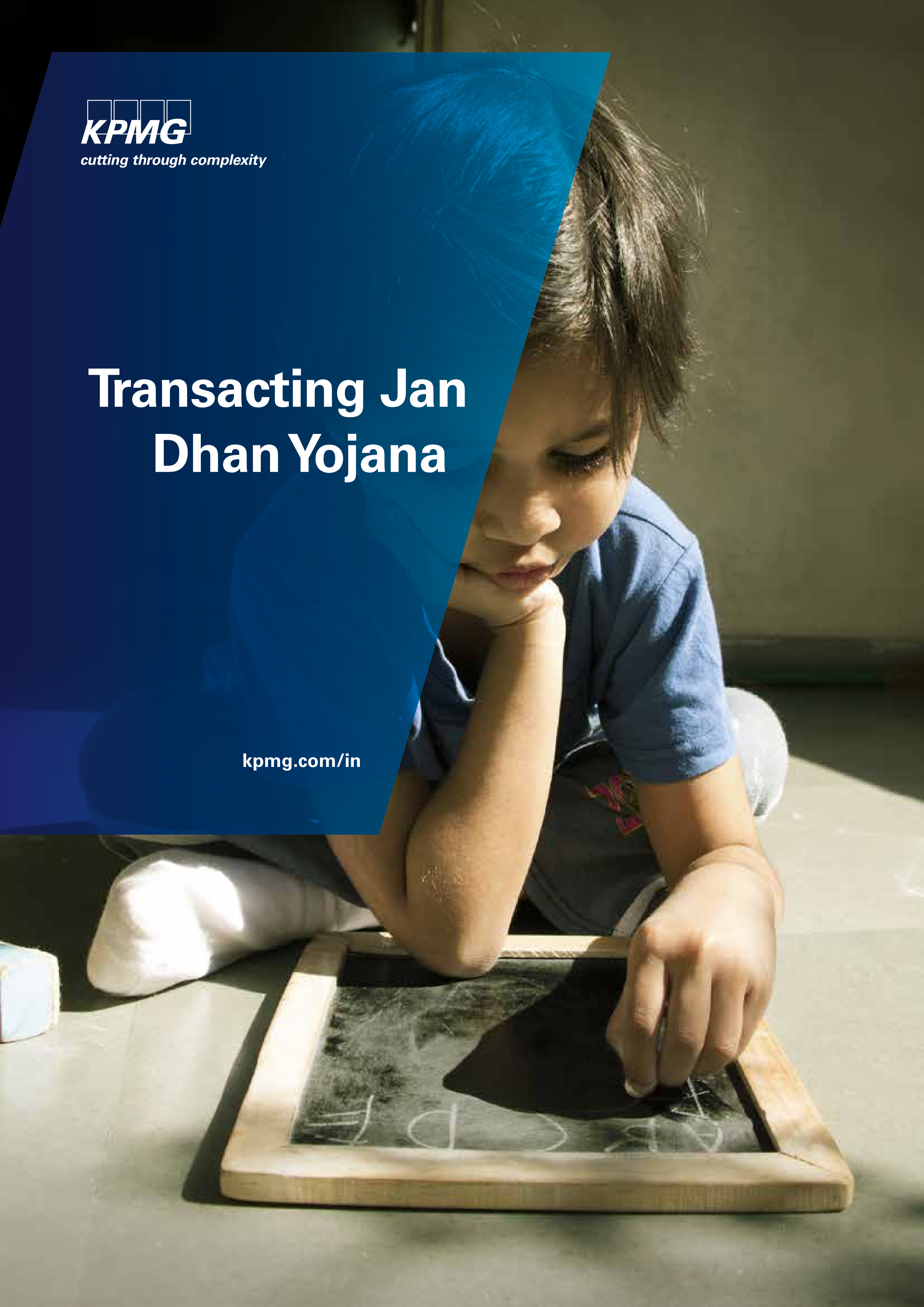


KPMG

cutting through complexity

Transacting Jan Dhan Yojana

kpmg.com/in

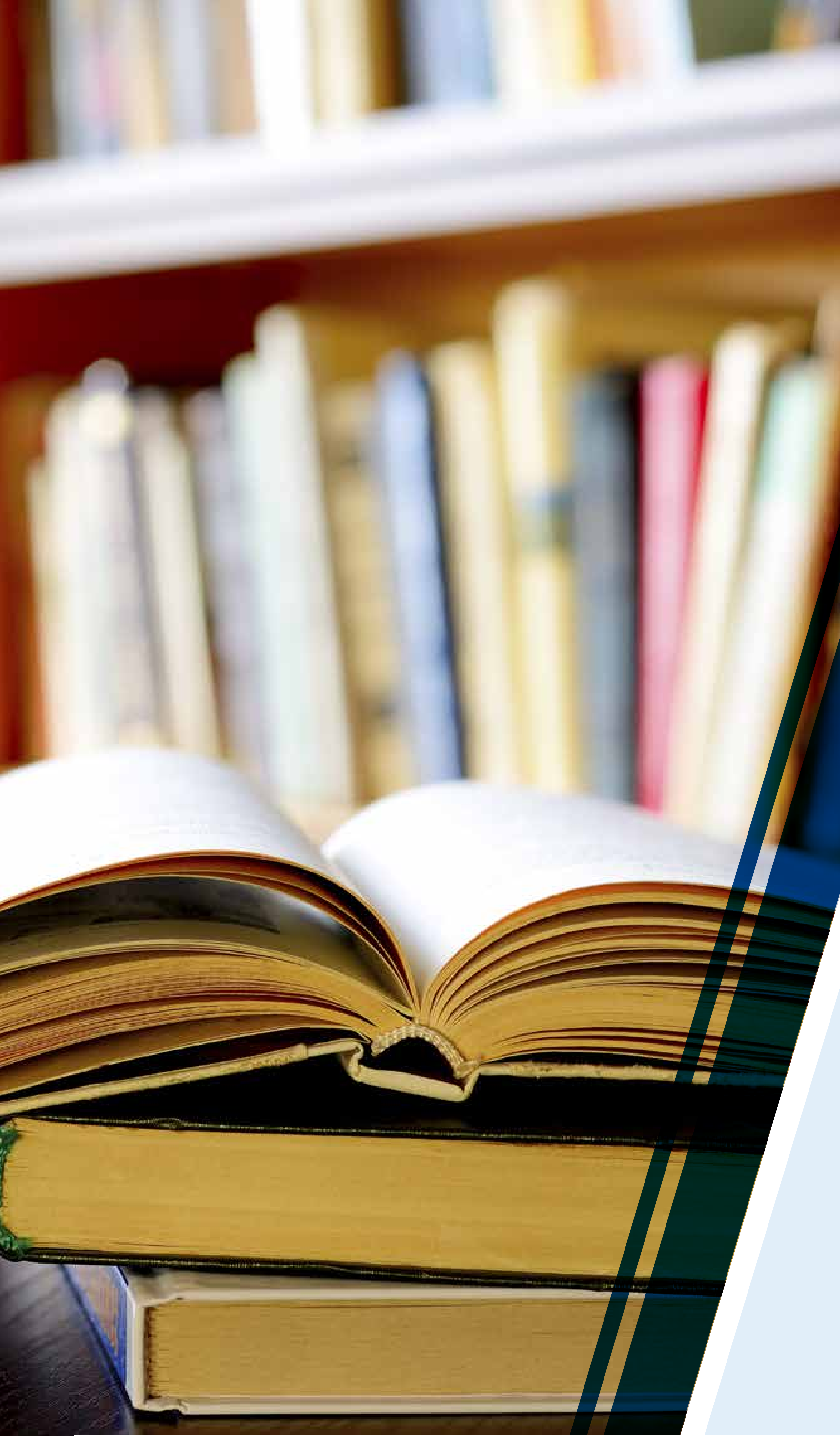


Table of contents

Foreword

The announcement of 'Pradhan Mantri Jan Dhan Yojana' by the Honourable Prime Minister of India on 15 August 2014 and the operational launch on 28 August 2014 has given a thrust to the financial inclusion program in India. The drive, which is facilitated by banks has seen an opening of more than 12.5 crore bank accounts and has also featured in the Guinness Book of World Records. This national mission, which aims to include every household in the financial system is certain to be thwarted with challenges due to the vast scope and will require special strategies by stakeholders to make it a success. Through this thought leadership – Transacting Jan Dhan, KPMG in India has identified key challenges faced or are likely to be faced for the operational execution of PMJDY. We have also identified strategies which can lead to the initiative being successful in meeting its objectives.

As per the 2011 Census, a sizeable population in both urban and rural India was financially excluded, highlighting the limited success of the existing financial inclusion initiatives. While the earlier schemes focused on reaching the villages through business correspondents, technology enabled banking, etc. PMJDY focuses on at least one account per household. These accounts are attractively packaged by providing additional benefits like accident and life insurance, debit card, overdraft and mobile banking facility.

An aggressive initiative of such a large scale is bound to have challenges. We believe that some of the key challenges which could impede the success of PMJDY are infrastructural issues pertaining within India, ability to keep the accounts 'live', lack of financial and technological literacy amongst the masses, duplication of accounts, managing the ecosystem of business correspondents and the economic burden on stakeholders (especially banks) of keeping these accounts active.

Over a period of time, the ability to navigate the above challenges will determine the success of PMJDY. Stakeholders like RBI, central and state government, banks, local bodies, other government agencies like NABARD, NPCI, etc. will have to build a sustainable eco-system to keep these accounts active. The eco-system would include a vibrant technology infrastructure to facilitate technology enabled banking activities, increased human interface for effective adoption, changes to existing regulatory and legal framework to push banking activities while protecting the account holder, deployment of innovative technology solutions to make small ticket transactions economically viable and an effective monitoring mechanism for flagging of gaps and quick intervention.

