CHAPTER -I

Introduction and Design of the Study

“Growth of Indian Postal System has potential for rural connectivity and sustained development”

Dr. A.P. J. Abdul Kalam

1.1 Introduction

There are a lot of investment choices and one must select the most appropriate one. The person dealing with the planning needs to know all the various investment choices and how these can be chosen for the purpose of attaining the overall objectives. The details of making the investment along with the various ways in which the investment has to be maintained and managed. The developing countries like India face the enormous task of finding sufficient capital in their development efforts. Most of these countries find it difficult to get out of the vicious circle of poverty of the low income group, low savings, low investment, low employment etc. With high capital output ratio, India needs very high rates of investments to make a leap forward in her efforts of attaining high levels of growth. Since the beginning of planning, the emphasis has been on investment as the primary instruments of economic growth and increase in national income. In order to have production as per target, investment is considered the crucial determinant and capital formation is to be supported by appropriate volume of saving.

In the beginning of the 19th century, there were only a few banks and that too in big towns and cities. It was very difficult for the common man who wanted to save his small amount of money in the bank to go to a bank as he had to incur expenditure for the journey. Further, saving habit amongst the people was almost nil, and most of the people had their small savings in the form of gold and silver. On the other hand, the Government wanted to encourage savings because they were in dire need of money for various developmental activities, for strengthening military establishments and for carrying out administrative reforms. These factors compelled the Government to start Savings bank through the Post Office.
Government Savings Bank was started in the three Presidency towns of Calcutta, Madras and Bombay in 1833, 1834 and 1835 respectively. In 1860, the Secretary of state for India initiated steps for empowering the post offices to undertake savings bank operations in India, similar to that of the U.K. But the Government was under organized and not mature enough to take upon such banking business. Some changes took place subsequently in the management of Savings Bank. Between 1863 and 1865, the management of the Savings Bank was transferred from Government Treasuries to the Presidency Bank, and each Presidency Bank framed its management. The deposit allowed was Rs. 500 in a year up to a maximum of Rs. 3000 and the interest rate was fixed at 3.75 percent per annum. In practice, the SB counters were kept open twice in a week.\(^1\)

Financial services of the Post Office form a profitable business today, although they were started as a supplementary income generating operation. Post offices render a plethora of agency services in addition to their basic duty of mail delivery. These services include savings Bank, Money Order, Postal Order and Postal Life Insurance. This helps the postal Department produce income to the extent of nearly 45% of its budget revenue.

Savings bank work was undertaken by post offices on 1 April 1882 and the entire banking operations were kept under the supervision and management of postmasters. In Tamil Nadu, the introduction of POSB was confined to small places. The object of establishing SB was to extend banking facilities to millions of poor and middle class people living in the farthest corners of the country and to accumulate and invest their savings, and to use the same for the economic development of the country and also to meet the administrative needs and requirements of the Government. It also aimed at encouraging thrift.

India Post is committed to provide basic postal facilities throughout the country at an affordable price. A network of 1.55 lakh post offices in the country,

\(^1\) Ramachandiran. K, Indian Postal History focus on Tamil nadu, Imayaa Publication, Chennai, Edition 2011, Pp119-120
the largest in the world, of which more than 1.39 lakh are in the rural areas, is indicative of this commitment.

Rapid introduction of information technology has not only changed the way post offices do business the world over, but also the business that post offices do. In this era of fast developing information and communications technology, large scale induction and assimilation has become vital for the sustenance and growth of India Post.²

1.2 Basic Concepts
1.2.1 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.³ 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.⁴

1.2.2 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.

² India Post, Annual Report, 2010-2011
⁴ Journal of Organization management, October – December, 2006
1.2.3 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.

1.3 Types of Investment in Post Office
1.3.1 Savings Account

Post office saving account is similar to a saving account in a bank. It is a safe instrument to park those funds, which you might need to liquidate fully or partially at very short notice. Post office savings accounts are especially suited for those living in rural and semi-rural areas where the reach of banks is very limited.

The account can be opened at any post office with a minimum balance of Rs.20. maximum of Rs. one lakh deposit for single account holder and Rs. two lakhs for joint account holders. There is no lock-in of maturity period. The amount can be withdrawn anytime subject to keeping a minimum balance of Rs. 50 in simple account and Rs. 500 for cheque facility accounts. Rate of interest is decided by the Central Government from time to time. Interest is calculated on
monthly balances and credited annually. Income tax relief is available on the 
amount of interest under the provision of section 80L of Income Tax Act.

