under this scheme, a premium of Rs. 12 will be automatically deducted from person's savings bank account through 'auto-debit' facility. The scheme aims to provide a cover of Rs. 2 lakh in case of some untoward incident resulting into death and Rs 1 lakh in the case of disability. People between the age group of 18 to 70 years are eligible to apply for this scheme[11].

Challenges to Financial Inclusion[12]

Various studies have already been done on the ground realities of Financial Inclusion scheme and the following challenges have been identified:

1. **Lack of usage of bank accounts** – Most of the bank accounts opened are not operative. There could be many reasons for the non-operation of bank accounts, for example, lack of financial literacy or lack of funds with account holders.
2. **Financial Literacy** – This is one of the major concerns especially in rural areas. People don't have requisite knowledge and awareness of the financial services that are being offered to them.
3. **Handling of Large number of accounts** – There is a need for setting up infrastructure to address large number of accounts that are opened. Technology can play a vital role to service large number of new and existing customers.
4. **Manpower Training** – Banking staff and business correspondents should be trained adequately to deal with people living in rural areas, who don't have much knowledge about financial services. Social skills training to deal with people living in rural areas should be imparted.
5. **Security** –Adequate systems should be in place so that there is no chance of any leakage of any sensitive information to the outside world.
6. **Malpractices** – There are many instances when people are asked to pay amount ranging from Rs. 1000 - 3000 for opening bank accounts under PMJDY whereas these accounts are supposed to be opened free of cost.
7. **Lack of Trust** – There seems to be lack of trust in banking correspondents due to which borrowing from moneylenders is still prevalent.

Other Challenges

1. **Low Banking Penetration in Rural Areas** – A low percentage of bank branches were opened in unbanked areas. More bank branches must be opened to provide better access.
2. **Low Credit provided to people of rural areas** –As of March 2014, only 8.4 per cent of the total credit was provided to people living in rural areas whereas metropolitan areas accounted more than half of the total credit distributed. This disparity arises due to the fact that banks are unsure about repayment from rural areas. Many times banks have to write off the loans due to political pressure. Seasonal vagaries like bad monsoons negatively impact the ability of farmers to repay their loans.
3. **Use of Technology** – There is low telecom penetration in rural areas. Also, the debit card penetration is low in rural areas. Although, government is providing RuPay cards, their usage has not picked up. Moreover, increasing expenditure on IT and risk on security with respect to data theft is also a major concern.

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[11] Ministry of Finance. *RULES FOR THE PRADHAN MANTRI SURAKSHA BIMA YOJANA,* Department of Financial Services, June 24. Available at: http://www.jansuraksha.gov.in/Files/PMSBY/English/Rules.pdf. Website Last visited: 28th June'15

[12] Charan Singh, "20-Year Financial Inclusion Plan - Milestones, Field Feedback and Monitoring". Available at: http://www.iimb.ernet.in/research/sites/default/files/WP%20No.%20474.pdf. Website Last visited: 28th June'15

4. **High attrition rate of BCs** – There is a high attrition rate amongst business correspondents. Moreover, there are a lot of issues relating to BCs not being paid adequately.

Role of Various Stakeholders

Role of technology

Technology is an enabling factor of prime importance as it has a major impact on efficiency and product innovation. According to the Rangarajan Committee (2008), technological advancement is a crucial step in the process of reaching the unbanked. It was the first to suggest that the payments under NREGA and other Social Security Schemes to be done via technology based solutions[1]. Finally, it also suggested the creation of a national database. E-kiosks and mobile technology can also serve as convenient remittance channels for the financially excluded. There is also the need to move towards an electronic payments and settlements system. In this regard, The Nachiket Mor Committee (2014) introduced the concept of Universal Electronic Bank Account (UEBA)[13]. It suggested that UEBA should be opened with the issuance of Aadhar and latter should serve as the key pillar of customer identification and authentication.

The penetration of Banks in most of the African countries is low. The success of mobile banking in countries such as Tanzania and Kenya, where penetration was low, indicates that creating a digital ecosystem can aide in providing financial services to the people who didn't had the access to it before. In Tanzania, by 2013, around 43 percent of the adult population had active mobile accounts[14].