KPMG in India is proud to have worked on this project, in the capacity of consultants, to assess the programme's progress. We believe that the success of PMJDY can lay a strong foundation for inclusive growth in India. We hope that our views in this thought leadership publication will help stakeholders in executing PMJDY efficiently.

Ambarish Dasgupta
Head
Management Consulting

Eric Anklesaria
Partner
Management Consulting

Conceptualisation

The Indian economy has grown at a healthy pace since the post-liberalisation era was heralded in the early 1990s. The economic forces in the country were unleashed to ensure a greater market driven economy with safeguards in place to ensure that the underprivileged and poor did not suffer. The opening of the economy resulted in greater need and demand for financial services products. However, the proliferation of financial services remained restricted to urban, semi-urban and large rural centres. In addition, the number of financially excluded in the country continued to increase. Realising that sustainable development depends on widespread access to and usage of financial services & products, the Government of India and the Reserve Bank of India embarked on a mission of ensure financial inclusion for all citizens of India.

PMJDY was introduced by the Prime Minister Narendra Modi on 15 August 2014 to ensure 'access to various financial services to the excluded sections i.e. weaker sections and low income groups.'[1]

"Economic resources of the country should be utilised for the well-being of the poor. The change will commence from this point." – Shri Narendra Modi (Honorable Prime Minister of India)

The objective of PMJDY is an integrated approach to ensure comprehensive financial inclusion of all the households in the country.[1] The thought behind this scheme is to uplift those segments of the population who are devoid of the financial benefits & security that come along with various government schemes such as pension plan, savings/deposit account, remittance, credit, insurance among others. Use of technology to bring about this change is a central theme of the PMJDY.

