



A Study on the Effectiveness of Indian Postal Savings Schemes in Channelising Savings, with special reference to Kozhikode District

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ABSTRACT Having a wide network of communication platform, Post Office in India is now shifting its functions from primary (communication) to secondary (financial services). With this change in business they are planning to give importance in fulfilling the investment needs of people. In India people are concerned about their future and savings. But their awareness level, accessibility to various investment options, education level etc. differs in different regions and communities. Banking and Non-Banking institutions are marketing their products aggressively with different schemes/options for mobilizing savings. Today, various Post Office Savings schemes are also doing well and some of their features are better than Banks. But the presence of Post Offices is not easily visible while comparing with other Banking and Non-Banking institutions as an investment alternative. In this context this paper is an attempt to study the effectiveness of Post Office in channelising saving indifferent regions.

KEYWORDS : Savings, Investment, Saving schemes, Commercial Banks, Operational effectiveness.

Introduction

The economic development and growth of any country depends on the efficiency of its financial system. The financial system of developing countries can be classified into formal and informal sectors. The formal sector of financial system comprises of Financial Institutions, Financial Markets, Financial Instruments and Financial Services. The strength of an economy is based on how effectively these sectors institutionalize the savings and investment. Indian financial sector is characterized by the presence of Banking and Non-Banking Institutions. Compared to other states, the per capita income of Kerala is lower, but at the same time the rate of savings is higher. Through 973 cooperative banks and 6,213 commercial banks in Kerala, the deposits mobilised by both commercial and co-operative banks amounts to Rs. 4,37,946 crores and Ernakulum occupies the highest position in Scheduled Bank deposits (Rs.67,585 crores) while Wayanad occupies the lowest (Rs.2098 crores).¹

For more than 150 years, the Department of Posts (DOP) has been the largest communication network with about 1,55,000 Post Office Branches, in India. The Post Office of India has evolved from an institution of 'communication' in the nineteenth and twentieth centuries to an important 'financial' institution of the early twenty-first century. Indian Post Offices are operating small saving schemes on behalf of the Ministry of Finance, Government of India. There are more than 400.05 million account holders in Post Offices as on 31.03.2016 and the outstanding balance under all National Savings Schemes and Savings Certificates in Post Office is more than Rs.6,392,54.06 crore.² India Post is implementing many attractive schemes offered by other banking and Non-Banking institutions in rendering their financial services like, core banking, ATM, internet and mobile banking etc.

With the greater role of post offices being the backbone for communication network, it started as a reliable agency to accept deposit. Earlier access to banks were limited to urban people, farmers and small traders had no access to the commercial bank due to many socio economic factors. Post offices are situated in urban as well as in rural area. With 1,54,910 post offices, of which 139182(89.86%) in rural area, India has the largest post office network in the world. Earlier in many places it was the only government office known to majority of population as people rarely go out of their villages. Even though, many studies have been conducted about the function of commercial and cooperative banks, little studies have been done on post office savings scheme. During the last couple of decades many changes was happened in communication sector, and relevance of post offices is being questioned. In the changed scenario post offices are also making efforts to keep itself attractive particularly in the banking sector. With a renowned functional area, it will be interesting to see how post offices

cope with the market demand and continue to attract people from every sphere of life. A proper study on the reasons behind the success of post offices as a financial institution will help it plan better to become a formidable player in the financial market.

Statement of the problem

As a developing country India is focusing on the financial inclusion of people. Even though various investment opportunities are available, rural people are not able to make investment according to their needs. The purpose of investment is also different for urban and rural people. Lack of awareness, non-accessibility, operational formalities and other constraints keeps away people from saving and investment. By considering technological advancement in communication networks, post office is reforming its primary function of communication to banking. With the largest post office network in the world it has been playing a great role in socializing saving schemes particularly among those who have no access to banks.

The effectiveness of post office in mobilizing savings compared to commercial banks and the current market position of postal saving schemes are to be studied for updating the schemes and strengthening its banking function. Even though Commercial Banks and Post Office savings schemes are part of Indian Banking System, no attempt has been made yet to understand the comparative advantages and disadvantages of postal saving schemes over the other schemes. Thus there are number of anxieties regarding Post Office like, what is the role of Post Office in financial inclusion? How far Post Offices are operationally efficient compared to Commercial banks? Is there any difference in selecting Post Office Savings as an investment opportunity by the people of rural and urban area?