The number of online transactions increased from around 164,470 to 1.37 million from 2006 to 2012 and on the other hand number of SMS based mobile transactions increased from 140,327 in 2006 to 33.03 million in 2012. Kenya saw a sudden proliferation of Internet users in their country. The number of mobile customers increased from 1.34 million in 2007 to 25.24 million in 2012[15]. The benefits received from mobile payment systems such as M-Paisa were substantial. The cost per transaction reduced from 7% in 2003 to 3% in 2010[16].

The tele-density in India is 77.27 percent and the tele-density in rural India is around 50 percent[17].
Considering a similar situation of rural India with respect to Kenya and Tanzania, Mobile- Payment has a huge possibility of being successful provided telecom companies are ready to invest in infrastructure development in order to increase telecom penetration in these areas. It will also open up a new revenue stream for telecom

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[13] Nachiket Mor (2012), "Committee on Comprehensive Financial Services For Small Businesses and Low income households" (2014), Reserve Bank of India, Mumbai. Available at: https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/CFS070114RFL.pdf. Website last visited on 17th June 2015.

[14] Tanzania National Council for Financial Inclusion, The National Financial Inclusion Framework. " *A Public-Private Stakeholders' Initiative 2014-16"*. Available at:http://www.bot-tz.org/NFIF/National%20Financial%20Inclusion%20Framework.pdf. Website Last Visited on 24th June'15

[15] Central Bank of Kenya, *Rates and Statistics.* Available at:https://www.centralbank.go.ke/index.php/retail-payments-2/mobile-payments. Website Last Visited on 24th June'15)

[16] Isaac Mbiti, David N. Weil (May 2011)*, "Mobile Banking: The Impact of M-Pesa in Kenya"* Available at: http://www.nber.org/chapters/c13367.pdf. Website Last Visited on 24th June'15

[17] TRAI, Press Release No. 34/2015. Available at:http://trai.gov.in/WriteReadData/WhatsNew/Documents/PR-34-TSD-Mar-12052015.pdf. Website Last Visited on 24th June'15

players who are already plagued by the emergence of OTT (Over the Top) players and declining ARPUs (Average Revenue per Unit).

Charan Singh, et al., (2014) provide a comprehensive overview of how to expand financial inclusion by creating a digital ecosystem with respect to a study done in the Tumkur village of Karnataka. The study proposes using an extensive network of Post offices and Fair Price shops, thereby increasing the access points[18]. It also proposes clubbing together of ATMs and deposit taking machines into one and expanding their scope by adding new features to them like document scanner, finger print matcher etc. so that a single digital touch point can offer a comprehensive banking facility. Adaptation of digital technologies would require a change user behavior and most importantly mindset. So, a huge awareness campaign needs to be run to create awareness of the digital initiatives citing their benefits.

But one of the major challenges in the adaptation of digital technologies is the issue of security. There are certain regulatory norms that need to be adhered to, which also limits the growth of electronic transactions. Also, there is a limit to the number of payment providers that can be accommodated by merchants[18].

Role of Business Facilitators and Business Correspondents

Business Correspondents (BCs) and Business Facilitators (BFs) are important intermediaries for expanding the outreach of financial services. According to Khan (2006)[19], these intermediaries can provide debt-counseling, loan counseling, and creating awareness about savings, bank applications and many more. Rangarajan Committee (2008)[1] suggested including wider set of agents like retired Government servants. Mor Committee (2014)[13] recommended allowing ND-NBFCS to act as BCs and emphasized upon providing technical support, building incentive mechanisms and integration of BCs with banks operations.

Role of Banks: Affordable and Formal Credit

To ensure that marginalized sections of the society are not deprived access to formal and affordable credit; Priority Sector Lending (PSL) has been mandated. However PSL adversely impacts banks' balance sheets as not much consideration is given to risk and cost to serve and at the same time risk management tools are absent. To address this issue Mor Committee (2014)[13] has suggested banks must disclose their exposure to various sectors and should be allowed to purchase various portfolio insurance instruments to mitigate risks like systemic risk, price risk and rainfall risk. Setting asset class specific NPA recognition and provisioning rules would help in risk mitigation. Loan waivers should be done via the DBT mechanism by the government. Setting up of a State Finance Regulatory Commission (SFRC)[13] to existing State Government-level regulators into a single entity. The Committee also recommended that Public Sector Lending should include investment in bonds of qualifying entities, equity investment in complementary infrastructure and Pass through Certificates.

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[18] Charan Singh, et al., (2014), Financial Inclusion in India: Select Issues, IIM Bangalore Working Paper 474, Bangalore.