Vision

PMJDY envisages universal access to banking services and products with at least one banking account for every household in the country.[2] The weaker section of society has found it difficult to gain access to banking facilities and has been excluded from the economic growth and development that the country has witnessed. PMJDY was conceived with a view to provide comprehensive and inclusive growth. This is best illustrated in Prime Minister Modi's words, "Sab Ka Saath, Sab Ka Vikaas".

Source: http://pmjdy.gov.in/Pdf/PMJDY_BROCHURE_ENG.pdf

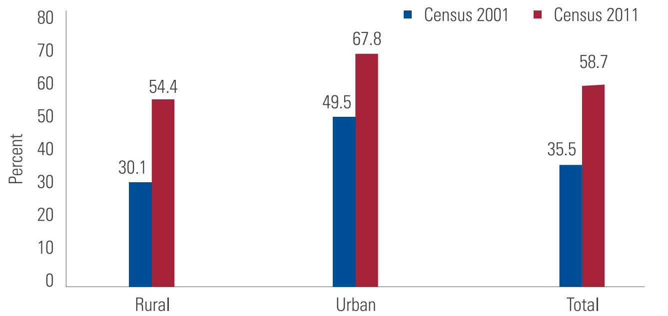
1. http://www.pmjdy.gov.in/pmjdy_mission.aspx
2. www.iba.org.in/Documents/JDY_Mission_Document.pdf

Access to banking services can provide the weaker section a much awaited freedom from local & expensive moneylenders. In addition, they will be able to manage their own finances and provide a shield to any financial crisis caused by unpredicted needs.

PMJDY envisions to provide a host of banking facilities to all citizens. In addition, there is an acceptance of the need to spread financial literacy. The transition from 'pillow banking' to participating in the formal banking ecosystem will require effort and the PMJDY recognises that. As part of the initiative, a RuPay debit card with INR100,000 accident coverage will be provided to each account holder. In the future, more benefits and financial products such as; insurance and pension plans will be included as part of the offering. The Government of India intends to cover the 7.5 crore households who are still naïve to these facilities. (Source: pmjdy.gov.in)

As per the census of 2011, more than 40 per cent of the Indian population did not have access to banking facilities.

Availability of Banking Services



Source: http://pmjdy.gov.in/Pdf/PMJDY_BROCHURE_ENG.pdf

The above graph clearly illustrates that there is a sizeable population of financially excluded people in both urban as well as rural areas. Since low financial growth impedes economic growth, it was imperative for the government to initiate financial inclusion schemes that would alleviate poverty and reduce social inequity.

Financial inclusion – Progress of banks

Particulars	Year ended 2010	Year ended 2011	Year ended 2012	Year ended 2013	Year ended 2014
Banking outlets in villages					
• **Branches**	33,378	34,811	37,471	40,837	46,126
• **Villages covered by BCs**	34,174	80,802	1,41,136	2,21,341	3,37,678
• **Other modes**	142	595	3,146	6,276	-
• **Total**	**67,674**	**1,16,208**	**1,81,753**	**2,68,454**	**3,83,804**
Urban locations through BCs	447	3,771	5,891	27,143	60,730
Basic saving bank deposit A/c - branches					
• **No. in millions**	60.19	73.13	81.20	100.80	126.00
• **Amount in billions**	44.33	57.89	109.87	164.69	273.30
Basic saving bank deposit A/c - BCs					
• **No. in millions**	13.27	31.63	57.30	81.27	116.90
• **Amount in billions**	10.69	18.23	10.54	18.22	39.00
OD facility availed in BSBDA A/c					
• **No. in millions**	0.18	0.61	2.71	3.92	5.90
• **Amount in billions**	0.10	0.26	1.08	1.55	16.00
KCCs (No. in millions)	24.31	27.11	30.24	33.79	39.90

Source: http://pmjdy.gov.in/Pdf/PMJDY_BROCHURE_ENG.pdf

The Government of India and the Reserve Bank of India (RBI) have adopted a bank-led model for achieving financial inclusion and[3] have formulated policies to remove bottlenecks and launch new products/services. Basic Saving Bank Deposit (BSBD) accounts, Business Correspondent Banking, Kisan Credit Card (KCC), OD facility on BSBDA, relaxed KYC norms, simplified branch authorisation policy, and mandatory requirement of opening new branches in un-banked rural centres are some of the key initiatives undertaken by the RBI. While these initiatives have brought more people into the banking ecosystem, banks have not been able to achieve the vision of complete & comprehensive financial inclusion.

Swabhimaan scheme

'Swabhimaan', another financial inclusion scheme launched in February 2011, focused on providing banking services to un-banked villages with a population greater than 2000.[4] Business Correspondents (BCs) were appointed by banks to act as intermediaries between the banks and the customers.