Objectives

1. To assess the investment choices of households located in different geographic locations (urban, semi urban and rural areas),
2. To examine the preference for various post office saving schemes among households located in urban, semi urban and rural area,
3. To evaluate the relative merits of post office saving schemes over bank deposits, and
4. To assess the awareness of respondents about various post office saving schemes.

Need and Significance

The study relating to savings has been an area of interest for academicians for several years. With the rapid popularization of information technology and services and mobile phones, the traditional services offered by Post Offices are no more relevant. With the transformation of financial sectors, Postal Department is redefining itself from primary function of communication to banking function.

Thus Post Office is utilising its huge network and trust built over the last 150 years for its banking function. If it is effectively able to migrate to the market expectation utilising its network and customer base it can make wonders to the organization and country. In this context, a study relating to Post Office saving schemes can contribute much towards framing policies by Post Offices and healthily competing with the saving schemes offered by commercial banks.

There are number of studies related with commercial banks and its saving. At the same time Post Office Saving Bank which also doing almost the same function in relation with deposit collection, there is little or no studies can be found towards its relevance in financial inclusion. This study is an attempt to fill this research gap through finding out how far Post Office Savings Schemes are effective in channelising savings and what is the market position of Postal Saving Schemes among the saving schemes of commercial banks. Thus this study will help us to know the criteria in preferring particular saving scheme over the others. This will enable us to determine how far Post Office is different in mobilizing savings compared to saving schemes of Commercial banks. After the study we can understand, is there any special advantage or disadvantage compared with the saving schemes of commercial banks and it will enable the concerned authority to take suitable decisions and modifications in Postal Saving Schemes. Thus it is believed that findings of this paper and the suggestions thereof will immensely help Postal Department to be more competitive in the new era of globalization. This research can help the financial institutions to measure the needs and preferences of existing as well as potential investors and then match their products or range of products to meet the total satisfaction of their investors.

Scope of the study

The Study includes people those who have account both in Commercial bank and in Post Office during the time of data collection. This paper attempts to find out the factors which influenced the respondents to go for Post Office Saving Schemes and aims to locate the market position held by Post Office. It is restricted only to the people of Kozhikode district and covers only the Post Office savings and Commercial bank deposits.

Literature Review

Literature review is a summary of published research work, about a particular subject. This provides an idea about the current level of knowledge regarding that topic. The current study has been developed after going through various research works related to Postal Savings conducted in and outside India. Therefore, the following literature review has been divided in to India based and International based study.

P. Amalorpavamary and Dr.R.Santhurusankara Velsamy, (Jan - 2015)¹ "Post Office Savings and its relevance in rural areas with reference to Thanjavur District", has observed that even though various investment avenues are provided by many financial institutions like commercial banks, co-operative banks, life insurance corporations, public limited companies etc, Post Office savings bank is also mobilizing savings of households. This paper tried to understand the investment awareness, preferences, experiences, satisfaction, objectives and purpose of the investors on post office saving schemes in Thanjavur Districts. From 200 samples selected primary data was collected. Correlation, Chi-Square and ANOVA were used for data analysis. The study found that majority of the investors are aware of all the post office saving schemes, preferred post office saving account, the main objectives of the investors are regular return, Children education and marriage are the main purpose, and only a very few investors are dissatisfied with post office saving schemes.

Dr. Balu A and Muthumani K through, (2016)² "An Overview on Post Office as an avenue for savings", has observed that Post offices were considered only as a medium for communication. This paper attempts to understand the repositioning strategy adopted by post office. It traces various investment scheme offered, types of savings account and its growth over the years and the percentage change in growth. This paper is fully based on the secondary data, collected through magazines and official websites Indian postal department. The researchers mainly used percentage analysis to trace out the growth trend of various savings schemes of post office in the recent years. The

paper concludes, in a developing country like India, where rural population is spread out, this repositioning strategy of post offices is apt and appreciable.