Available at: http://www.iimb.ernet.in/research/sites/default/files/WP%20No.%20474.pdf). Website last visited on 17th June'15.

[19] Khan (2006), "Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents", 2006. Available at: https://rbidocs.rbi.org.in/rdocs/Notification/PDFs/68417.pdf. Website last visited on 17th June '15.

Section 3: GROUND STUDY AND OBSERVATIONS

Grameen Koota

About Grameen Koota: Foundation and Operations

Micro Finance Institutions play a key role in expanding the ambit of Financial Inclusion in India.
Grameen Koota Financial Services Pvt. Ltd. (GKFSPL)[20] is a big name in the southern Indian states. The NGO T. Muniswamappa Trust (TMT) founded this institution in 1999 and was reclassified Grameen an NBFS-MFI in 2013 by RBI[20]. GK functions by lending to joint Liability Groups (JLGs), primarily women. It provides various financial services under the categories of microcredit, micro insurance and pension. The MFI has the following inters rate categories: 1) Income generation- 25%; 2) Non-productive loans (consumption)- 24%; and 3) Socially important loans (education, sanitation, etc.)- 22%. With a borrowing cost of around 13%, GK doesn't aim for more than 10 % margin.
The success of GK rests upon the fact group lending reinforces self-discipline amongst the borrowers. Maintaining a good relationship with the borrowers by constant communication and fair policies also instills the element of trust. The fact that the MFI has only 0.02 percent of its loan portfolio as Non Performing Assets is a commendable achievement that testifies the above.

Excerpts from the Centre meetings and Field Study

As part of the study, we visited two villages, Hukunda and Kokkare Hosahalli in Bangalore, which come under the ambit of GK. The occasion was centre meetings with the JLGs. Before the meeting, the group conducts an informal meeting amongst themselves, where the Group leader collects all the repayments from the members. GK conducts social awareness and financial literacy sessions called JAGRUTI during these meetings. Members also read out a pledge highlighting certain **commitments** like borrowing within capacity, using the money for appropriate purpose and timely repayments.
With the assistance of the Grameen Koota team, we conducted surveys in the villages of Gulbarga district, Thirumanahalli, Shivanapura and other villages of South, North and Central Karnataka. (**Questionnaire attached in Annexure 5)**

Insights regarding PMJDY

- Total number of households surveyed: 268. Out of this, 85 percent had bank accounts. 73 percent of the accounts were opened under PMJDY.
- The main reasons for not opening bank account are: lack of information, lack of proper documents, lack of trust, not interested.
- Three-fourths of the total households surveyed prefer bank to borrow, while the remaining quarter prefer to borrow from moneylenders as banks demand collateral and other documents.
- 40 percent of those who opened account under PMJDY were assured a credit of Rs 5000 for opening the account. 22 percent did it for Direct Benefit Transfers and 21 percent for Insurance cover.

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[20] Grameen Koota Financial Services Pvt. Ltd. (GKFSPL). Available at: http://www.gkfspl.in/index.php?option=com_content&view=article&id=48&Itemid=54. Website last visited on 11th August '15.

- Aadhar card was given by 86 percent of the households for opening the account. However, apart from Aadhar card, almost half of the total account openers had to give other Identity proofs like Voter ID, Ration card. Some also gave PAN card and photos.
- Despite the fact that no fee is supposed to be paid to open a PMJDY account, 30 percent of the account openers had to pay money to open the account. The amount paid varied from RS 300 to Rs 500. A few had to pay Rs 1000 also.
- 9 percent had to pay bribe in some cases. Bribe is mainly paid when the person is not eligible to open an account due to lack of documents.
- 80 percent opened accounts in Bank branches, 20 percent in village camps and 3.5 percent through BCs. This shows that there is a lot of scope in improving the banking infrastructure, especially the BC/BF network.
- Another interesting finding was regarding the perceived benefits of Jan Dhan Yojana amongst the respondents. Insurance Cover and Savings are the two most familiar benefits, known to 34 percent and 32 percent to the respondents respectively. 16 percent of the respondents were familiar with Direct Benefit Transfers. Only 5 out of the total 268 respondents were aware of the RuPay Card.
- The number of transactions done in the last 6 months in using the Jan Dhan accounts varied a lot form place to place. In most of the villages, the accounts were hardly operational. However, in the Gulburga district, after opening of accounts, almost 53 percent of the households have transacted. The number of transactions conducted in the last 6 months range from 1-5, with the average being 3 transactions per account. This disparity can be explained on the basis of differences in financial literacy levels among rural and semi-rural areas.
- Almost every household had at least one mobile phone. However, overall only 40 percent of the total households are comfortable with mobile banking.
- Almost 35 percent of the total households still borrow from the moneylenders. Interest rates charged to them vary from 3-5 percent per month.