1.3.2 Recurring Deposit Account

Recurring deposit account is a systematic way of saving money. The 
scheme is meant for those investors who want to deposit a fixed amount regularly 
every month.

The recurring deposit account can be opened at any post office with period 
for maturities of account bring 5 years. Sixty equal monthly deposits shall be made 
in an account in multiples of Rs. 5 subject to a minimum of ten rupees. Premature 
closure of accounts is permissible after the expiry of three years. In case of 
premature closure of account, the interest at the rate applicable to post office 
savings account shall be payable.

1.3.3 Monthly Income Account

Post Office Monthly Income Account is meant for those investors who 
want to invest a lump sum and earn interest on monthly basis for their livelihood. 
The scheme is, therefore, a boon for retired persons. The account can be 
opened by a single adult or 2-3 adults jointly. Period of maturity of an account is 
six years. Only one deposit can be made in an account. Minimum deposit limit is 
Rs.1000. Maximum deposit limit is Rs. 3 lakhs in case of single account and Rs. 6 
lakhs in case of joint account. Interest @ 8% per annum is payable monthly. In 
addition, bonus equal to 10% of the deposited amount is payable at the time of 
repayment on maturity. Premature closure facility is available after one year 
subject to condition. Income tax relief is available on the interest earned as per 
limits fixed vide section 80L of Income Tax, as amended from time to time.

1.3.4 Time Deposit Account

Post office time deposit account is just like the bank fixed deposit amount. 
These time deposits are meant for those investors who want to deposit a lump sum 
for a fixed period. Time deposit account can be opened at any post office with a 
minimum deposit of Rs. 200. There is no maximum limit for the account. The
amount can be deposited for 1year, 2years, 3years, and 5 years. The deposited amount is repayable after the expiry of the period for which it is made viz: 1year, 2years, 3years and 5years. Interest is calculated on quarterly compounding basis, and is payable annually. Rate of interest varies according to the period of the deposit and is decided by the Central Government from time to time. Income tax relief is available on the amount of interest under the provisions of section 80L of Income Tax Act. Premature withdrawals from all types of post office time deposit account are permissible after the expiry of 6 months with certain conditions.

1.3.5 National Savings Certificate

National Savings Certificate, popularly known as NSC, is a time-tested tax saving instrument that combines adequate returns with high safety.

National Savings Certificate can be purchased by the following:

An adult in his own name or on behalf of a minor,
A minor,
A trust
Two adults jointly,
Hindu undivided family

National Savings Certificates are available in the denominations of Rs.100, Rs 500, Rs.1000, Rs. 5000, &. Rs. 10000. There is no maximum limit on the purchase of the certificates. The period of maturity of a certificate is six years. At present, maturity value of a certificate of Rs.100 denomination is Rs 16010. Maturity value of a certificate of any other denomination is at proportionate rate. Premature encashment of the certificate is not permissible except at a discount in the case of death of the holder(s), forfeiture by a pledge and when ordered by a court of law. Interest accrued on the certificates every year is liable to income tax but deemed to have been reinvested. Income Tax rebate is available on the amount invested and interest accruing under section 88 of Income Tax Act, as amended from time to time. Income tax relief is also available on the interest earned as per limits fixed vide section 80L of Income Tax Act, as amended from time to time.
1.3.6 Public Provident Fund

Public Provident Fund, popularly known as PPF, is a savings cum tax saving instrument. It also serves as a retirement planning tool for many of those who do not have any structured pension plan covering them. Public Provident Fund account can be opened at designated post offices throughout the country and at designated branches of public sector banks throughout the country. The account can be opened by an individual in this own name, on behalf of a minor of whom he is a guardian, or by a Hindu undivided family. Minimum deposit required in a PPF account is Rs.500 in a financial year. Maximum deposit limit is Rs. 70,000 in a financial year. Maximum number of deposits is twelve in a financial year. The account matures for closure after 15 years. Account can be continued with or without subscriptions after maturity for block periods of five years. Premature withdrawal is permissible every year after completion of 5 years from the end of the year of opening the account. Loans from the amount at credit in PPF amount can be taken after completion of one year from the end of the financial year of opening the account and before completion of the 5th year. Interest at the rate notified by the Central Government from time to time, is calculated and credited to the account at the end of each financial year. At Present, the rate of interest is 8% per annum. Income tax rebate is available “on the deposits made”, under Section 88 of Income Tax Act, as amended from time to time. Interest credited every year is tax-free.