Parimalakanthi and Dr. M. Ashok Kumar," A Study Pertaining to Investment Behaviour of Individual Investors in Coimbatore City" 2015³ list out the various factors affecting individual investor behaviour in Indian financial market. The objective of the study involves tracing of Investment avenues available to investors, the information seeking behaviour of Investors and their effectiveness and 107 questionnaires were administered. Friedman's Rank Test and Factor Analysis were used as statistical tools for analysis. The study found out that the safety is the foremost preferred aspect among the fixed income segment, Capital appreciation is the foremost preferred aspect in long term investment and pride and contingency savings. Additional income is the most preferred aspect in liquidity investments. The factors namely gender and investment ratio in real estate does influence the investment behaviour.

Dr. Priyanka Vijay and Prof. Siddharth Shastri, (September 2016)⁴ "A Study of Various Investment Avenues in India", explains that according to requirement of investors they invest some fund in financial instrument some in nonfinancial instrument. This paper has been done with the aim of knowing more about various investment avenues available in India. Thus it analysis various investment avenues including different post office saving schemes with their returns and risk factor. A detailed understanding of household savings in last two years was made. It found out that most of the household savings are moving towards physical investment rather than financial investment because of easy availability of physical investment with good return.

Hugues Kamewe Tsafack, (2003)⁵ "Investigating the Relationship Between Postal Savings and Private Investment in Zimbabwe (1979-1997)", has observed that there is a great budgetary indiscipline in Zimbabwe Government. Three major problem has traced the research. First, investing postal in government securities has constrained the resources available for the private sector on domestic credit markets in Zimbabwe. Second, the private investment rate is negatively correlated to postal savings invested in government debt over the period under review (1979-1997). Third, postal savings has mitigated the macroeconomic costs of running excessive fiscal deficits in Zimba. This paper highlights the impact of credit availability on private investment and indicates that any mechanism which effect squeezes in the volume of credit to the private sector adversely affects economic growth. In his findings he says, where postal savings represents an impressive portion of bank deposit liabilities, appropriate measures are required to remove all impediments to private sector access to this resource. The crowding out effect of postal savings invested in government debt on private investment in Zimbabwe argues against any pseudo borrowing mechanism for government fiscal.

Michiru Sawada, (2013)⁶ "Measuring the effect of postal saving privatization on the Japanese banking industry: Evidence from the 2005 general election", Pacific-Basin Finance Journal. In this paper empirically investigate the effect of the privatization of postal savings system (PSS) on the Japanese banking industry by using the event study methodology. It focus on the general election of the House of Representatives on September 11, 2005, which was essentially a referendum on the privatization of the postal system. Econometric results show that the PSS's privatization significantly raises the wealth of mega banks but does not have a strong effect on the wealth of regional banks, suggesting that larger banks gain relatively competitive advantages against a newly privatized institution (JPB). It also finds that the privatization significantly increases the risk for all categories of banks. Furthermore, multivariate analyses show that banks that are dependent on personal loans increase their risk in response to the PSS's privatization. Hence, those banks seem to seek new business or give loans to riskier customers whom they had not served before them privatization in order to gear up for competition with the JPB in the market for personal loans. In this sense, the PSS's privatization is likely to boost competition in the Japanese banking sector.

From these studies it is very clear that Post Offices have influential role in the economy of a country. The Post Office Savings Bank (POSB) is

the oldest banking system in the country established in 1882 by the British government to mobilize saving. However proper evaluation of the effectiveness of Post Office Saving Banks on mobilization of savings in the context of Kerala has not been properly conducted.

Research Methodology

Both primary as well as secondary data has been used. Questionnaire was prepared and filled to get primary data. Random sampling has been used for the study. Entire population of Kozhikode district divided in to three groups, like panchayath, municipality, and corporation.

Method of data collection

The primary as well as secondary data has been used in this research. Survey has been conducted among individual investors of panchayath, municipality and corporation of Calicut District. Structured questionnaire has been used to collect primary data. Secondary data has been collected from internet and journals.

Tools used for data analysis

To assess whether there is any significant difference in ranking of investment opportunities available to the people of different regions in Calicut District have been tested separately-for this the non-parametric alternative to one-way ANOVA namely Kruskal-Wallis Test has been employed.