  Annexure 3 shows the various benefits of PMJDY known to people. **Annexure 4** shows the reason for Opening their accounts.

Islamic Banking

There are certain sections of the society, which are unable to utilize banking facilities. Muslims consist of 12 percent (16 crore) of India's total population and it is believed that majority of them don't use banking services. Sharia law doesn't allow the acceptance or payment of interest charges (Riba). Thus there seems to be a need for introducing the concept of Islamic banking, 'Sharia compliant finance'[21], to cater to the Muslim population.

In order to test this hypothesis, we conducted a small survey in the Muslim populated area of Russel Market, Shivaji Nagar in Bangalore. (**Questionnaire attached in Annexure 6**)

Quantitative Analysis

- Total number of household surveyed was 36, which included owners of street vendors, meat shops, small provisional stores, apparel shops etc.

[21] Daily Monitor (August 12, 2015). "Lobby Parliament to fast-track Islamic banking - Finance minister". Available at: http://www.monitor.co.ug/Business/Lobby-Parliament-to-fast-track-Islamic-banking/-/688322/2300304/-/507b4o/-/index.html. Website last visited on: 12th August'15.

- 89 percent (32 out of 36) of the total respondents and 81 percent of Jan Dhan account holders don't prefer taking loans from Banks. Some of them said that they deposit the money in the account and so that their wife and children can transact through debit card.
- 44 percent accounts were opened under Pradhan Mantri Jan Dhan Yojana. Most of the people knew these accounts in the name of 'Modi Account' rather than 'Jan Dhan' account.

Introduction of Islamic Banking

- Only 36 percent (13 out of 36) were aware of concept of Islamic banking.
- In order to gauge the interest, we introduced the various aspects of Islamic banking to those who were not aware and came out with the following findings.

People were introduced with Islamic Banking (and if it is introduced under PMJDY)

- 89 percent said that they would like to open account if this type of banking facility is introduced for their community. They will trust Islamic banking more as compared to normal banking.
- 86 percent said that they would transact more if Islamic banking were introduced.
- WOMEN PARTICIPATION: 86 percent said that if Islamic Banking is introduced they will let their wives and female children go to banks.

Insights regarding PMJDY

- Almost all the respondents considered taking loans on interest as 'Haram' in their religion. More than 90 percent preferred taking loans from friends and relatives. The reason is twofold: First, that time to return is flexible. Secondly, no interest is charged by relatives thus no violation of their Islamic law.
- They were ready to pay a minimum interest to banks on the condition that it is used in welfare for their community like eradicating poverty or helping poor people in their daughters' marriages.
- A few shop owners said that they take loans from banks but they won't tell it to anyone, as a lot of shame is associated with it.
- Also, many of them said that they don't want to get into mess of maintaining minimum balance in their account for loan. A lot of paper work is involved.
- Some of them introduced the local banking called Sangh Banking, which means close group of 10-15 people take loans. Trusted people are included into 'Sangh'. If anyone flees then whole group has to bear the cost/penalty.
- Some of them said that they don't trust current banks. A famous incident of 'Amanat Bank' was cited. A private bank for the welfare for Muslims was opened but many people lost their deposits as owner took the money and went missing.
- But, when asked that if Islamic banking is introduced in banks like State Bank of India, they said that they would trust government-backed banks and not private banks.
- Many men said that they would like to send their wives to banks, which will have like-minded, people i.e. Muslims. Some people contended that there should be a separate line for women even in Islamic Banks and women in counter should also be in Burkha.

Section 4: CONCLUSION & POLICY RECOMMENDATIONS

Incentivizing Students to open Jan Dhan accounts

By targeting college students for opening Jan Dhan Accounts there is a twofold benefit. Firstly, we will achieve our target of opening one account per household. India has a huge demographic dividend as 65% of the population is less than 35 years of age. There is a high probability that financial literacy will spread more easily among educated students studying in universities rather than their respective parents living in villages. Secondly, college fees and individual scholarships can be tied to the same bank account. The bone of contention for present PMJDY scheme is the operationalization of bank accounts, as most of the accounts are dormant, and the commercial viability of this scheme for the banks. Linking student accounts to PMJDY scheme will increase the amount of money in the bank accounts, which will make it commercially viable.

