Attitude of Investors Towards Post Office Savings, Deposits and the Bonds – A Study

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Abstract

This paper attempts to analyse the investor's behaviour towards post office saving schemes .Indian Post Office Savings Bank being the largest savings institutions in the country play a vital role in moblising savings especially in the rural part of the country and offer numerous benefits to the investors. Post office small saving schemes once hailed as people's movement are losing sheen for the rural household. Recurring Deposits, Post Office Saving Bank A/C and Post Office Monthly Income Schemes are the main instruments for investment. Friends and relatives are the main source of information for investment.

Declining interest rates, inadequate promotion, lack of value added facilities, poor hospitality, slow pace of automation etc. are the main the reasons for the decline in net collections of post office small saving scheme.Financial institutions like banks, insurance companies, mutual funds, post office savings banks, companies etc. provides different types of financial instruments to an individual to park his savings as per his requirements. But it takes momentum only after the enactment of the Government Saving Bank Act in 1873 and Post Office Saving Bank of India in 1882. In 1886 government merged the Government District Saving Banks with Post Office Saving Bank (POSB). After independence government set up the National Saving Organisation in 1948 to use small saving schemes as an important tool for meeting its financial requirement. Government also enacted the National Saving Certificate Act-1959 and Public Provident Fund Act-1968 and included the Post Office Saving Bank in the seventh schedule of the Indian Constitution. Later on Deposit Scheme for Retiring Government Employees (1989), Deposit Scheme for Retiring Employees of Public Sector Companies (1991) and contractual saving schemes, namely General Provident Fund (GPF), Employees Provident Fund (EPF) and Employees Pension System were set up to promote savings in India. With a view to mobilizing savings of people (especially small income group) and circulating in them a spirit of thrift and savings, the Central Government through Ministry of finance has endeavored to make the National Savings Movement popular by offering variety of saving schemes to meet the individual requirements of different investors.

Key words: Post Office, Small Saving Schemes, Interest Rates, Recurring Deposits, Sukanya Smaridhi Yozana.

Introduction

Indian Post Office Savings Bank being the largest savings institutions in the country play a vital role in moblising savings especially in the rural part of the country and offer numerous benefits to the investors. In India, the institutional framework for saving was started in 1834 when the first saving bank was set up in Calcutta. Comparatively higher secured returns than that of scheduled banks induced small investors and well designed tax saving features of these schemes has been successful in attracting the higher income groups also. Saving is an essential aspect of human being that helps in accumulating funds for stress free life regarding financial health.

Investors Attitudes towards Post office Deposit Schemes. The post Office has long been known as a medium to inculcate the habit of thrift and savings among the agricultural workers. But over time, its role has changed and it has grown to become one of the best avenues to channel investment from even the wealthy investors and use them fruitfully in nation building activities. There has been introduction of several types of deposit schemes that cater to the differing needs of different classes of investors. They are well-known for their tax saving schemes, high interest rates and the safety and liquidity that they offer. This has enabled them to compete successfully with the other avenues of investment available to investors like commerce, etc. This study is an attempt to identify the awareness, preference and attitudes of investors towards various deposit schemes offered by the Post Office among 300 respondents of the Coimbatore District. The women investor may change according to time, fashion, technology, development etc. It could be seen from this that the calculated value is less than the table value at 5% level thus letting the null hypothesis be accepted. Hence it is clear that there is no association between savings per month and time taken for investment decision. Basic knowledge must be given to the investors about all types of investments, so that the investor can make a better choice that best suits their investment plan.

Objective:

This paper intends to explore investor's perception towards various post office small saving schemes in areas where the access to formal banking is comparatively low and to find the reasons for decline in investors' interest in these schemes.

Savings and Investment

Investment is the employment of funds with the aim of achieving additional income or growth in value. Investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. These assets may range from safe investments to risky investments. 1 Investments have become a basic necessity for everyone. Each investor has different objectives that need to be met depending on age, income, and attitude towards risk. Investors have to work out their investment profile to determine which investments are right for them and should consider important factors such as personal status, plans, and constraints. To achieve progress and maintain the status quo in the ever-changing scenario of the present day world, it is important to raise the income level adapting some mode of saving or the other.