The PMJDY envisages a shift in approach from Swabhimaan. The PMJDY's prime focus is households and not villages. Its focus is the financially excluded, in both urban and rural areas, unlike the earlier scheme which concentrated on the rural population. The PMJDY is a push-based program which seeks to create financial literacy and proactively provides access to banking services rather than a pull-based program which needed people to open accounts in order to receive welfare-related funds. The strategy is based around fixed point Bank Mitras (BCs) using technology intensive tools such as; Aadhaar, e-KYC, mobile banking among others. Each account is accompanied with a RuPay debit card and mobile banking. Online monitoring through system-generated MISs and the facility of a toll-free call center number to provide regular feedback. The government is monitoring the scheme and its implementation and has ensured high visibility through aggressive branding. A structured monitoring mechanism has been installed that ensures high levels of coordination between the Centre and the District level implementation committees.[5]

Potential benefits

The PMJDY is a national mission to revolutionise the traditional banking system in India by enabling every household to participate in the banking and insurance ecosystem. Technology has enabled banks and the Government in devising new approaches/schemes for greater proliferation of banking services and products

The objective of the PMJDY scheme aims to benefit the overall economy of the country and with some of its lucrative benefits it will motivate the target population to exploit this opportunity and avail the offered benefits. Some of the key benefits of the PMJDY scheme are enlisted below:

Insurance benefits: Account holders will be given INR30,000[5] worth of insurance coverage subject to their compliance with the account opening pre-requisite which is to open an account by 26 January 2015 and having an accidental insurance coverage of over INR100,000.

Loan benefits: Account holder can avail loan benefit of up to INR 5000 from the bank after satisfactory operations in the account post six months of opening the account. This will especially assist citizens who are below-the-poverty line and struggle to sustain their everyday living. Along with overdraft facilities, loan benefits will gradually reduce the dependence on expensive local moneylenders.

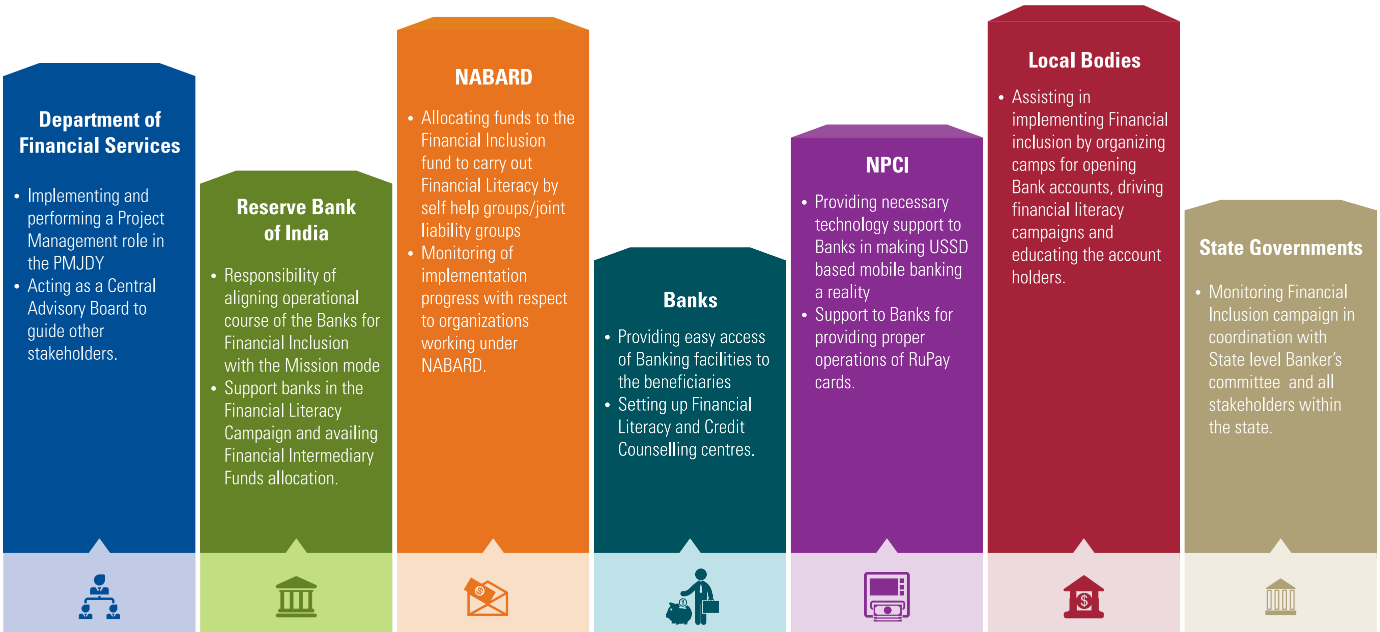
Mobile banking facilities: Account holders will get the luxury of enjoying any time banking at their fingertips by availing mobile banking facilities. Mobile banking will be available on basic cell phones with SMS and USSD features.

3. http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862
4. http://pib.nic.in/newsite/efeatures.aspx?relid=84236
5. http://pmjdy.gov.in/Pdf/PMJDY_BROCHURE_ENG.pdf

Monitoring mechanism

For creating, implementing, maintaining and keeping a project plan updated, data needs to be gathered at appropriate levels and with the required details. This data can be collected either by the central body directly from the bodies functioning at the ground level or as a bottom-up approach through the various parties implementing the plan. The central body relies on banks/regulators/parties to collect the data, organise and analyse the data and provide it in a comprehensible form. This helps the central body to monitor the implementation work and progress towards financial inclusion goals. The contributing parties provide monthly data updates which the central body collates and analyses on a quarterly basis. Cooperation and co-ordination are two important aspects towards creating a streamlined environment and the accountability is to be clearly defined.

Role of Major Stakeholders



Source: http://pmjdy.gov.in/Pdf/PMJDY_BROCHURE_ENG.pdf

Challenges in transacting Jan Dhan Yojana

The PMJDY is an ambitious initiative with aggressive timelines and deliverables. The ability of the initiative to be successful in its endeavour to provide comprehensive financial inclusion to each citizen depends on coherent and efficient execution.

KPMG has identified six key challenges which could impede the success of this initiative.

