

# PUBLIC SECTOR BANKS' LONG-TERM STRATEGY ON JAN DHAN BEGINS TO PAY OFF

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**Bigger share:**Public sector banks make up an overwhelming 72.5% of the total number of Jan Dhan accounts.pti

Public sector banks stand to earn as much as Rs. 5,000 crore due to the increasing quantum of deposits placed in Jan Dhan accounts, and can vastly monetise this resource once they start implementing advanced analytics and begin lending to these customers, according to industry players and analysts.

Over the last three years, the number of Jan Dhan beneficiaries has risen from 22 crore to 35 crore, as of April 10, 2019. This represents a growth of nearly 60% over the three years. The growth in the number of accounts has been pretty steady over the last three years, with the demonetisation year of 2016-17 seeing the fastest growth of about 27%, which then subsequently slowed to a nevertheless robust 10% in 2017-18 and 12% in 2018-19.

Deposits, however, have seen a much stronger growth rate over this period. The total quantum of deposits in Jan Dhan accounts has grown from a little more than Rs. 36,000 crore in April 2016 to Rs. 98,400 crore in April 2019, a growth of more than 2.5 times.

Demonetisation, as expected, resulted in a rapid increase in the quantum of deposits soon after the announcement. Deposits surged 66% from about Rs. 44,500 crore in mid-October 2016 to Rs. 74,000 crore by mid-December 2016.

To put this in perspective, the growth in the same two-month period of the subsequent year was just 4.6%. Deposit levels declined over the next five months to fall to as low as Rs. 64,500 by June 2017, but have been consistently growing since then.

## Rising balances

“The story is how average balances are consistently rising,” Saurabh Tripathi, senior partner and leader of the Asia Pacific Financial Institutions Practice at the Boston Consulting Group said.

“A balance of about Rs. 1 lakh crore is equal to a revenue of Rs. 3,000 crore and maybe up to Rs. 4,000-Rs. 5,000 crore made by the banks with these accounts. With that amount of revenue, the banking system can start making it a break-even business, and if they start lending on top of it, it can really become viable.”

“This is one of those stories where the public sector, because of its ownership, can take a longer term view while the private sector has a shorter horizon,” Mr. Tripathi added.

This is a view taken by industry players as well, who say that the business of opening and maintaining Jan Dhan accounts must be viewed in the long-term, and must also be taken in combination with other activities that see the opening of bank accounts for the poorer sections of society.

“We have a very strong microfinance programme where we are doing lending via self-help groups,” Suveer Kumar Gupta, MD and CEO of Shivalik Mercantile Co-operative Bank said.

“Under that programme, we opened the accounts of marginal sections of society, predominantly women. These provide banking services to similar sections of society that are targeted by Jan Dhan.”

“It must also be looked at in the long run, not just on a monthly basis,” Mr. Gupta added. The data also shows two distinct trends in the Jan Dhan accounts. The first is that the public sector banks make up an overwhelming 72.5% of the total number of Jan Dhan accounts, and 89.5% of total deposits. The bulk of the rest are made up by regional rural banks. Private sector banks make up only 3.3% of the accounts and 3.9% of the deposits.

“For any bank account, the bank has to incur some expenses on opening and maintaining it regardless of whether there is any balance in the account or not,” Vishwas Utagi, former Secretary in the All India Bank Employees Association said. “That’s why Jan Dhan accounts are compulsory for the government-owned banks, but they have not made it compulsory for the private sector banks.”

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