A Case Study with Overview of Pradhan Matri Jan Dhan Yojna (Atal Pension Yojana)

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ABSTRACT

The study finds that existing channels of banking industry are very well utilized but due to lack of attractive features, Atal Pension Yojana is still not accepted by larger public. There is requirement of essential changes in the basic features related to amount of pension, tax exemption and claim settlement. Atal Pension Yojana is still favorable investment for those who are willing to contribute small but for longer duration for their pension funds. It is considered as landmark move by government of India towards pensioned society from pension less society. The Union government is eager to ensure financial security for unorganized sector workers, numbering over 410 million, in their old age. To tackle the prolonged existence risks among the workers in unorganized sector and to push the workers in unorganized sector to willingly save for their retirement. Atal Pension Yojana was introduced on 1\textsuperscript{st} June 2015, under the promising Pradhan Mantri Jan Dhan Yojana with the aim to provide financial support of pension to all the citizen of India with motto of “Jan-Dhan se Jan Surakhsha”. The study is based on secondary data collected from different websites and IRDA Journals.

Keywords: Pension; Insurance; Atal Pension Yojana; Pradhan Mantri Jan-Dhan Yojana
1. INTRODUCTION

Government of India is very keen to ensure financial security for workers of unorganized sector especially to their pension provision for post retirement duration. Pension Fund Regulatory and Development Authority (PFRDA) established on 10th October, 2003 by Government of India to increase and regulate pension sector in the country. Further National Pension System (NPS) was launched with the objective of providing retirement income to all the citizens. National Pension System (NPS) aims to institute pension reforms and inculcate the habit of saving for retirement amongst the citizens. Atal Pension Yojana was introduced on 1st June 2015, under the promising Pradhan Mantri Jan Dhan Yojana with the aim to provide financial support of pension to all the citizen of India with motto of “Jan-Dhan se Jan Surakhsha”. Pradhan Mantri Jan-Dhan Yojana is national mission for financial inclusion to make sure access to financial services, namely, Banking / Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner.
2. INSURANCE SECTOR IN INDIA

Types of Insurance

Life Insurance
- Endowment Assurance Plans
- Terms Assurance Plans
- Pension Plans
- Unit Linked Investment Plans (ULIP)
- Whole Life Plans
- Assurance Plans for Children
- Family Income Policies
- Life Annuity Joint Life Assurance
- Policies for Maintenance of Handicapped Dependent
- Endowment Policies with Health Insurance benefits

General Insurance
- Health Insurance
- Industrial all Risks Insurance
- Personal Accident Insurance
- Group Insurance
- Motor Vehicle Insurance
- Worker's Compensation Insurance
- Office Risk Coverage Insurance
- Videsh Yatra Insurance
- Marine Insurance
- Fire Insurance Policy
- Travel Insurance Policy

Miscellaneous Insurance
- Flood Insurance
- Money in Transit
- Theft Insurance
- Baggage Loss Insurance
- Crop Insurance etc.
In India, insurance business started 150 years ago. With the establishment of the Oriental Life insurance company in Calcutta, the business of life insurance in India was started in 1818. It was started by Mr. Bipin Behari Dasgupta and Europeans living in India were their primary customers. The first native insurance provider in India was formed in 1870 with the name Bombay Mutual Life Assurance Society. In 1938, Insurance Act was passed and department of insurance under the authority of superintendent of Insurance was established for the administration of the Insurance Act. In 1939 – 1955 uncovers absence of trust which was the foundation of life insurance business and nationalization got vital. LIC of India was formed in 1956 by an Act of parliament and is fully owned by Government of India. As on till date there are total 24 Life Insurance Companies in India. Life Insurance Corporation of India, ICICI Prudential Life Insurance Company, Bajaj Allianz Life Insurance Company, and HDFC Life Insurance Company Etc., are the few names of Public sector and Private sector companies.

Life insurance is mainly taken for two objectives, first is for risk coverage and second is for the investment objective.

i) Risk coverage : Lump sum payment is provided if specific event occurred.

ii) Investment : Money is invested with a motive of getting greater return.

Primary purpose of any insurance service is to provide risk against uncertainty. For this risk management, policy holder regularly pays insurance premium to the insurance providing company. However, the risk is intangible and seldom is the need for a risk coverage felt by an individual customer, therefore an extra effort needed to make the customer understand the need for insurance [10].

In the modern world, Insurance occupies importance due to the amount of risk and increasing complexity in the economic system which can be insured. Various types of insurance evolved with the changing time and demand of system. In India there are mainly two types of Insurance: Life Insurance and General or Non-Life Insurance. Insurance not covered under life insurance and general insurance falls under the Miscellaneous insurance. Following charts shows the various types of insurance:

3. INSURANCE AND SOCIAL SECURITY

In simple sense, insurance is a financial instrument in which losses of few are compensated out of funds (insurance premium) collected from many insured (insurance policyholders). Insurance offers economic security for such losses arising out of happening of insured events e.g. in personal accident policy death due to accident, in fire policy the insured events are fire and other associated risks like riot and strike, explosion etc. Insurance is assurance against instabilities of life.