1.3.7 Kisan Vikas Patra

Kisan Vikas Patra (KVP) is a saving instrument that provides interest income similar to bonds. Amount invested in Kisan Vikas Patra doubles on maturity after 8 years & 7 months. Kisan Vikas Patra can be purchased by the following:

An adult in his own name, or on behalf of a minor,
A minor,
A Trust,
Two adults jointly.

Kisan Vikas Patra are available in the denominations of Rs.100, Rs. 500, Rs.1000, Rs. 5000, Rs. 10,000 & Rs. 50,000. There is no maximum limit on
purchase of KVPs. Premature encashment of the certificate is not permissible except at a discount in the case of death of the holder(s), forfeiture by a pledge and when ordered by a court of law. No income tax benfit is available under the Kisan Vikas Patra scheme. However, the deposits are exempted from Tax Deduction at Source (TDS) at the time of withdrawal.

1.4 Indian Post Office - Current Scenario

The post office is the only public organization which is more intimately bound up with human relations than any other government department. It is universally recognized as a facilitator of communications. The postman defying all odds – natural calamities, wild beasts, rough terrain and bandits- discharges his duties.

Today post office not only delivers letters but is also engaged in a range of retail activities through its vast network. Its capacity to handle financial transactions and its knowledge about the local environment provides efficient and cost-effective means of catering a variety of services to the public. India post truly represents both tradition and modernity. This institution has become a symbol of continuity and change. India post is all set to grow from strength to strength, shedding a joyful light to people everywhere. It is bound to overcome all the hurdles presented by the new environment in the electronic age. Its doors thrown wide open with customer delight in mind and it goes on with a noble mission of uniting humankind the world over.

1.5 Scope and Importance of the Study

The Indian economy is growing significantly and has various investment options but the Government of India has provided the oldest investment option. Still, Postal investments scheme had not gained much importance. The changing postal environment presents an enormous challenge to traditional postal businesses, but it also creates a vast array of new business options and opportunities, as the interest rate compared to other schemes provided by the postal schemes are higher. The study had been undertaken to analyze whether the Postal savings schemes have gained importance among the people or not. Against
this backdrop, an attempt has been made to find out the investment pattern of the rural respondents of Dharmapuri District of Tamilnadu.

In a developing country like India, the emphasis on domestic savings and its mobilization by the organized sector cannot be belittled and is an important one not only from the individual point of view but also from the point of view of the economic development of the nation. But many agencies both government and private such as banks, private financial companies, chit funds compete with each other for mobilizing the postal investment through various attractive schemes. Hence Indian post offices have also introduced certain postal investment schemes to mobilize the savings.

Surveying the existing literature relating to the study of postal investment schemes, it is revealed that there are only a few studies available, highlighting the quantum of funds mobilized through postal investment schemes in the past, on the basis of the secondary data only. Not only that, no research was so far conducted to elicit the opinion of the postal investors about the attractiveness of the different schemes and the level of awareness of the rural areas. Unless the perceived opinion of the public about the postal investment schemes are not known, evolving best schemes to suit their needs will become a myth. It is therefore felt worthwhile and necessary to undertake an in-depth study of the perception of rural investors relating to the different postal investment schemes introduced by the Indian post office.

The present study is beginning towards this end and in this study an attempt has been made to estimate the level of awareness, perceived opinion and attitude of the rural investors and postal investment schemes, besides eliciting their opinion about the features of the different schemes and the approaches of the officials and agents concerned. Further an attempt has also been made to suggest an effective mechanism to the government for executing the schemes more effectively and to the fullest satisfaction of the rural investors.
1.6 Statement of the Problem

In a country like India, which is a developing one, the quantum of investment of the rural investors, downtrodden and middle class families will be comparatively small. But when they are pooled together, a very huge amount will be available for the country’s economic development. Realizing this, Government of India has introduced certain postal investment schemes which are being implemented through post offices and commercial banks, in order to tap the investments of the poor people living in more than 5 lakhs villages throughout the country. As such, postal investments are directly available to the central Government as part of its budgetary resources and they constitute the non-marketable debt of the Government. It has been shared with the state government in a specified manner. It could not be denied that postal investment schemes have done a laudable service in bridging the gap between the savings of the public and the financial requirements of the nation for building infrastructure facilities.