Focus on Opening more Bank branches rather than relying on Banking Correspondents

We have seen that in our survey that 80% of people opened their bank account through bank branches. We also observed that only 9% have to pay the bribe to open the account. Thus, one can conclude that opening of bank accounts through normal branches would lead to reduction in bribes being paid by people opening PMJDY accounts.

Increase Linkage of Jan Dhan Accounts to Direct Benefits Transfer

Linking more and more DBT schemes payments to Jan Dhan Accounts, will not only incentivize people to open more accounts, but will also increase the number of transactions occurring in these accounts.

Islamic Banking

Introduce Islamic banking under the ambit of Pradhan Mantri Jan Dhan Yojana Scheme. It is observed that Muslim population is unwilling to avail credit based financial services due to their religious connotations or principles and continuously suffers from trammels of convention. Sharia law doesn't allow them to take money on interest. As a result of which, they resort to take loans from their family, friends and neighbors. Introduction of Islamic banking will not only deal with the issue of interest rate but also improve the participation of women in the banking related activities. Thus, there seems to be an enormous potential for banks to include Islamic banking in their banks as well as for the government to introduce Islamic banking under PMJDY scheme.

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ANNEXURE

Annexure 1: CRISIL Inclusix Index

Figure 1: Trends in Crisil Inclusix Score for India, Source:http://www.crisil.com/pdf/corporate/CRISIL-Inclusix-Volume-III.pdf)

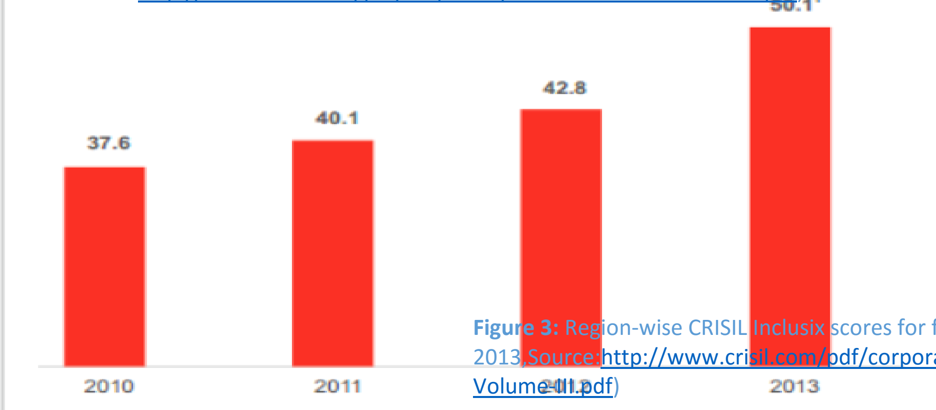


Figure 2: Four Categories for CRISIL Inclusix, Source:http://www.crisil.com/pdf/corporate/CRISIL-Inclusix-Volume-III.pdf)

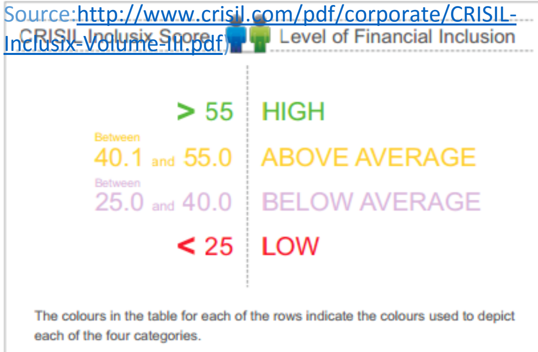
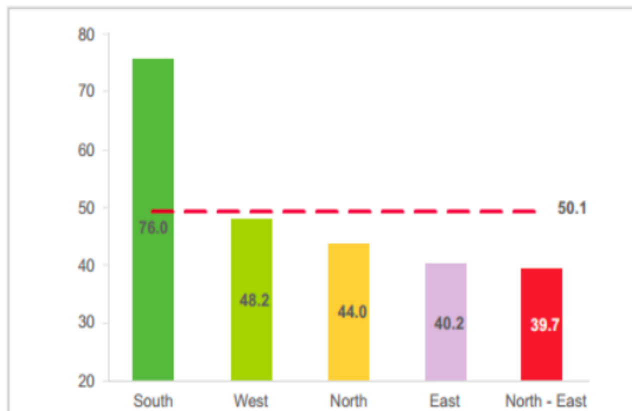


