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Interventions to Strengthen PMJDY Scheme

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Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched to provide access to savings accounts, credit, remittance, insurance and pensions, to the financially excluded of India. *MicroSave* conducted three rounds of assessments of PMJDY between Oct 2014 and Dec 2015. The study was conducted with support from the Bill & Melinda Gates Foundation (BMGF) and the results were presented to the Department of Financial Services, Ministry of Finance, and Government of India. The Wave III assessment was conducted from Oct–Dec. 2015, and surveyed a total of 42 districts across 17 states and one Union Territory to cover a sample of 1,627 *Bank Mitrs* (BMs)[1] and 4,859 customers enrolled under PMJDY. The key aim of the three rounds of assessments conducted was to analyse and assess the impact of, and challenges for, beneficiaries and channel partners (specifically BMs) under PMJDY. The detailed analysis of data on BMs and feedback gathered from customers during the three rounds of assessment revealed bottlenecks prevalent at both policy and operational levels. In this IFN, we elucidate key policy and operational interventions essential to enhancing sustainability of the agent network and improving customer service.

Policy-level interventions

Convergence of DBT and PMJDY

The latest round of the [*MicroSave* survey] reports that 32%[2] of agents are not profitable. Convergence of Direct Benefit Transfer (DBT) schemes such as MGNREGS, PDS, and kerosene, with PMJDY will help build transaction volumes for BMs and substantially improve their profitability. The benefits will be two-fold: the number of transactions at BMs will increase, thereby increasing their commissions and net income. DBT beneficiaries will have to regularly operate their bank accounts to access government subsidies, which will facilitate the trust essential for financial inclusion.

Minimum Capitalisation for BCNMs

Liquidity at agent points is a key challenge and as volumes build up, liquidity constraints will limit BMs' activities, as has been shown in *MicroSave*'s ANA surveys in more mature markets. Agent banking is a capital-intensive business and threshold capitalisation for corporate banking correspondent network managers (BCNMs) should be stipulated by the Reserve Bank of India (RBI). Capital requirements can be further extended to BMs with minimum requirements depending on business potential and geography.

Service-Level Commitments from Banks

Agent dormancy amongst the 126,000 PMJDY BMs has risen to 10% and is inching up. Customers face significant hardships when agent outlets suddenly close down – they need regulatory protection in terms of service quality standards and availability. BMs that set up shop and subsequently turn dormant, reduce customers' trust in the entire agent channel.

RBI should require service-level commitments from banks: once opened, a BM outlet should not be closed for five days in a row, ever (*force majeure* events excluded). This is in line with RBI's mandate that rural branches cannot be closed down without prior approval.

Credit Scoring Models

The overdraft facility has been a pull factor for opening PMJDY accounts. However, only 7% of account holders have received an average of INR 815 as credit. Data analytics based credit scoring models, driven on the basis of the 'digital exhaust' of financial data from PMJDY accounts, need to be piloted so that credit can become a reality for millions of customers.

Bank account transaction data can provide banks with information to enable credit decisions. This one product has the potential to significantly cut down dormant accounts and build transactional volumes in PMJDY.

SOP for Banks & BCNMs

A master circular on standard operating procedures (SOP) under PMJDY is required. This can cover aspects such as agent compensation; capacity building and selection criteria for agents; the division of roles and responsibilities between banks, BCNMs and BCs; monitoring and supervision of agents, etc.

The master circular will enable transparency across value chain; make channel more efficient and delineate responsibilities across stakeholders. These guidelines should also cover aspects like GPS tagging; digital attendance; compensation levels; and audit policies/processes (for BMs and controlling branch), thus making banks responsible for every BM outlet that they manage.

Agency Model as 'White Label BM'

The concept of White Label ATMs (WLAs)[3] was introduced in India in late 2012. These are owned and operated by non-banking entities, and allow customers from any bank to withdraw money from WLAs for a small fee. These WLAs are managed, serviced and operated by White Label ATM Operators (WLAOs). Such ATMs offer transaction interoperability to customers as he/she is not required to visit the same bank's ATM/bank branch every time for transactions. WLAs were envisioned to provide

[1] Bank Mitrs (BMs) are individuals who act as an agent of the bank at places where it is not possible to open a brick and mortar branch.
[2] ANA India Study 2015
[3] https://rbi.org.in/scripts/NotificationUser.aspx?Id=7286

24/7 banking services to the otherwise financially excluded geographies in India.