It gives money related recompense to misfortunes emerging out happening of unforeseen occasions, protected under the strategy of insurance. Insurance is no more ideal movement. Also Indian Government has advised a portion of the insurances as necessary, e.g. third party insurance under Motor Vehicle Act, public liability insurance for handlers of hazardous substances under Environment Protection Act etc.
4. EXISTING INDIAN PENSION SCHEMES

Pension Fund Regulatory and Development Authority (PFRDA) established on 10th October, 2003 by Government of India (GOI) to increase and regulate pension sector in the country. Under this, on 1st January, 2004 National Pension System (NPS) was launched with the aim of providing retirement income to all the citizens.

National Pension System (NPS) aims to institute pension reforms and inculcate the habit of saving for retirement amongst the citizens. In the beginning, National Pension System (NPS) was introduced for the new government recruits (except personnel from armed forces). 1st May, 2009 onwards, NPS has been provided for all citizens of the country on voluntary basis including the unorganized sector workers.
One of the important features of NPS is allotment of unique Permanent Retirement Account Number (PRAN) to subscriber. This PRAN will remain the same for the rest of subscriber's life. This unique PRAN can be used from any location in India. Permanent Retirement Account Number (PRAN) will give access to two personal accounts:

- Tier I Account: This is a non-withdrawable account meant for savings for retirement.
- Tier II Account: This is simply a voluntary savings facility. The subscriber of NPS is free to withdraw savings from this account whenever subscriber wishes. No tax benefit is available on this account [9]

Furthermore, to push people from the unorganized sector to willingly save for their retirement the Government of India launched a co-contributory pension scheme, Swavalamban Scheme in the Union Budget of 2010-11. Under Swavalamban Scheme, the government will add a sum of Rs.1,000 to each eligible NPS subscriber who contributes a minimum of Rs.1,000 and maximum Rs.12,000 per annum. This scheme is presently applicable up to F.Y.2016-17. [1]

5. PRADHAN MANTRI JAN DHAN YOJANA

Pradhan Mantri Jan-Dhan Yojana (PMJDY) of Government of India is national mission for financial inclusion to make sure access to financial services, namely, Credit, Insurance, Banking / Savings & Deposit Accounts, Remittance, Pension in an reasonable manner. Saving account can be opened in any bank branch or business correspondent (Bank Mitr) outlet. Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts are being opened with Zero balance. However, if the account-holder wishes to get cheque book or Atm, he/she will have to fulfill minimum balance criteria.

5.1. Documents required to open an account under Pradhan Mantri Jan-Dhan Yojana

1. If Aadhaar Card / Aadhaar Number is available then no other documents is required. If address has changed, then a self certification of current address is sufficient.

2. If Aadhaar Card is not available, then any one of the following Officially Valid Documents (OVD) is required: Voter ID Card, Driving License, PAN Card, Passport & NREGA Card. If these documents also contain your address, it can serve both as Proof of Identity and Address.

3. If a person does not have any of the officially valid documents mentioned above, but it is categorized as low risk by the banks, then he/she can open a bank account by submitting any one of the following documents:

   i. Identity Card with applicant's photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks and Public Financial Institutions;

   ii. Letter issued by a gazette officer, with a duly attested photograph of the person.
5. 2. Pradhan Mantri Jan-Dhan Yojana (PMJDY) has following benefits which are as follows:

A. Interest given on deposit.
B. Accidental insurance cover of Rs. One Lakh.
C. No minimum balance required if account holders don’t opt for cheque book and ATM.
D. Life insurance cover of Rs. Thirty Thousand.
E. Amount transfer facilities all across the country.
F. Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts such as LPG Subsidies and scholarship etc.
G. After satisfactory operation of the account for 6 months, an overdraft facility will be permitted.
H. Access to Pension, insurance products.
I. Accidental Insurance Cover, RuPay Debit Card must be used at least once in 45 days.
J. Overdraft facility up to Rs. 5000/- is available in only one account per household, preferably lady of the household [16].

6. ATAL PENSION SCHEME

The Union government is eager to ensure financial security for unorganised sector workers, numbering over 410 million, in their old age. To tackle the prolonged existence risks among the workers in unorganized sector and to push the workers in unorganized sector to willingly save for their retirement.

The Government of India has therefore announced a new scheme called Atal Pension Yojana (APY) in budget of 2015-2016. The Atal Pension Yojana is focused on all Indian citizens in the unorganized sector.

The Pension Fund Regulatory and Development Authority (PFRDA) administered the scheme through architecture of National Pension System (NPS). PFRDA would manage the corpus amount and an annual interest rate of 8% has been assured by the Government of India.