Infrastructural Issues: Lack of physical and digital connectivity in hinterlands and hilly areas such as the North East, Jammu & Kashmir, Uttarakhand, and Bihar pose a major hurdle in achieving complete Financial Inclusion. Technological issues that affect the banks range from poor connectivity, network outage, power shortage and bandwidth problems to managing costs of maintaining the infrastructure. This leaves us with an impending question of 'Whether our Banks Infrastructure is ready to provide banking facilities to the ever growing population of India?'

As per the 2011 census, only 46,000 out of the six lakhs villages in India have bank branches. Only 14 per cent of the 160,000 ATMs are in rural India. Electricity is a basic requirement for operationalisation of banks, running ATMs and network connectivity, but large parts of the country suffer from limited or no access to electricity. According to the Census of 2011, only 55 per cent of all rural households had access to electricity. Most ATMs in rural India either run out of cash or remain shut due to power outage. Infrastructural constraints means that it takes seven-eight working days to repair faulty machines in remote locations, against 8 hours in urban areas.[6] KPMG analysis shows that the branch network, especially of public sector banks, needs a major infrastructure thrust from the government. In light of such a scenario, a cost effective, techno-savvy and economically viable business model needs to be implemented to tackle infrastructural challenges.

Keeping the accounts 'LIVE': One of the biggest challenge that previous inclusive banking initiatives such as; Swabhimaan and No-frills account faced was limited number of transactions in the newly opened accounts, which led to the account converting to dormancy. The current statistics also show that increasing transactions per account is a major challenge. As per the official PMJDY website, 67 per cent of the 12.58 crore accounts opened until 2 February 2015 had zero balance.[7] Villagers are reluctant to travel to far located branches for depositing a small amount of money. It costs half of their day, time and loss of a full day's earnings. This is a serious concern to ponder upon. On the other side, Banks have to spend INR 100-150 per account on the necessary paper work, cost of holding camps and the commission paid to Business Correspondents who are authorised to open accounts. Unless transactions per account increases via technology or Business Correspondents, it is financially unsustainable for the Government to run this scheme.

The Government intends to route direct benefit cash transfer, LPG subsidy, pensions and any other subsidy for accounts opened under PMJDY, to ensure that accountholders have an incentive to conduct transactions on the account. However, sustainability and profitability of the account cannot survive on welfare schemes only. KPMG believes that other initiatives of the government (Make in India, skill India) need to be linked with PMJDY which aims to build economic activities around villages that could generate employment opportunities. It is also essential to make people aware of the benefits of saving and investing money wisely through financial literacy programs. A survey conducted by the Kenyan Government in Western Kenya showed that individuals who were given access to formal savings account increased the average daily investment in their businesses by 38-56 per cent.[8]

Financial and Technology illiteracy: Multiple initiatives have been launched by successive Indian Governments to achieve financial inclusion but more than 40 per cent of the population still lacks access to even basic financial services like savings, credit, investment and insurance facilities . Lack of financial literacy is a key roadblock. A survey conducted by financial services giant, Visa reveals that 65 per cent of Indians lack financial literacy. There is a lack of awareness, knowledge and skills among rural people to make informed decisions about savings, borrowings, investments and expenditure.[9]

Providing banking services through a branch led model to the last mile is an expensive proposition for banks. With the advent of technology it is now possible for banks to provide banking services to the last mile. However, adoption of technology for conducting banking transactions by the masses is still at a very nascent stage. There is lack of awareness about the financial products available and security considerations around online banking still persists. There is a need to educate people on usage of cards, ATMs, e-banking in a secure manner. For all stakeholders, financial literacy has to be the top priority, and should be appropriately blended with consumer protection measures.

KPMG strongly believes that financial literacy can be improved through inclusion of relevant material on financial management in the general education program of schools and colleges. There is also a need to create awareness about financial products by circulation of simple messages of financial management in the vernacular language amongst rural people; through media, education camps, counselling centres, campaigns and via use of innovative technologies. Enlisting assistance from SHG, microfinance companies, FMCG companies with access to farmers and other institutions in constant contact with the weaker sections is necessary to increase financial literacy.

6. http://www.rupaycard.info/search/label/ATM
7. http://pmjdy.gov.in/account-statistics-country.aspx
8. web.stanford.edu/~pdupas/SavingsConstraints.pdf
9. https://www.practicalmoneyskills.com/summit2012/decks/bodnar.pdf , Year 2012 , Visa International Financial Literacy Barometer

Duplication of Accounts:

The lure of getting a large insurance cover, accidental death benefit cover and overdraft facility, may prompt people to open multiple accounts in different banks using different identification documents – Aadhaar card, PAN card, Voter id card - as there is no single centralised information sharing system to detect duplication of account. Most financial inclusion and welfare schemes have struggled with on-boarding citizen information. An Aadhaar card is crucial for the success of the Jan Dhan Yojana as it is backed by biometric authentication which could eliminate the risk of fraud or duplication. However, nation-wide implementation is going to take some time.

Aggressive account opening targets may force Banks to disregard duplication, hence endangering the very intent of the scheme. In addition, e-KYC is an under-utilised technology.

KPMG believes that all banks should establish a single centralised information sharing system to weed out multiple accounts and emphasis on quality rather than quantity should be the priority for both banks and the Government.

