



DOES PRADHAN MANTRI JAN DHAN YOJANA REALY PROVES TO BE - MERA KHATA BHAGAY VIDHATA

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ABSTRACT

Pradhan Mantri Jan DhanYojana(PMJDY) is the latest attempt of Government of India for financial inclusion . It has been divided into two phases and it aims to provide other financial services in addition to basic banking facilities to all by 2018. This paper analyzes the progress of PMJDY and attention has been drawn towards the fact that just opening of bank account will not amount to financial inclusion and financial activities needs to be promoted in these accounts. The paper also analyzes the performance of public sector banks viz-a-viz private sector banks in implementing PMJDY. Focus has been drawn towards the fact that performance of banks in providing overdraft has been remained dismal. Inadequacy of Credit Guarantee Fund to cover the risk associated with large scale default in case of overdraft has been a major reason which has deterred bank from providing overdraft. performance and implementation of PMJDY in four backward states has also been analyzed. It has been advocated the financial literacy among the account holders should be increased so that they are make aware of associated risk arising out of non-payment of overdraft.

KEY WORDS: PMJDY, Financial Inclusion, Financial Literacy, Overdraft, Credit Guarantee Fund.

INTRODUCTION

Pradhan Mantri Jan Dhan Yojana (PMJDY) was started on August 28,2014 with the primary objective of financial inclusion. According to 2011 census out of 24.67crore household 14.48crore household did not have any bank account, out of these 9.14crore were rural and 5.34crore were urban households. The objectives of PMJDY are to provide access to various financial services like availability of basic saving bank account, access to need based credit, remittance facility, insurance and pension to people who have been left out from these basic banking services till now. The history of earlier attempts for financial inclusion is long one, the efforts for financial inclusion were started with nationalizations of banks and then continued in from of expansion of bank branches,

establishment and expansion of co-operative and RRB, introductions of priority sector lending, lead bank scheme, SHG and Swabhiman scheme. PMJDY is a latest effort of GOI in the this direction however the earlier schemes were limited in their scope and reach and were mostly limited opening of bank accounts while PNJDY is more inclusive as it targets all households in phase- I itself and it also provides other basic financial services to the account holder.

The major features of PMJDY are

- I. Facility of opening zero balance saving bank account in a branch or business correspondence (BCS) outlets.
- II. Accidental insurance cover of one lakh and life insurance cover of rupees 30,000.



- III. Overdraft facility of rupees 5,000
The PMJDY is to be rolled out in two phases :

Phase I (15th August 2014 – 14th August 2015)

- I. Universal access to banking facilities accept in areas with infrastructure and connectivity
- II. Providing basic bank account and rupees debit card with inbuilt Rs 1,00,000 accidental insurance cover.
- III. Financial literacy programme
- IV. AADHAAR card to be seeded in bank accounts to make accounts ready for direct cash transfer connectivity

Phase 2: (15th August 2015-14th August 2018)

1. Overdraft facility of maximum Rs 5,000 to be provided subject to satisfactory operation of account for six month.
- I. Creation of credit guarantee fund for risk associated with defaults in these accounts who have availed overdraft facilities.

- II. Micro-Insurance Phage will also cover all the remaining adults who could not be covered under phase I phase II will provide coverage to remaining households who could not be covered in phase I in hilly, tribal and other difficult area.

Objectives of this study are:

1. To analyze the progress of PMJDY
2. To analyze the performance of public sector banks and private sector banks with respect to PMJDY
3. To analyze the performance of PMJDY in four backward (BIMARU) states.

1. To analyze the progress of PMJDY:-

If we superficially analyze the progress of PMJDY only on the basis of opening of accounts than at least one objective of having an account for everyone seems to be fulfilled as 20.72crores accounts have been opened till 10 February 2016. But only 8.95crore accounts have been seeded with AADHAAR numbers but it cannot be verified if the rest of accounts are new accounts of new members or just another account of existing account holders.

Account opened under PMJDY as on 10 February 2016 (figures in crore)

BANK NAME	RURAL	URBAN	TOTAL	AADHAR SEEDED	BALANCE IN ACCOUNTS	% OF ZERO BALANCE ACCOUNT
PUBLIC SECTOR BANKS	9.08	7.20	16.28	7.62	25591.34	29.64
RRBs	3.16	0.52	3.68	1.08	5568.78	25.29
PRIVATE SECTOR BANKS	0.45	0.30	0.75	0.25	1218.64	39.23
TOTAL	12.69	8.02	20.72	8.95	32378.76	29.22

Source Pmjdy.gov.in

Out of the total 20.72crore accounts which have been opened under this scheme only 43.2 % are AADHAAR linked this leaves a doubt about duplication or multiple

accounts opened by the new or previously existing account holder. Further 29.2% accounts have zero balance and they will be directly ruled out for overdraft facility in near future.