Problems of Saving in India These are the problems encountered by the Investors in India.

1. Low per capita income

2. Demonstration effect in urban India (mainly in cities)

3. Exemption of agriculture income from income tax.

4. Failure of public sector undertaking.

Why do People Save?

The following are the reasons for savings by the Investors in India. 1. For precautionary needs. 2. For additional income 3. For increasing standard of living. 4. For Growth in future wealth. 5. For future use. 6. As a habit. 1.2.4 How to Increase Savings ? The following ways in which, the savings could be increased in India. 1. Production of unnecessary durable goods should be restricted. 2. Exemption limit of savings from income tax should be raised. 3. There should be development of banking habits in country. 4. For private sector there should be reasonable ceiling on the salary. 5. There should be tax on income from agricultural sector. 6. The unproductive expenditure should be curtailed. 7. APM (Administered Price mechanism) should be rationalized. 8. Stringent control over expenditure in government sector.

Rising inflation and inadequate return The funds collected under these schemes become a part of the government's pool and there is no separate deployment of these funds. Larger part of the net small savings funds is transferred to the state governments and they take it as guaranteed receipts to meet their fiscal deficit. This resulted in unproductive deployment of these funds that do not generate a commercial return. On the other hand steadily rising inflation (on average at the rate of six percent) concerns among many households. Inflation itself has a negative effect on the real return on small savings. Faced with sharp increase in primary products prices, many households are looking to high-risk instruments to better the returns on their investments and have started diverting their savings either towards real assets, unit-linked insurance plans (ULIPs), bank deposits, NCDs, equities and mutual funds. The return from the NSSF instruments is between 6 per cent and 9 per cent while Fixed Maturity Plans (FMPs) and other mutual funds are also giving about 15-25 per cent annual return for the last few years as a result of the boom in the stock market.

Similarly the NCDs of companies like Manappuram, Muthoot, Religare Finvest, etc. are yielding returns more than 13 percent and tax free bonds, RBI Saving Bonds, Long Term Debt Fund are also giving a similar return. Insurance companies have also given high returns in the last few years as buoyant capital markets triggered a sharp growth in investment in equity linked insurance schemes. Capital markets have evolved both in scope and regulation after Liberlisation of Indian Economy. The stock market is professionally and competently regulated; and financial literacy of investors has improved moderately. Debt, commodity and derivatives markets have also acquired a critical role for risk management. Real estate is also increasingly seen as an investment option. These all investment avenues are motivating investors in switching their funds into these schemes and hence there has been a net outflow from the post office schemes. However the inflation which was ruling in double digits during last couple of years has come down to 5.16 percent in March 2016 and is a great relief to the small investors. Lack of Marketing and promotional efforts The small saving schemes being under the complete control of the government are suffering badly due to the 'Chalta hai' attitude of postal department alike every other government department.

National Savings Certificate and Kisan Vikas Patra

Lack of sufficient marketing and promotional efforts on the part of both states as well as centre government has been resulted in declining popularity of these schemes. On the hand mutual fund are leveraging aggressive on advertising through every possible media and one can find very commonly the mutual fund advertisements on websites, TV, in newspapers, magazines, journals etc. Aggressive marketing has been one of the main strengths behind the growing popularity of mutual funds, Systematic Investment Plans and bank fixed deposits. Failure to incorporate changes in schemes Small savings organisations have not been able to retain investors because they have failed in bringing changes

in scheme design and their administration with changing times. There has been little or no revision in the schemes. These schemes were introduced way back and are still being continued with their lacunae. For instance: National Savings Certificate, even with its long lock-in period and not so attractive interest, was once much sought after by the salaried people. Following the arrival of quite a few new open-ended schemes floated by private players with only three-year lock-in period and benefits such as tax relief and attractive returns; the NSC has indeed fallen out of their favour.

