Q3

Pradhan Mantri Jan Dhan Yojana (PMJDY) is necessary for bringing unbanked to the institutional finance fold. Do you agree with this for financial inclusion of the poor section of the Indian society? Give arguments to justify your opinion.

UPSC Civil Services Mains 2016 · GS III · 12 marks · Indian Economy

Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Core demand of the question

- Take a clear view on whether Pradhan Mantri Jan Dhan Yojana is necessary to bring the unbanked into institutional finance
- **Argue for the poor:** accounts, debit cards, overdraft, insurance and Direct Benefit Transfer
- **Note remaining gaps:** dormancy, last-mile service, and credit beyond the account

Revision summary

PMJDY (2014) gives a zero-balance account, RuPay card, overdraft and basic insurance to the unbanked.

It is necessary because Direct Benefit Transfer and later credit need a bank identity.

It helps the poor by cutting leakage and offering a cheaper alternative to informal lenders.

Dormant accounts and weak last-mile cash-out remain the main gaps.

Inclusion is complete only when the account is used and credit and insurance actually work.

Introduction

Pradhan Mantri Jan Dhan Yojana (PMJDY), launched on 28 August 2014, is the Union's mass drive for a bank account, a debit card, overdraft and basic insurance. For the poor, institutional finance begins with an **identity that a bank recognises**. PMJDY is necessary as that first door. It is not sufficient as the whole of financial inclusion.

Body

Why PMJDY is necessary

- Large numbers of poor households were **unbanked** despite earlier no-frills and Business Correspondent experiments; they saved in cash, gold or informal lenders.
- A **zero-balance account** with Aadhaar seeding lets wages, pensions and subsidies travel by **Direct Benefit Transfer**, cutting leakage to middlemen.
- The **RuPay debit card**, accident cover and life cover attached to the account give a thin safety net that a village moneylender does not.
- An **overdraft** on a functioning account is a first formal credit line, cheaper than usurious informal loans if the account is actually used.

- Banking correspondents and the **India Post Payments Bank** path (then taking shape) extend the fold to habitations without a brick branch.
- Without this rail, **Pradhan Mantri Mudra Yojana**, crop insurance premia, and later gas and wage transfers cannot reach the same household on one ledger.

Arguments that it serves the poor

- Inclusion is not only credit; it is **safe saving, payment and insurance**. PMJDY put those three on one product for people the commercial branch had ignored.
- Women's accounts and self-help group linkage improve **household bargaining** when transfers are paid to the woman.
- Formal accounts create a **footprint** that banks and microfinance can use for small loans, which is the opposite of perpetual informal debt.

Limits, not a reason to discard the scheme

- Many accounts stayed **dormant** after the enrolment camp; an unused ledger is not inclusion.
- Last-mile **cash-out, connectivity and BC viability** still fail in remote blocks.
- Overdraft and insurance claims need **literacy and grievance redress**; the poor can still be charged or denied.
- True inclusion also needs **affordable credit, pensions (Atal Pension Yojana) and insurance (PMJJBY, PMSBY)** that sit on the Jan Dhan rail.
- **So the right view is:** PMJDY is **necessary and largely well aimed**, provided the State treats usage, not only account-opening numbers, as success.

Flow diagram

Unbanked poor -> PMJDY account

PMJDY account -> DBT payments

PMJDY account -> RuPay overdraft

PMJDY account -> Basic insurance

DBT payments -> Institutional finance fold

RuPay overdraft -> Institutional finance fold

Basic insurance -> Institutional finance fold

Institutional finance fold -> Usage last mile credit

Conclusion

- **Yes:** PMJDY is necessary to bring the unbanked poor into institutional finance. An account, card and transfer rail are the floor. The scheme will include the poor in substance only when accounts are used, cash-out works, and credit and insurance actually pay out.

Facts & figures

PMJDY

Pradhan Mantri Jan Dhan Yojana, launched 28 August 2014: universal bank accounts with RuPay, overdraft and insurance.

Direct Benefit Transfer (DBT)

Direct Benefit Transfer: subsidies and wages credited to Aadhaar-seeded accounts to cut leakage.

MUDRA

Pradhan Mantri Mudra Yojana (2015): collateral-light loans to micro enterprises, often using the Jan Dhan customer base.

PMJJBY and PMSBY

Low-premium life and accident insurance schemes (2015) that enrol through bank accounts.

Atal Pension Yojana

2015 contributory pension for workers in the unorganised sector, routed through banks.