2. To analyze the performance of public sector banks and private sector banks w.r.t PMJDY:-

Bank name	No of Accounts(in crores)	Amount total OD availed (lacks)	Balance in Accounts (crore)
Public sector bank	16.28	16653	25591.34
Private sector bank	0.75	17	1218.64
Total	17.04	16670	26809.98

(RRBs have been excluded from this table)

The above table clearly shows that private sector banks have opened only 3.6% of total PMJDY accounts and public sector banks are the real players in terms of opening of bank accounts. The overdraft facility up to

Rs5000 was seen as one of the biggest USP of this scheme. However banks are charging about 12% interest rate on this overdraft, still the banks have been very reluctant in providing overdraft facilities to PMJDY account holders.

Even if we exclude the zero balance accounts which are not eligible for overdraft then also public sector banks have provided a meager Rs 14.54 overdraft per account. This situation is even worst with respect to private banks who are way behind in not only opening of Jan Dhan accounts (3.6%) but also in providing overdraft facility to Jan Dhan account holders which is a paltry Rs 0.38 per account this is much below their share in overall deposit with respect to Jan Dhan Yojana and they have provided only 0.01% of the total overdraft under this scheme.

As the above table shows that the banks have been very cautious in providing overdraft facilities to PMJDY account holders. However their negative outlook is based on the fact that the Credit Guarantee Fund created by the government with help of the contribution from the banks is not enough to cover the associated risk of large scale default on overdraft in PMJDY accounts. Currently the credit Guarantee Fund is only of Rs 1000crore which seems to be inadequate for the associated risk of overdraft in PMJDY accounts.

We can show this by simple calculation, out of 20.72 crore accounts opened even if we exclude the 29.22% zero balance accounts, then also there are nearly 14crore

accounts which are likely to be eligible for overdraft and even if 2/3rd of them avail overdraft facility at a given point of time then it will amount to Rs 47,000 crore (14 x 2/3rd x 5000). Even if 1/3rd of them default then it will amount to nearly 15,700 crore. The credit Guarantee Fund is not in a position to cover these losses. With the stressed balance sheet of public sector banks due to mounting NPAs they are not in a position to absorb such kind of losses. The government its PMJDY policy document has clearly stated to make credit Guarantee Fund budget neutral. This will lead to situation where banks will put pressure on government to allow them to increase the rate of interest beyond stipulated maximum limit of 12%. This could make credit dearer for these poor new account holders and any increase in rate of interest is likely to increase the number of people unable to payback so the government should think about other ways of financing credit guarantee fund or subsidizing the rate of interest.

3. Performance of PMJDY in backward (BIMARU) states:-

The main motive behind this scheme was to provide banking facility to the poorest of poor for this purpose now we will analyze the performance of PMJDY in BIMARU states.

State	No of account opened in rural areas(in thousand)	No of account opened in urban areas(in thousand)	Total account opened (in thousand)	AADHAAR seeded(in thousand)	Zero balance account(in thousand)	Balance in account(crore)	Population (crore)
Bihar	12964	5625	18590	3838	5359	2423	10.4
Rajasthan	10593	5718	16311	9314	4528	2573	6.8
Madhaya Pradesh	9060	9006	18067	8056	5843	1452	7.2
Uttar Pradesh	18701	12312	31013	8691	8998	4891	19.9
Total	51318	32661	83981	29899	24728	11339	44.3
Grand total	126949	80201	207150	32378	60520	32378	121

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The above table shows that there has been a good response to PMJDY in the four states and the share of account opened in these four states exceeds their share in terms of population, however their share in deposit is lower than their proportion in population but the sad part is that nearly 40% of these accounts have zero balance.

Despite the drawbacks and limitation of Jan Dhan Yojana it is an welcome initiative by the government as it has mobilized nearly 32000 crore into the banking channel which is likely to boost the investment in the country.

However this money also includes the direct benefit transfer done by the government, so it is hard to

establish actually to what extent it has mobilized saving from people into banking channel and to what extent it has inculcated the habit of saving among the new Jan Dhan Yojana account holders.

The large number of dormant and zero balance account is a major issue which needs to be tackled. It has been suggested in RBI annual report that to increase financial activities in these accounts all central and state governments payments should be rolled out through Direct Benefit Transfer.

However Government should take more steps to enhance the level of financial literacy among the prospective account holders as it has been observed that

account holders are not fully well versed with the risk associated with non payment of overdraft. Special stress should be put on financial inclusion as these account holders are first time account holders and they are not familiar with banking practices ,as it can be made out by large number of account having no balance that people might not have been adequately informed and motivated to do banking transactions. It should also be noted that the subsidies like LPG will also be credited in AADHAAR seeded bank accounts and non payment of overdraft might lead to withheld of these funds by the banks as a method of recovering the outstanding amount of overdraft. This will make them more vulnerable in order to avoid such a situation there should be clear guidelines which should be set by the government to clear the picture to both the banks and the account holders as it is a normal practice in banks to withheld money in one account if there is any overdue loan payment .

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