Kisan Vikas Patra (KVP) and Monthly Income Scheme (MIS) were the most popular post office schemes that contributed approximately 35% and 25% share respectively of the total outstanding of all small saving schemes put together. However, discontinuation of Kisan Vikas Patra (KVP) being a kind of bearer freely transferable instruments in November , 2011 along with scrapping of the most attractive feature of Monthly Income Scheme (MIS) i.e. five percent bonus on maturity of MIS has resulted in steep fall in the net collection in post office small saving schemes. There is considerable mismatch between the term structure and yield across small savings schemes. For instance, the 6-year RBI taxable savings bond and the 15-year PPF (with some withdrawals permitted after 5 years) both offer 8.16 percent return, whereas the 5-year Senior Citizens Scheme offers 9 %. Longer lock in period is proving to be another hindrance in the development of the schemes. People nowadays prefer instruments with shorter lock in periods. Re launching of Kisan Vikas Patra (KVP) in November 2014 to raise the saving rate in the country is not much attractive for the investors due to its long lock in period (100 months), low interest rate and tax disincentives. Lack of efficient services Post offices lack in providing efficient services. This is largely due to the fact that they have been very slow in adopting modern technology. People find dealings with banks etc more comfortable as they provide quick and better services. People do not have to queue up in long lines, waiting for their work to be done.

Moreover with the increasing use of Information Technology they have the facilities like mobile-banking and e-banking. Whatever information is needed can be made available at the touch of a button. But postal department is far behind from banks in modernizing their services. Lack of professionalism and attitude of postal employees is another area of concern. During survey it has been observed that non-cooperation, ill treatment at the hands of postal employees and incompatible hospitality is a common phenomenon in the post offices. Effect of Decline Government of India sanctions 100 per cent of net collection as soft and long-term loan to the states, which is repayable in 25 years with a moratorium during the first five years.

Government initiated measures at Post Office

The amount received as loan is meant for undertaking developmental activities and building infrastructure in the state. Small savings are significant for the states as they bank on small savings account for meeting their resource requirements. Reduction in collection from small savings accounts, states, which are heavily dependent on these schemes, have started to feel the heat and are forced to either cut its planned expenditure or to raise resources through alternative borrowings. Post office small savings is a source of livelihood for more than 18,000 agents as they are earning in-between Rs.5, 000 pm to rupees 2 Lakh per month in the form of commissions by selling these schemes. So any decline in small saving schemes will result in decline in their commission and finally lead to unemployment. Government initiatives Government has initiated various measures to promote small saving by providing various incentives in the form of lucky draws, tax incentives and revision of interest rate mechanism.

A bonus of 5 percent was announced on Post Office Monthly Income Scheme but later it was scrapped. The Finance ministry has made five year Post Office Time Deposits and Senior Citizens' Savings Scheme eligible for an income tax exemption of Rs. 1.5 lakh under section 80C. Earlier only PPF investments and NSC used to get this tax exemption. Investment limit in PPF has been raised up to rupees 1, 50,000 in an assessment year. Following the recommendations of Shyamala Gopinath Committee, the government decided to link the small saving interest rates with the market interest rate to make these schemes catch up with other market instruments. It has also been decided that the interest rate will be aligned with the rates of government securities of similar maturities on April first every year. Considering the popularity of the Kisan Vikas Patra (KVP) government decided to re-launch it in November 2014 to raise the saving rate in the country. New saving scheme i.e Sukanya Samridhi Yozana (SSY) was introduced in February 2015 for promoting girl child. This scheme has been successful in attracting extra savings. In Himachal Pradesh the states government has issued guidelines to all district authorities across the state to cover the entire population of the state by opening a recurring deposit account of Rs. 100 per month of every individual. Directions have been issued to all government employees to open PPF accounts. Demand has been raised some changes in the policy like revising the rate of interest on time deposits to make them comparable with banks. National Saving Institute and Small savings department of the state has launched various lucky coupon schemes to attract investors. Conclusions Post office small saving schemes once hailed as people's movement are losing sheen for the rural household who has traditionally been investing in them due to the stiff competition and the reach of the banking and non- banking sector to diversified groups of people. If timely and adequate measures are still not adopted to revive theses scheme, the small savings could be in trouble.

