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Financial Inclusion in India: Assessing the Impact of Pradhan Mantri Jan Dhan Yojana

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Abstract

Financial inclusion is an important component of inclusive development because access to affordable banking, savings, credit, insurance, pension and payment services enables individuals to participate more effectively in the formal economy. Despite the expansion of banking infrastructure in India, a considerable section of the population, particularly poor households, rural communities and women, remained outside formal financial services. Against this background, the Government of India launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) on 28 August 2014 as a national mission for financial inclusion. The scheme sought to provide every household with access to a basic bank account and connect account holders with credit, insurance, pension, remittance and Direct Benefit Transfer facilities. This paper assesses the progress and emerging impact of PMJDY up to 2018. It examines the expansion of account ownership, rural and female participation, the role of RuPay cards, Aadhaar, and Direct Benefit Transfer, and the scheme's contribution to formal financial access. At the same time, it argues that account opening alone cannot be equated with meaningful financial inclusion. Dormant accounts, low financial literacy, inadequate use of accounts, weak last-mile banking infrastructure and limited access to formal credit remained important challenges. The paper concludes that PMJDY represented a major shift from a limited banking-access approach towards mass financial inclusion, but its long-term success depended on converting access into regular and meaningful use of financial services.

Keywords: *Financial inclusion, Pradhan Mantri Jan Dhan Yojana, banking, financial literacy, Direct Benefit Transfer, RuPay, JAM, India.*

Introduction

Financial inclusion refers to ensuring affordable and convenient access to appropriate financial services, particularly for vulnerable and low income groups. It extends beyond opening bank accounts to include access to savings, credit, payments, remittances, insurance and pensions. The Rangarajan Committee on Financial Inclusion emphasised timely and adequate credit for vulnerable groups at affordable cost. Before PMJDY, financial exclusion in India was associated with limited banking infrastructure, geographical distance, low financial literacy and inadequate access to formal credit. The World Bank's *Global Findex 2014* reported that only 53% of Indian adults had an account with a formal financial institution, compared with 35.2% in 2011. Exclusion therefore involved not only lack of accounts but also limited access to credit, insurance, pensions and secure payment services. The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (2014), chaired by Nachiket Mor, advocated universal access to financial services supported by technology. In this context, the Government launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) on 28 August 2014 as a national mission for comprehensive financial inclusion. Its objectives included basic savings accounts, access to credit, remittances, insurance, pensions and Direct Benefit Transfer (DBT). PMJDY also complemented the emerging JAM framework, linking bank accounts, Aadhaar and mobile connectivity to improve financial and welfare service delivery. Thus, PMJDY marked a shift from gradual expansion of banking facilities towards large scale, technology enabled and mission mode financial inclusion.

PMJDY: Design, Objectives and Institutional Mechanism

PMJDY was designed to provide an accessible entry point into the formal financial system. The scheme allowed an unbanked person to open a Basic Savings Bank Deposit Account through a bank branch or Business Correspondent, commonly referred to as a Bank Mitra. The account did not require a minimum balance, thereby reducing one of the barriers faced by low-income households. The original design of PMJDY contained several interconnected components:

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Basic banking access: The primary objective was to provide at least one basic bank account to every household and subsequently extend coverage to remaining adults.

RuPay debit card: Account holders were provided RuPay debit cards linked to an accident insurance facility. The original accident cover was ₹1 lakh.

Overdraft facility: Eligible account holders could access an overdraft facility after satisfactory operation of the account. The original limit was ₹5,000, subject to conditions.

Financial literacy: The scheme recognised that access without knowledge would not create meaningful inclusion. Financial literacy was therefore incorporated into the mission.

Direct Benefit Transfer: Bank accounts were intended to become channels for transferring government subsidies and welfare payments directly to beneficiaries, thereby reducing dependence on intermediaries and improving transparency.

Insurance and pension: PMJDY was designed as a platform through which low-income households could gain access to insurance and pension products.