The Kruskal-Wallis hypothesis test is:

H₀: All k populations have the same distribution.

H₁: Not all k populations have the same distribution. The Kruskal-Wallis test statistic is

$$H = \frac{12}{n(n+1)} \sum_{j=1}^k \frac{R_j^2}{n_j} - 3(n+1)$$

Where n is the total sample size from k populations n₁, n₂,...,n_k and R_j sum of the ranks from sample j (j=1,2,...,k). We reject H₀ if sample H exceeds critical H_α at chosen level of significance.

To assess the association between investor choices and geographic location the Chi-square test has been used. The hypothesis test for association is:

H₀: The two classification variables are associated each other.

H₁: The two classification variables are not associated.

The Chi-square test statistic for association is

$$\chi^2 = \sum_{i=1}^r \sum_{j=1}^c \frac{(O_{ij} - E_{ij})^2}{E_{ij}}$$

The Chi-square test statistic for association with degree of freedom as (r-1) (c-1). The null hypothesis is rejected if sample χ² at chosen level of significance.

Data Analysis and interpretation

Through questionnaire, data are collected from people having savings both in bank and post office. It has been arranged in tables for analysis and interpreted to find out the objectives of the study as follows.

1. Investment choice and geographic locations.

To assess whether there is any significant difference in the investment pattern between different geographic regions, χ² test of association has been employed. The test results are furnished in table 1.

Table 3: Preference for various post office savings schemes.

	P.O Saving Account	P.O Time Deposit	P.O Monthly Income Deposit	P.O Recurring Deposit	Kissan Vikas Patra	National Savings Certificate	Senior Citizens Scheme	Public Provident Fund	Postal Insurance	χ ² =17.91 (0.3293)
Corporation	22	5	8	5	1	1	0	7	4	
Panchayath	16	6	6	6	0	1	1	0	8	
Municipality	14	2	6	5	0	2	0	6	3	

Source: - primary data, Figures in the brackets are P value; **indicates significance at 5% level.

The χ² reveals that there is no significant difference among the choice of investment schemes by the people of panchayath, municipality and corporation. More than that from the table it is very clear that the most preferred Post office scheme is Post office savings account. The least

Table 1 Investment Choices and geographic regions:

	Panchayat	Municipality	Corporation	Result
Bank	30	30	30	χ ² =28.96 (0.0489)**
Chit Fund	7	3	9	
P.F Schemes	6	2	2	
Post Office	30	30	30	
Finance Company	2	0	2	
Insurance schemes	17	14	13	
Mutual Funds	2	9	0	
Corporate Securities	0	2	0	
Real Estate	7	3	3	
Gold	19	19	10	

Source: - primary data, Figures in the brackets are P values, ** indicates significance at 5% level.

It is clear from the table 1 that there is significant association between choice of investment and geographic location of investors χ²=28.96, P=0.0489).

2. Difference in the ranking of investment choices in the panchayath, municipality and corporation.

To assess whether there is any significant difference in the ranking of investment choices in the panchayath, municipality and corporation areas, Kruskal-Wallis H test has been performed. The test results are furnished in table 2.

Table 2: Ranking of investment choices: panchayath, municipality and corporation.

	Panchayath Median	Municipality Median	Corporation Median
Bank	1	1	1
Chit Fund	4	5	6
P.F Schemes	7	6	6
Post Office	2	2	4
Finance Company	6	7	7
Insurance schemes	4	6	4
Mutual Funds	8	8	8
Corporate Securities	8	10	9
Real Estate	6	5.5	4
Gold	4	3	4
RESULTS	H=160.365 (0.000)**	H=152.696 (0.000)**	H=162.589 (0.000)**

Source: -primary data, Figures in the brackets are P value; **indicates significance at 5% level

There is significant difference in ranking or positioning among various investment opportunities in the panchayath, municipality and corporation. Median is found to be least for Bank and next for Post Office Saving Schemes based on Kruskal Wallis test. Kruskal Wallis 'H' test shows that in all the regions Bank deposit is the most favoured investment choice followed by post office saving schemes. Investment in corporate securities mutual fund seems to be the least preferred investment choices.