Why post office deposits schemes

Majority of the people invest in post office deposits schemes for the purpose of safety and security. Majority of the respondents have invested only in Recurring Deposits, Post Office Saving Bank A/C and Post Office Monthly Income Scheme and very few investors have invested in other schemes. Post office offers diversify schemes for different needs of society but research explains that mostly salaried class of society is inclined towards post office schemes. So, post offices should arrange for awareness programmes or turn to more innovative policies catering other class of society. As customers rely more on their friends and relatives for investment information so a suitable communication through direct mailers or social media (i.e facebook, whatsapp etc.), aggressive marketing campaigns through print and electronic media, involvement of NGOs and other welfare associations may bring more people into the fold of small saving schemes. Agents are instrumental in providing pace to the small saving so sound criteria should be developed to select and train the efficient and credible agents. In order to motivate them for more collection, their incentives in terms of commission may be revised equivalent to other financial institutions. The major problems faced by respondents while depositing in post office deposits schemes were low rate of return. The Government must keep present rates intact and revise upwardly in future to make small savings competitive and attractive in terms of returns.

Reduction in lock-in period, introduction of new schemes for diversification and extension of tax benefits for KVPs and other schemes are the other ways to improve the demand for post office schemes. As retirement planning is one of the main objectives of saving so specific scheme featuring retirement benefits should also be introduced by the government. One of the main reason for shifting of investors towards banking and other financial institution is the variety of the information technology enabled value added services like mobile banking, internet banking, fully automation, real

time information of their investment, flexi account etc. Indian post office though has started the automation of its schemes still it required a lot of pace in this regard. Conducive and investor friendly work culture for both the staff and the investor is the need of the hour. The challenge for the postal department is to develop the right kind of attitude of postal employees to render excellent service at par with the banks. The system should be made online to facilitate interface with the public through wider dissemination of information on small savings. A mutual fund may be appointed for small-savings, to put the funds in a productive use for extra returns. State Governments should adopt more prudent debt management practices to reduce the dependence on small savings for their resource requirements.

Research Implications The investments being purely personal and in a way, confidential therefore some respondents may not have given true responses, some respondents did not reply and some filled a part of the questionnaire only. Some of the respondents being illiterate, some errors in data could arise on account of misunderstanding by the respondents. However, this problem was overcome, to a great extent, by convincing them that the information so collected would be kept confidential and would be used exclusively for research purpose. It is hoped that the study will go a long way in helping the Indian Postal Saving Bank in understanding the actual problems of investors on ground level, depositors, policy-makers, researchers and borrowers. The study will be also be helpful for the government in achieving the financial inclusive objective by providing customized financial instruments to cater the requirements of small investors especially in hill areas where the significant portion of the population is not have access to the organized financial system. Further study can be conducted on larger sample across different states, comparative study of post office small saving with other financial instruments, problems in implementing these schemes and impact of these schemes on funding fiscal deficit etc.

Conclusion

One major debate related to Kashmiri language is its linguistic ancestor. Opinion is divided between those who feel that Kashmiri descended from the Dardic family of languages and those who see it as a progeny of Sanskrit. Dr Raina is certain that Sanskrit, that too its Vedic variety, was the forefather of Kashmiri but doesn't feel that this is a big issue. The question of which script should be used for writing the language is also debated. While writers in Kashmir continue to use the Persian script, those outside the valley are inclined towards using Devanagari. Amid all this, the ancient script of Kashmir, Sharda, is in serious danger of becoming extinct. Raina is concerned about its future: "Very few people understand the Sharda script so why would anyone write in it. As long as it is not recognised and taught to young students, it will remain marginalised." Two leading scholars of Kashmiri, Dr Shashi Shekhar Toshkhani and Professor T.N. Banjoo have been working hard to keep the Sharda script alive but it remains an uphill task.

Inspite of all the political trouble, the world of Kashmiri literature is alive and active. Dr Raina, who has spent nearly four decades in the literary world, is happy about the interest and desire shown by Kashmiri authors for having their works translated into Hindi, "The writers want to reach a bigger audience and hence they are very keen to have their works translated into Hindi." The one thing holding back the Kashmiri language is the lack of institutions dedicated to it outside the state. While there are students in the valley who are doing research on this beautiful language, it will benefit greatly if there are more faculties of it in premier institutions.While visiting Kashmir is a special experience for travellers, diving into the treasure trove of Kashmiri literature has to be an equally beautiful experience.

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