Figure 3: Region-wise CRISIL Inclusix scores for fiscal 2013,Source:http://www.crisil.com/pdf/corporate/CRISIL-Inclusix-Volume-III.pdf)

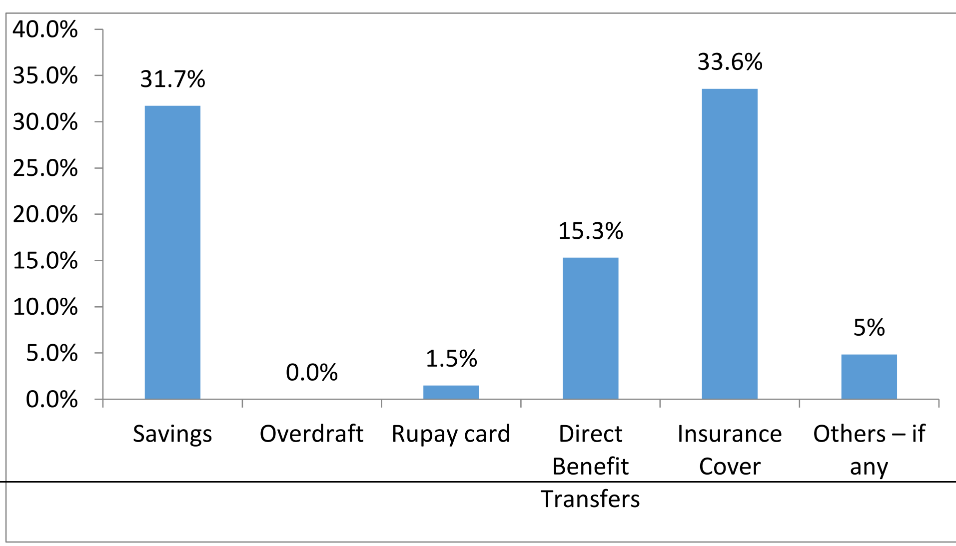


Annexure 2: Pradhan Mantri Jan - Dhan Yojana (Accounts Opened As on 29.07.2015), (Source: http://www.pmjdy.gov.in/account-statistics-country.aspx)

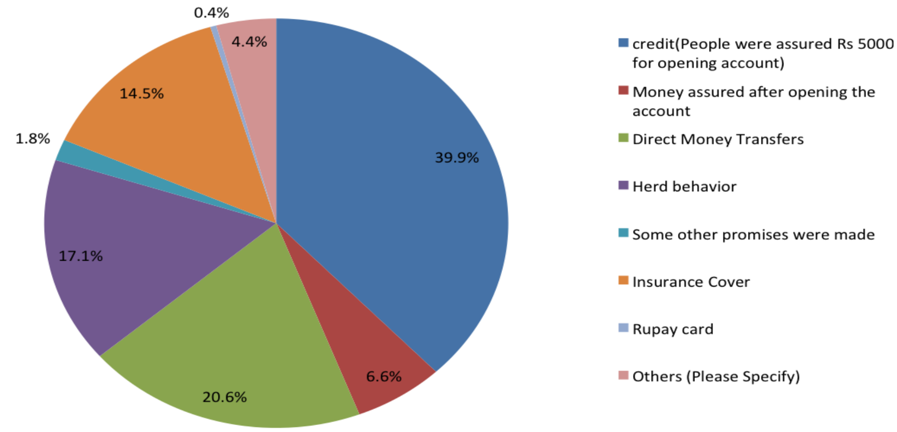
(All Figures in Crores)

S.No		No Of Accounts			No Of Rupay Debit Cards	Balance In Accounts	% of Zero Balance Accounts
		Rural	Urban	Total			
1	Public Sector Bank	7.41	6.11	13.51	12.42	16055.48	46.48
2	Rural Regional Bank	2.63	0.45	3.08	2.23	3636.29	49.03
3	Private Banks	0.41	0.28	0.69	0.61	1077.56	46.38
	Total	10.44	6.84	17.29	15.26	20769.33	46.91

Annexure 3: Benefits of PMJDY known to people (Grameen Koota Survey Findings



Annexure 4: Reason for Opening their accounts (Grameen Koota Survey Findings)