As Payment Banks, Small Finance Banks (SFBs) and other financial players scout for potential partners; we believe the BC model has the potential to transform into a "white label BM". An effective step in this direction would be to promote non-exclusive[4] and interoperable BMs. A "white label BM" can act as a financial product retail store in rural areas. Its expertise will be to facilitate payments and offer multiple products/services of numerous banks, insurance companies, payment banks, as well as SFBs. BM can act as a franchise-based interoperable and independent business unit capable of facilitating transactions of multiple providers, depending on customer preference. This type of a model will promote competition among service providers and banks, benefiting the customer.

Fixing the Operational Odds

This section elaborates the day-to-day operational bottlenecks and the associated quick-wins essential to ensure the scheme's success.

Increase Commission for Transactions

BMs tend to open accounts to maximise their commission income. This has, at least partly, contributed to high level (33%) of account duplication. Banks should now reduce compensation for account opening and increase commission for transactions in order to motivate BMs to promote transactions. This will also make BM outlets sustainable and increase the clients' trust in the channel. At present, 32% of agents are losing money and this number should be brought down significantly to create a strong agency banking channel.

'Financial Inclusion' Officers

BMs' performance depends on the support he/she receives from link branches. BMs currently complain of low support from bank branches. Banks should employ one 'financial inclusion' officer for every two to three rural branches, depending upon catchment area allocated to the linked bank branch, to cater to PMJDY customers and BMs.

Enquiry and Grievance Redressal

Miscommunication of OD as "free money" has been a major motivation to open PMJDY accounts for many customers. There is low product awareness among customers, BMs, and bank branches. For example, customers wonder whether these schemes will continue beyond the tenure of the current government. Empirical evidence suggests that new customers initially tend to call toll-free enquiry numbers 3.2 times every day to check balance in their account. At present, only 59% of agents know that there is a call centre to resolve their queries. We recommend an automated "toll free" enquiry system for BMs and customers that will provide scheme details in vernacular languages, and also act as a platform for grievance redressal, both for customers and BMs. Data analytics from call records can feed into mass-media campaigns as the bank management will know the exact pain points for BMs, and for customers.

'Jan Suraksha' Policy Documents

PMJJBY[5]/PMSBY[6]/APY[7] customers are not provided policy documents and product registration details during or post enrolment. This leaves many of them unsure regarding their enrolment status. More than 20% customers have enrolled under PMJDY because of the pull of the '*Jan Suraksha*' schemes. Many customers interviewed during the research stated that they were unable to avail policy benefits due to lack of information and documentary proof. This has to be addressed forthwith and banks should provide policy documents to customers with registration details and scheme information.

Research to Address Account Dormancy

28% of the PMJDY accounts are dormant[8]. Also 28%[9] of the customer accounts have zero or nil balance. A nation-wide research should be conducted using behavioural economics techniques to understand the reasons for customer dormancy and the product preferences of low-income clients. This will drive usage of bank accounts and bring about real and meaningful financial inclusion.

Training of BMs

BMs should be trained and re-trained on PMJDY scheme features and customer service aspects, not just on handling transaction devices. BM trainings should focus on product aspects and build capacities in areas such as interpersonal skills; handling customer queries and complaints; record keeping; accounting; and enterprise/business management. These policy and operational recommendations, when taken together, have the potential to transform the financial inclusion landscape in India. Interoperable, non-exclusive, sustainable, single-stop, and personalised financial services providers can go a long way towards finally reaching the unbanked population of India. With PMJDY's success, the time is now ripe to invest in building the quality of the channel and in customer service.

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[4] Non-exclusive BMs are those who work for more than one service provider.
[5] Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) is a life insurance cover of INR 2,00,000 for a premium of INR 330 ($ 5.1) per person per annum.
[6] Pradhan Mantri Suraksha Bima Yojana (PMSBY) is an accidental insurance scheme with a nominal premium of INR 12 ($ 0.2) per person per year.
[7] Atal Pension Yojana (APY) is a pension scheme specially designed to cater to the needs of the unorganised sector.
[8] An account which has witnessed no transaction in last 90 days is referred to as a dormant account.
[9] Of the total PMJDY accounts opened till date, 27.8% were zero balance as on 16-03-2016