Atal Pension Yojana is for all saving bank account holders in the country and Rs 5,000 per month will be paid from the age of 60, depending upon the contribution. As on 12.10.2015 in total 8,28,979 person has enrolled themselves for APY [5].

Following Tables show the glance of current status of APY and Monthly contribution at different ages:
Table 1. Number of Enrollment till 12-10-2015.

<table>
<thead>
<tr>
<th>Scheme Name</th>
<th>Rural Male</th>
<th>Rural Female</th>
<th>Urban Male</th>
<th>Urban Female</th>
<th>Grand Total*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atal Pension Yojana</td>
<td>1,68,377</td>
<td>1,04,622</td>
<td>3,25,737</td>
<td>2,30,243</td>
<td>8,28,979</td>
</tr>
</tbody>
</table>

*Rankings & Summary report for Atal Pension Yojana as on 12-10-2015

Table 2. Monthly Contribution at different Age of Entry.

<table>
<thead>
<tr>
<th>Age of Entry</th>
<th>Monthly Pension of Rs. 1000</th>
<th>Monthly Pension of Rs. 2000</th>
<th>Monthly Pension of Rs. 3000</th>
<th>Monthly Pension of Rs. 4000</th>
<th>Monthly Pension of Rs. 5000*</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>42</td>
<td>84</td>
<td>126</td>
<td>168</td>
<td>210</td>
</tr>
<tr>
<td>20</td>
<td>50</td>
<td>100</td>
<td>150</td>
<td>198</td>
<td>248</td>
</tr>
<tr>
<td>25</td>
<td>76</td>
<td>151</td>
<td>226</td>
<td>301</td>
<td>376</td>
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<tr>
<td>30</td>
<td>116</td>
<td>231</td>
<td>347</td>
<td>462</td>
<td>577</td>
</tr>
<tr>
<td>35</td>
<td>181</td>
<td>362</td>
<td>543</td>
<td>722</td>
<td>902</td>
</tr>
<tr>
<td>40</td>
<td>291</td>
<td>582</td>
<td>873</td>
<td>1164</td>
<td>1454</td>
</tr>
</tbody>
</table>

* www.pfrda.org.in/WriteReadData/Links/APY%20Brochure%2010092015166689b8-034a-406c-a8a4-355312c6f7b2.pdf

6. 1. In case of default in the payment of the premium

Banks will collect additional amount as penalty in case of default and delayed payments of the agreed monthly premium. Amount of penalty on different range of monthly premium are shown in table below:

Table. 3 Penalty Details.

<table>
<thead>
<tr>
<th>Premium Contribution</th>
<th>Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs. 100</td>
<td>Rs. 1 per month</td>
</tr>
<tr>
<td>Upto Rs. 101 to Rs. 500 per month</td>
<td>Rs. 2 per month</td>
</tr>
</tbody>
</table>
Further discontinuation of payments of the agreed monthly premium shall lead to following consequences:

- After 6 months account will be frozen
- After 12 months account will be deactivated
- After 24 months account will be closed

Hence the subscriber should maintain enough balance in the saving account in order to avoid interest penalty or other actions. [6]

6. 1. Pros and Cons

Pros:
1. Easy to apply for and continue.
2. Highly reliable.
3. Very low cost.
4. Earlier one start lesser they have to pay.
5. Existing subscriber of Swavalamban scheme between 18-40 years will be migrated into Atal Pension Yojana automatically.

Cons:
1. Government contribution is very low i.e. 50% of the subscriber's contribution or Rs 1,000 a year, whichever is lower, for only five years.
2. Lacks of innovative features, existing pension schemes drawbacks are still opted.
3. Return on recurring deposits is expected to give better than APY.
4. Investors greatest barriers lies within themselves such as, least interest in analysis different types of available pension schemes, prone to procrastination and laziness, less futuristic and planning for future expenses, unable to understand concept of inflation and volatility of returns.
5. Lack of clarity regarding different aspects at the time of final claim.
6. Insufficient amount of pension due to increasing inflation rate. [2]

7. CONCLUSION

The Indian insurance industry seems to have a perceptible change in the market dynamics since liberalization and economic reforms, a considerable amount of work need to be done for future growth and development of the market in an orderly and sustained manner.
Notwithstanding the strong improvement in penetration and density in the last 10 years, India largely remains an under-penetrated market. Atal Pension Yojana is focused to provide financial support of pension to all the citizen of India especially unorganized sector workers with motto of “Jan-Dan se Jan Suraksha”. Existing channels of banking industry is very well utilized but still due to lack of attractive features, Atal Pension Yojana is still not accepted by larger public.

There is requirement of essential changes in the basic features related to amount of pension, tax exemption and claim settlement. Atal Pension Yojana is still favorable investment for those who are willing to contribute small but for longer duration for their pension funds. It is considered as landmark move by government of India towards pensioned society from pension less society. [8]

References


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