Annexure 5: Jan Dhan Yojana - Questionnaire for Customers

GRAMEEN KOOTA

1. Do you have a bank account? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Yes						
No						

2. If yes, when did you open your first bank account? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Before Aug 14th 2014						
After Aug14th 2014						

3. If answer to question 1 is No, then what is the reason for not opening the account? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Reason						

4. Would prefer borrowing money from bank rather than borrowing money from money lenders? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Yes						

No						

5. Why did you open the account? (Tick the reasons)

	Respon dent1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Credit (People were assured that they would get 5000 Rs for opening the account)						
Money assured after opening the account						
Direct Money Transfers (Subsidy money directly to Modi account)						
People nearby were opening the account so you decided to open the Modi account						
Some other promises were made						
Insurance Cover						
Rupay card						
Others (Please Specify)						

6. Did you provide Aadhaar card details to link it to your account? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Yes						
No						

7. What other documents did you give? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Other Documents						

8. Did you pay money (service charge) to open the account? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Yes						
No						

9. How much money did you pay?

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Other Documents						

10. Did you pay any bribe to open the account? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Yes						
No						

11. Where did you open the account? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Bank Branch						
Camps conducted in villages						
Banking Correspondents						
Others						

12. Are the people aware of the benefits offered by Modi accounts or Pradhan Mantri Jan Dhan Yojana account? (Tick Mark)

	Respon dent1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Savings						
Overdraft						
Rupay card						
Direct Benefit Transfers						
Insurance Cover						
Rupay card						
Others – if any						

13. Have you started transacting with your modi account or jan dhan account? (Tick Mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Yes						
No						

14. If yes, how many transactions have you done in last 6 months? (Please write the number)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
No of transactions						

15. How many mobile phones are available in the family?

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Number of mobile phones						

16. Would you be comfortable with mobile banking?

	Respondent	Respondent	Respondent	Respondent	Respondent	Respondent

	1	2	3	4	5	6
Yes						
No						

17. Do you borrow from the moneylender? (Tick mark)

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Yes						
No						

18. If yes, what is the rate of interest charged?

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Respondent 6
Rate charged						

Annexure 6: Islamic Banking Questionnaire

Name: ________________________________
City/District/Village: ________________________________
State: ________________________________

1. Do you have a bank account?
   - o Yes
   - o No

2. If, yes, when did you open your first bank account?
   a. Before August 14th 2014
   b. After August 14th 2014

3. If answer is No to the question, Why not open when the banks are offering so many benefits? What are the possible reasons? Please select from below given options:
   - o Is it because of **Riba** (interest as well as usury), which is used in Quran at 8 different places, is prohibited in Islamic Law and is considered as a sin in Islam? {Quran says ‘Anyone giving money on interest or anyone paying money on interest is waging war with God}
   - o Banking branches are not available in the vicinity.
   - o Lack of trust in banking branches
   - o Others

4. How often do you use banking facilities?

- Once in a monthly
- More than once in a month
- Once in two months
- Others

5. Are you satisfied with your current the bank's facilities? (Yes/No)
   - **Yes, why?**
   - **No, why?**

6. Do you take credit/loan from the bank?
   - **Yes**
   - **No**

7. If No, then why not?
   - **Yes**
   - **No**

8. What would be the changes required in banking that would encourage you to resort to credit/loan from banks?
   - **Yes**
   - **No**

New Concept: Islamic Banking

9. Have you heard of Islamic Banks?
   - **Yes**
   - **No**

If answer is 'No', then introduce Islamic Banking.
And ask below questions.

Or

If, Answer of question 9 is '**Yes**', then directly ask question 10

10. If there are **separate Islamic banks** under **'Pradhan Mantri Jan Dhan Yojana'**, do you and other of your Muslim brothers and sisters do the following:
    - Open account?
      - **Yes**
      - **No**
    - Would you trust them more than regular banks?
      - **Yes**
      - **No**
    - Would your cash transactions increase because of your increase in trust in Islamic Bank?
      - **Yes**
      - **No**
    - Would your use of banking facilities increase (***Because issues of Riba, which is a sin in Islam, would be taken care of under Islamic Banks***)?
      - **Yes**
      - **No**
    - Would participation of women increase, as they would be more comfortable visiting Islamic bank than normal bank?

- **Yes**
- **No**