Managing the ecosystem of Business Correspondents:

Business Correspondents act as intermediaries and function as representatives of the Banks to provide financial services in un-banked areas. Currently, close to 3.3 lakh villages have banking correspondent agents.[10] However, managing the Business Correspondent ecosystem is a complex and unwieldy task for the banks. Various bottlenecks of the BC model have come to light in the past few years:

- Delay in payout of subsidies and remuneration granted under MNERGA, Direct benefit transfer, pension, etc. to villagers by Business Correspondents.
- Little incentive (only 2 per cent commission) to the Business correspondent leads to demands of commission from illiterate villagers for loan processing, withdrawal of money from account, outside bank's knowledge.
- Inadequate and inconsistent customer service by a Business Correspondent to customers which poses a reputational risk to the banking institution.
- Bank's lack of commitment to monitor the operations of Bank Correspondents.
- Absence of proper training to a Business Correspondent agent regarding financial products and ability to handle customer complaints.
- Lack of effective grievance redressal systems.

As a Business Correspondent is key to the last mile connectivity, it is imperative for PMJDY to overcome the above mentioned bottlenecks. Banks need to perform appropriate audits and inspection of Business Correspondents activities. In order to make the Business Correspondent model sustainable, appropriate incentives and formal trainings should be provided to the agents.

Economic Burden:

Pradhan Mantri Jan Dhan Yojana has been launched with a bouquet of benefits linked to it such as; overdraft feature, life insurance cover, accidental insurance benefit, pass book, cheque books, direct benefit transfer and RuPay debit card. Keeping newly opened accounts live, the insurance claim system functional, funneling subsidy money through direct cash transfer in the accounts and sustaining the overdraft facilities financially viable will imply costs for banks and the Government. The immediate challenge in front of the banks is to chart out a financially viable model of keeping the accounts live and providing the benefits linked to the accounts such as insurance cover and a card facility. It is a possibility that the overdraft facility could end up as bad loans for banks as the scheme does not spell out how the banks can collect debts.

Assuming one account each for seventy-five millions households, an overdraft facility of INR 5000 and 60 per cent of total households avails this facility, amounts to INR 22,500 crore. Even if we assume a risk weighted percentage of 20-25 per cent, it would mean an amount of INR 4500 crore non-performing asset to the banking sector. With many debt waivers in the past, people may end up treating the loans as freebies. Minimum balance kept in the account and number of transactions carried out per account in a year would decide the economic viability of this scheme.

PMJDY is a facilitator to achieve financial inclusion. A wide-ranging and thorough framework, inclusive of Jan Dhan Yojana, Aadhaar, Direct benefit cash transfer, financial literacy, improved infrastructure and self-sustaining last mile delivery model can result in effective financial inclusion. With firm intent and the ability to address challenges, financial inclusion for all can be realised in the near future.

10. http://pmjdy.gov.in/Pdf/PMJDY_BROCHURE_ENG.pdf

Strategies for making PMJDY a success

The success of PMJDY will largely depend on reaching the poorest of the poor in the country and end financial untouchability, in a country where 25 per cent of the people live with an income of less than INR 40 a day. The critical aspect of PMJDY is the delivery of banking services to the un-banked and under-banked considering the constraints of broadband connectivity, technology and financial literacy. The immediate need is to build economic activity around un-banked/under-banked villages so that the newly opened bank accounts remain active with regular transactions.

Reaching the poorest

It is not economically viable for banks to provide banking services to the unbanked by opening physical branches, especially in the rural areas. Even when economically viable, it is not feasible due to lack of network connectivity, power backup, lack of electricity supply, among others. Hence, banks are increasingly embracing the use of branchless banking by providing banking services such as opening of bank account, cash deposit, cash withdrawal through a Business Correspondent (BC). A Bank Correspondent (BC) with a minimum salary of INR5,000 and additional incentives typically perform the functions to acquire customers and manage cash in/ cash out services for the customers. The BC who is to provide banking services needs to be equipped with the required IT infrastructure viz. Micro ATM, bio-metric scanners, etc. Technology infrastructure in India suffers due to connectivity and literacy issues leading to non-optimal utilisation of resources available. Banks, the Government and rest of the stakeholders will have to invest in technology solutions that ensure uninterrupted delivery of banking services to the rural masses.

Human Interface for increasing adoption

Financial and technical illiteracy of the weaker section of the society means that a lot of human interaction and hand-holding will be required for the transition to happen, from 'pillow banking' to account-based banking. Since it may be beyond the capability of new account holders to transact on their own, human intervention may be required initially.

Apart from illiteracy, the poor tend to shy away from visiting branches. The adoption of an agent-based model for remittances has resulted in a spike in adoption as has the use of BCs to facilitate transactions. New accountholders will need to be comforted that the money has been credited into their account and not into another account, erroneously. From an adoption perspective, a gradual transition from a human interaction based transaction to a 'Do-It-Yourself' model facilitated by technology would be a good strategy. Banks should have a plan to facilitate the transition to more self-conducted transactions at self-help kiosks, ATMs, mobile phone and other new technologies

However, this does raise the issue of fraud and trust. It is imperative that the BCs and agents are chosen with the utmost discretion and with due diligence. The BCs should preferably be from the same local region, should be provided with refresher courses at intervals, groomed and made aware of risk management and fraud-related issues. BC's should travel to the assigned villages during the weekly bazaar day where the people from remote areas become available, leading to increased chances of financial transactions. BCs can also help in extending the reach of Aadhaar and thereby facilitate routing of NREGA and other subsidies to the bank accounts.

Embracement of Aadhaar

PMJDY should integrate with Aadhaar to leverage on the existing reach and ensure unique financial identities. Banks can act as registrars for Aadhaar enrollments and ensure that the seeding of Aadhaar numbers in accounts should be given priority for Direct Benefit Transfer. In order to increase Aadhaar seeding & enrollment, an enrollment counter should be set-up wherever account opening camps are organised. Other modes of seeding like SMS, ATM, Internet Banking, planned Call / communication to the customers on Aadhaar seeding should also be utilised.