The programme was initially divided into two phases. Phase I covered 15 August 2014 to 14 August 2015, focusing on universal banking access, basic accounts, RuPay cards, financial literacy and DBT. Phase II covered 15 August 2015 to 14 August 2018, with greater emphasis on overdraft facilities, micro-insurance, pension and extending coverage to difficult and excluded areas. The government subsequently decided in August 2018 to continue PMJDY beyond the original Phase II period. At that point, the scheme was modified in important ways. The overdraft limit was raised from ₹5,000 to ₹10,000, the age limit for overdraft eligibility was increased from 18–60 to 18–65 years, and the accidental insurance cover for new RuPay card holders was raised from ₹1 lakh to ₹2 lakh for accounts opened after 28 August 2018. The policy also shifted the objective from "every household" to "every adult", indicating a move towards deeper individual-level inclusion. The institutional mechanism involved the Department of Financial Services, public sector banks, Regional Rural Banks, private banks, Business Correspondents and the payment infrastructure associated with RuPay. RBI simultaneously supported financial inclusion through its financial inclusion plans, Business Correspondent framework and financial literacy initiatives. Therefore, the architecture of PMJDY was broader than conventional bank-account expansion. It attempted to create a financial inclusion ecosystem connecting access, payments, savings, insurance, credit and government transfers.

Progress of PMJDY and Expansion of Financial Access

The most visible achievement of PMJDY was the rapid expansion of bank-account ownership. The scheme generated an unprecedented mobilisation of accounts within a relatively short period. By February 2018, around 31.07 crore PMJDY accounts had been opened, with approximately ₹74,534.79 crore deposited in these accounts, according to research based on official scheme data. By the continuation of PMJDY in August 2018, official figures indicated approximately 32.41 crore Jan Dhan accounts with deposits exceeding ₹81,200 crore. Around 53 per cent of account holders were women, while approximately 59 percent of accounts were located in rural and semi-urban areas. More than 83 percent of operative accounts, excluding specified states, had been Aadhaar seeded, and approximately 24.4 crore RuPay cards had been issued.

These figures indicate three important dimensions of the scheme's performance.

Expansion of account ownership: The growth in account ownership was also reflected in independent international data. The World Bank's Global Findex 2017, released in 2018, reported that around 80 percent of Indian adults had an account at a financial institution, compared with 53 percent in 2014. Rural account ownership increased particularly sharply, rising from 33 percent in 2011 to about 79 percent in 2017. This represented a major change in India's financial inclusion landscape. PMJDY was an important contributor to this expansion because it specifically targeted people who were previously outside the formal banking system. World Bank analysis published in 2017 also found that women, poor adults and people with lower levels of education were more likely to have applied for accounts following the introduction of Jan Dhan.

Greater inclusion of women and rural households: The participation of women was another important feature. More than half of PMJDY account holders were women by August 2018. This was significant because women had historically experienced greater financial exclusion than men. Global Findex data showed that female account ownership in India increased substantially between

2014 and 2017.The high proportion of rural and semi-urban accounts also demonstrated the scheme's focus on populations that were traditionally underserved by formal banking. Business Correspondents and Bank Mitras became important mechanisms for extending banking services beyond conventional branches.

Integration with the wider financial system: PMJDY also created an institutional foundation for linking previously excluded households with other financial services. RuPay cards provided access to formal payment infrastructure, while Aadhaar seeding and bank accounts supported the expansion of DBT.The Economic Survey 2016–17 reported around 26.5 crore Jan Dhan accounts, equivalent to approximately 21 percent of India's population, and noted that 57 percent had been Aadhaar seeded at that stage. It also recognised that considerable progress had been made towards the JAM framework while noting that important gaps remained. Thus, PMJDY's principal achievement by 2018 was the creation of a large formal financial access platform. It substantially reduced the numerical gap in account ownership and brought previously excluded groups into the formal banking system.

Impact and Limitations of PMJDY

PMJDY significantly expanded access to formal banking, but account ownership alone cannot be treated as complete financial inclusion. The evidence available by 2018 highlighted an important access usage gap, as many accounts were either inactive or had very low balances.

Account usage: Early studies reported a high incidence of zero balance accounts. Shahid and Singh (2015) found that more than 70% of accounts in their initial assessment had zero balances, while Tripathi, Yadav and Shastri (2016) argued that opening an account was only the first step towards effective financial inclusion. The *Global Findex 2017* also indicated that account ownership had expanded much faster than active usage. This suggested that many newly included households had not yet integrated formal banking into their regular financial activities.