In view of the excellent potentiality of domestic savings in India, and the implementation of many better investment schemes, a study focusing on the structure of postal investment schemes, features and growth pattern of post office investment schemes, factors influencing to invest in postal investment schemes, measures to be taken for its healthy growth and for mitigating the problems of the rural investors is considered important.

Further a study on the perception of the rural investors would ensure the Government to evolve better investment schemes suited to the needs of the public. Hence the researcher has made an attempt to gauge the perceived opinion and attitude of a few rural investors on postal investment schemes in Dharmapuri district of Tamil Nadu. It may be mentioned here by way of caution that hereafter the term ‘postal investments schemes’ would refer only to post office schemes.

1. Does the rural investors’ opinion on selection of postal investments schemes help to choose a better investment plan
2. How does the postal investment scheme help to evaluate the different factors influencing postal investment decisions?
1.7 Objectives of the Study

With a view to finding out the answers to the above questions, the following objectives are framed. The broad objectives of the study are to understand the perceived opinion and the attitude of the rural investors in Dharmapuri District on postal investments. However, the specific objectives of the study are:

1. To outline the origin and growth of postal investments in India and Tamil Nadu
2. To measure the level of awareness of the rural investors towards postal investments.
3. To examine the perceived opinion of the rural investors towards postal investments in Dharmapuri District.
4. To identify the rural investors’ attitude and to evaluate the different factors influencing postal investment decisions.
5. To offer suggestions for the improvement of the features of postal investments and thereby to increase the collections through postal investments.

1.8 Hypotheses

Based on the above objectives, the following hypotheses have been postulated:

1. There is no association between level of awareness and investors’ attitude towards savings.
2. There is no association between demographic variable and investors’ attitude towards Postal Investment Schemes.
3. There is no association between opinion of the rural investors and investors’ attitude towards agents.
4. There is no association between demographic variable and investors’ attitude towards Post office.
5. There is no association between demographic variable and investors’ attitude towards services.
6. There is no association between demographic variable and investors’ attitude towards Advertisement.

1.9 Period of Study

The period of study for the researcher for the degree of Doctor of Philosophy was from 2010 to 2012.

1.10 Period of data Collection

The data have been collected from the respondents by the researcher for the period from March 2011 to August 2011.

1.11 Limitations of the Study

The study is not free from limitations. The following are the limitations of the present study:

1. This study is confined to a particular selected region, that is, Dharmapuri District and hence conclusions are drawn with due care when an attempt is made to generalize the results.

2. Due to paucity of time and fund, the size of the sample is restricted to 600.

3. The study is confined to the Rural investors only and therefore the outcomes cannot be generalized to other category investors.

4. As this study is concerned with financial matters, investors’ reluctance to disclose information on some items in the questionnaire had to be encountered. Many of the responded schedules could not be considered because the respondents were not willing to disclose the amount of investments in various schemes. Hence schedules were drafted in such a way as to elicit qualitative information. Through such data their perception and attitude towards postal investment were measured.
1.12 Chapter Arrangements

The research report is presented in Seven Chapters:

Chapter I consists of the introduction and design of the study, comprising statement of the problem, scope of the study, objectives, hypotheses, limitations, and chapter scheme.

Chapter II relates to the review of related literature and views of various authors expressed in terms of investors decisions on various investments scheme and related aspects.

Chapter III focuses on the profile of the study area and postal investments scheme.

Chapter IV deals with sample Respondents and Methodology of the study.

Chapter V deals with the Perception level of rural investors.

Chapter VI highlights the different attitudes of rural investors towards Postal Investment Schemes.

Chapter VII summarizes the major results, findings of the study, suggestions for future postal investments and conclusion.

Thus, the study provides theoretical aspects relating to investors and their perception on postal investments. It further analyses the details regarding investment tendency towards the achievements of confidence of investors by selected postal investments so as to attract and retain them forever. Therefore this study ensures value addition to the existing literature on investors’ perception and their attitude.