Regulatory Push

Regulators need to develop a regulatory framework which serves as a building block for increased evolution and adoption of technology and co-ordination among regulatory bodies viz. TRAI, RBI, etc. There should be incentives to technology providers to help them keep pace with significant changes in regulatory frameworks and processes and also ensure interoperability based on open standards. The RBI has been at the forefront of financial inclusions since 2005 and has laid down policies like automatic branch authorisation, bank branch location, common and interoperable platform to provide a roadmap.[11]

The RBIs recent initiative to provide licenses for payments banks and small banks is a step in the right direction. These specialised banks can undertake small-ticket size transactions, such as domestic remittances, profitably by using cost-effective technology and hence ensure greater financial participation.

Role of Technology to make Pradhan Mantri Jan Dhan Yojana a success

Technology is a critical enabler and the success of PMJDY depends on the ability to deploy cost-effective technology to transform the financial ecosystem in India. Through continuous innovation and stable underlying infrastructure, technology can help provide banking facilities to the un-banked and under-banked strata of the Indian society. As technology will assume center-stage for the success of PMJDY initiatives, technology deliverables should be aligned to ensure that the delivery of

11. http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862

financial services to all, happens in a transparent, righteous and equitable manner at an economical cost. Technology's ability to bring services to people's doorsteps and as per their needs will make it one of the biggest driver for PMJDY.

With the increased adoption of ICT (Information and Communication Technology), the world has shaped into a knowledge driven economy with greater focus on customer servicing. But India, despite its explosive internet growth still battles to make ICT reach the masses in rural India, owing to lack of connectivity and physical infrastructure. To reach the deprived sections of the society there is a much felt need of an enabling technology framework to overcome the current challenges of PMJDY and accelerate the process of financial inclusion.

The focus of technology initiatives should look beyond the realms of automation, digitisation and be more focused on building capability platforms for re-use and quicker deployments. To ensure standardisation there is an inherent need to define a commonly accepted technology framework with basic standards viz. data interchange formats, standardised technical components, etc. with the stakeholders viz. technology providers, banks, etc. to ensure interoperability and re-use of capabilities. This standardisation will help establish an open platform to encourage innovation and enable economies of scale to ensure technology adoption in a cost effective manner, these innovations can help reach the bottom of the pyramid.

Some of the major challenges in reference to technology adoption are lack of last mile connectivity, financial and technology illiteracy, lack of technology adoption, etc. Technology has helped enable Multi-channel branchless banking through E-KYC, transaction through mobile banking, IMPS (immediate payment system), Micro ATM's, National Unified (USSD platform), RuPay debit cards and Aadhaar payment bridge system.

Keeping the Account active

The overdraft facility provided to customers after 6 months of opening the account, will help liberate the poor people from the clutches of the local money lenders. The provision of the overdraft facility will largely depend on the Bank's satisfaction to extend the same. There should be a guidance and mandatory policy by the RBI to the Banks for extending overdraft facility to the customers. Transfer of subsidies to the poor should be routed through these accounts so as to ensure that these accounts continue to have deposits and can remain live, this can reduce the number of dormant accounts. The cost of overdraft facility might not get repaid leading to losses to Banks, hence there is a need for integrating with NREGA and LPG subsidies to ensure direct deposits into these accounts.

As per the FIBAC survey, only 27 per cent of Basic Savings Basic Deposit (BSBD) accounts are active (with a minimum one transaction in last one year).[12] The main deterrent was difficulty in conducting transactions, resulting in the accounts becoming dormant or active with low balances. To encourage regular transactions, the cash-in and cash-out mechanisms should be easy to understand and operate. Keeping this in mind, PMJDY is better equipped with a mandatory RuPay debit card for accountholders to withdraw cash and to make merchant payments. However, insufficiency of ATMs and acceptance network in India may act as a dampener. Mobiles can be a key enabler for enabling digital transactions at much lower costs, so that the on-boarded customers can transact with ease through the mobile platform as well as through mobile-to-mobile payment mechanism.

Innovative technology approaches across multiple channels will provide more cash-in and cash-out options and thus facilitate transactions from the account. An increase in transactions and maintenance of higher deposits in bank accounts will increase profitability to banks. This will lead to banks looking at financial inclusion initiatives as profitable business ventures, rather than a costly regulatory requirement.

Acceptance Network in India

Over the last few years, banking has evolved in such a way that, instead of customers reaching out to banks, banking has come to the doorstep of customers through business correspondents, ATMs, mobile ATMs, merchant point of sale, door-step bankers and digital cash. As of 2013, within BRICS nations, India has one of the best penetrations of commercial bank branches in terms of geographical area (per 1000 sq. km). However, the penetration of commercial bank branches per 100,000 adults in the country dwindles with Russia and Brazil having much higher penetration ratios. A similar trend is observed in the penetration of ATMs in terms of geographical area and number of adults, with India having the lowest number of ATMs per 100,000 adults. In order to reach the hinterlands of the country, banks have increased their dependency on Business correspondents which is evident from the ten-fold increase in number of BCs in last five years.