Financial literacy: Limited financial awareness remained another major constraint. Studies during the period found that many rural beneficiaries had inadequate knowledge of facilities such as overdraft, insurance and other financial products. A field study in Mulshi Taluka, Pune, found that awareness of PMJDY's wider benefits was limited among several account holders. Therefore, financial literacy needed to move beyond account opening awareness towards practical knowledge of saving, credit, insurance, pensions and digital payments.

Last-mile banking: Effective inclusion also depended on reliable access to banking services. Business Correspondents and Bank Mitras played a crucial role in reaching remote and underserved populations, but their effectiveness was affected by poor connectivity, inadequate cash availability, technological constraints and operational difficulties. Strengthening last-mile banking was therefore essential for converting account ownership into regular usage.

Access to formal credit: PMJDY improved access to banking accounts, but this did not automatically provide adequate institutional credit. The Global Findex 2014 showed that only about 7% of Indian adults had borrowed from a formal financial institution during the preceding year. This highlighted the need to connect newly banked households with affordable and appropriate credit, particularly for livelihoods and small economic activities. The policy challenge was therefore to move from "banking the unbanked" to "financially empowering the banked."

Regional and social disparities: National figures also concealed differences across states and social groups. RBI identified low literacy, inadequate banking infrastructure, geographical distance and limited access to formal credit as important barriers to financial inclusion. State level research by Sharma, Bhattacharya and Thukral (2018) similarly found considerable variation in financial inclusion outcomes based on indicators such as account penetration, deposits and debit card usage.

Overall, PMJDY was a major achievement in expanding financial access, particularly among previously underserved groups. However, by 2018, its deeper impact remained constrained by inactive accounts, limited financial literacy, weak last mile delivery, inadequate credit access and regional disparities. Thus, the success of PMJDY needed to be measured not only by the number of accounts opened, but by their active, regular and meaningful use.

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Policy Priorities

The experience of PMJDY up to 2018 shows that India had made substantial progress towards universal financial access. However, the major challenge was to convert account ownership into active and meaningful financial participation. The following priorities were important for deepening financial inclusion:

1. **Strengthening financial literacy:** Financial education needed to focus on practical knowledge of savings, credit, insurance, pensions, digital payments and consumer protection, particularly among rural and low income households.
2. **Improving last mile banking:** Business Correspondents and Bank Mitras needed better connectivity, adequate remuneration, reliable technology and sufficient cash availability to provide regular banking services in remote areas.
3. **Expanding access to formal credit:** Newly banked households needed affordable and timely institutional credit for agriculture, small businesses and livelihood activities. Bank accounts alone could not ensure financial empowerment.
4. **Promoting women's financial participation:** The high share of women among PMJDY account holders provided an important foundation for greater financial independence. Policy efforts should encourage women's active use and control of savings, credit and other financial services.
5. **Measuring meaningful inclusion:** The effectiveness of PMJDY should be assessed through indicators such as account activity, savings, credit access, insurance coverage, pension participation, digital transactions and DBT utilisation, rather than account numbers alone.

Conclusion

Pradhan Mantri Jan Dhan Yojana marked a major turning point in India's financial inclusion policy. By 2018, it had substantially expanded access to formal banking, particularly among rural households and women, while creating a platform for RuPay cards, Aadhaar enabled services and Direct Benefit Transfer. The scheme demonstrated that mission mode public policy, supported by banking institutions and technology, could bring millions of previously excluded people into the formal financial system.However, the evidence available by 2018 also revealed that access did not automatically lead to usage. Inactive accounts, limited financial literacy, weak last mile banking and inadequate access to formal credit remained important constraints. Therefore, the next stage of financial inclusion required a shift from simply "banking the unbanked" to ensuring that the banked could actively and effectively use financial services. The ultimate success of PMJDY would depend not merely on the number of accounts opened, but on whether these accounts enabled households to save securely, obtain affordable credit, manage financial risks and participate more fully in the formal economy.

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