12. http://www.fibac.in/ppt.html, FIBAC productivity survey 2014

Comparison of key financial penetration and availability indicators as of 2013[13]

Criteria	Brazil	Russia	India	China[15]	South Africa
Number of ATMs per 1,00,000 Adults	130	46	13	155	62
Number of ATMs per 1000 km[14]	23	55	38	11	18
Number of commercial bank branches per 1,00,000 adults	47	7	12	38	10
Number of commercial bank branches per 1000 Km[14]	8	9	35	2	3

Financial service usage indicator in India[14]

Criteria	2009	2010	2011	2012	2013
Number of ATMs in India	44310	61833	76741	97121	115849
Number of Branches	33378	34811	37471	40837	46126
Number of Business Correspondents	34316	81397	144282	227617	337678
Average ICT transactions per BC based account	2	2.7	2.7	3.1	2.8

PMJDY can act as a catalyser to galvanise the ATM industry to more than double its network to 3 lakh machines in the next 2 years. If we add 15 crore RuPay cards under PMJDY to the existing cardholder base of 40.9 crore (as of June 2014), it will require huge infrastructure and technology support of ATMs and Business Correspondents. The RBI and banks may need to revisit the restriction of capping the number of five free transactions in a month in order to overcome the fear that transactions may fall.

The PoS infrastructure in India is also insufficient to facilitate movement to a cashless economy. The 1.1 million PoS terminals are predominantly in metros and Tier 1 cities with concentration around large stores selling FMCG products, apparels, restaurants, hotels and other services availed of by the Sec A classified population. Due to competition, many large merchants have multiple PoS devices and hence ~600,000-650,000 merchants in the country offer PoS-based transactions.[17] India has ~14 million shopping outlets which conduct business in cash due to lack of electronic payment options. In rural areas, consumers have no option but to withdraw cash from the ATM or via the BC and conduct a cash transaction through merchants. This lack of acceptance network and avenue to pay for goods and services using electronic means can be a huge roadblock in the success of PMJDY.

There is a need to aggressively increase the ATM and acceptance network in the country. New technology like mobile payments should be incentivised as mobile-based transactions are easier to rollout and not as expensive as a PoS implementation. The Government, regulators, banks, telecom companies, wallet providers, technology service providers and all intermediaries need to work together to create a sustainable and scalable acceptance network.

Monitoring Mechanism

A large and ambitious program like the PMJDY requires high level of monitoring and data management. A robust data analytics engine is required to measure the progress by providing meaningful dashboards from a combination of datasets from various banks and departments. Dashboards can enable a real-time bird's eye view of the performance of banks and the scheme, implementation status and depth of financial inclusion. These can provide a quick and concise information and insights on the program, to enable flagging of gaps and quick intervention. The dashboards can provide information around the enrolment status, saturation levels, RuPay usage and acceptance, availability of financial access and services, usage of the bank accounts, etc., insights around financial literacy, account usage, penetration and saturation, access, etc. Continuous monitoring can ensure stakeholder participation and budgetary control.

Ensure account holder protection

Security of customer data and protection of account holder money is critical for ongoing adoption and use of banking accounts and financial products. Financial illiteracy, lack of experience and a mistrust of technology exposes the weaker section to fraudsters. In addition, lack of understanding can result in over indebtedness due to overdraft facilities.

There is need to provide a secure foundation to the customers by all stakeholders. Banks have a core financial responsibility to proactively run smart campaigns for increasing financial literacy, to create mechanism to allow accountholders to raise their voices and to create a feedback mechanism to address any customer queries and issues. Banks need to work with their service providers to provide knowledge and comfort to the accountholders with regards their data and money.

14. Financial Access Survey, IMF and KPMG in India Analysis
15. Reserve Bank of India, Annual Reports and KPMG in India Analysis
16. China excludes Hongkong and Macau
17. http://www.rbi.org.in/scripts/ATMView.aspx?atmid=42, http://rbi.org.in/scripts/PublicationVisionDocuments.aspx?ID=678

Conclusion

PMJDY is an ambitious initiative for penetration of banking services and microfinance facilities to the poor and weaker sections of society. Though not the first of its kind, PMJDY holds greater promise than its predecessors because it is more geographically widespread, provides greater benefits, embraces technology and garners greater support from critical stakeholders i.e. the Government, banks and regulators. PMJDY can become a facilitator to achieve financial inclusion only if a holistic framework is created by integrating the other critical mechanisms such as Aadhaar, Direct Benefit Transfer, and Direct Benefit Transfer for LPG. Financial literacy is critical to ensure and educate the people about their rights and benefits. At the same time, infrastructure as an enabler has to be made robust such that it is self-sustaining for the last mile delivery of benefits. The mobile bankers (Business Correspondents) and small & payment banks have an interesting role to play in the entire transformation, provided they show higher levels of innovation in technology, business, and product and service delivery. Complicated equations of the Public Distribution System and healthcare system overhaul can be solved using PMJDY effectively.

In conclusion, PMJDY can be a solid foundation for holistic growth and inclusive development. With firm intent and a positive attitude, the dream of financial services for all is in the making.

References

Pradhan Mantri Jan Dhan Yojana Official Website: http://pmjdy.gov.in/

Government of India, Ministry of Home Affairs: http://censusindia.gov.in/

Reserve Bank of India Website: http://www.rbi.org.in/scripts/ATMView.aspx

CREDITS

This document has been published on the occasion of the Conference – **"Transacting Jan Dhan"**, KPMG is glad to be associated as a Knowledge partner for the event.

The KPMG team that has prepared the document comprises of **Umang Bhatt, Omkar Deshpande, Karishma Panda, Parag Parmanand and Mandar Prabhumirash**i.

Editorial team: **Eric Anklesaria, Aditya Singh**

KPMG in India contacts

Nitin Atroley
Head
Sales and Markets
T: +91 124 307 4887
E: nitinatroley@kpmg.com

Asim Parashar
Director
Management Consulting
T: +91 22 3090 2832
E: asim@kpmg.com

Follow us on:
Twitter - @KPMGIndia

kpmg.com/in

Latest insights and updates are now available on the KPMG India app.
Scan the QR code below to download the app on your smart device.

Google Play | **App Store**