3. Preference for post office saving schemes.

To determine whether there is any significant difference among the choice of investment schemes by the people of panchayath, municipality and corporation chi-square test has been conducted and the result is shown in table 3 as follows.

preferred schemes are Kisan Vikas Patra and Senior Citizens Schemes.

4. The purpose of choice of post office saving scheme.

To assess the purpose of choice of post office saving schemes among different regions, χ² test has been conducted. Test results are given in the table 4.

Table 4: The purpose of choice of Post Office Saving Schemes.

	Safe	Tax	Cheque Facility	Family Protection	Future Benefit	Transaction Cost	Working HRS	Interest	nearness	Comfortable life	Formalities	Emergency	Children Wellbeing	Liquidity	Better than others	
Municipality	30	11	3	13	11	30	6	30	13	4	8	24	6	8	10	$\chi = 52.76$ (0.0031)**
Corporation	30	09	0	07	9	18	5	21	13	2	8	09	6	3	02	
Panchayath	29	09	4	20	16	13	16	19	08	13	9	15	16	10	09	

Source: - primary data, Figures in brackets are P value. ** indicates significance at 5% level.

The Chi-square test shows that there is significant difference among panchayath, municipality and corporation with regards to the purpose for which people make investment in post office investment choices. The main purpose of making investment is safety. In panchayath transaction cost and interest are also the reasons for their investment selection.

5. Suitability/Effectiveness of post office saving schemes in fulfilling the needs.

To assess the suitability of post office saving schemes in fulfilling the needs, one-way ANOVA 'F' test has been conducted. Test results are furnished in table 5.

Table 5: Suitability of post office saving schemes in fulfilling needs

	Panchayath	Municipality	Corporation
	Mean	Mean	Mean
Highly Suitable	19.8	12.5	9.2
Suitable	20.3	26.1	21.6
Neutral	9.4	9.0	13.5
Not Suitable	1.3	2.3	2.3
Not at All Suitable	0.6	0.3	0.7
RESULTS	F=22.48 (0.000)**	F=31.43 (0.000)**	F=44.89 (0.000)**

Source: -primary data, Figures in brackets are P value. ** indicates significance at 5% level.

There is significant difference towards the opinion of suitability of Post Office Saving Schemes in fulfilling the needs of different regions, panchayath, municipality and corporation. The 'F' test shows that most of the people of all regions have the same opinion i.e. Post Office Saving Schemes are 'suitable' for fulfilling their needs. The second largest group have the opinion that Post Office Saving Schemes are 'highly suitable'.

6. Opinion about comparative advantage of Postal Saving Schemes over Bank savings.

To assess the comparative advantages of Post office saving schemes over Bank savings one way 'ANOVA' F test has been conducted. Test results are furnished in table 6.

Table 6: Opinion about comparative advantage of Postal Saving Schemes over Bank savings.

	Panchayath	Municipality	Corporation
	Mean	Mean	Mean
Strongly Agree	10.3	9.8	4
Agree	7.0	8.0	8.8
Neutral	3.3	3.9	5.3
Disagree	1.6	1.1	1.9
Strongly Disagree	0.3	0.5	0.3
RESULTS	F=18.7 (0.000)**	F=26.38 (0.000)**	F=17.59 (0.000)**

Source: -primary data, Figures in brackets are P value; ** indicates significance at 5% level.

Table 6 clearly shows that there is significant difference towards the opinion of comparative advantage of postal savings Schemes over Bank Savings among the people of panchayath, municipality and corporation. Most of the people of panchayath (10.3) strongly agrees that Postal Saving Schemes have comparatively better than that of Banks. In municipality most of them (9.8) strongly agrees that Postal

Saving Schemes are comparatively better than that of Banks. In corporation most of them (8.8) agrees that Postal Saving Schemes have comparatively better than that of Banks.

7. Level of awareness about Post Office Savings Schemes

To assess the level of awareness about the features of post office saving schemes one-way ANOVA 'F' test has been conducted. Test results are furnished in table 7.

Table 7: Level of awareness about post office saving schemes

	Panchayath	Municipality	Corporation
	Mean	Mean	Mean
Highly Aware	5.3	5.7	5.3
Aware	10.0	10.3	10.8
Neutral	4.8	3.9	6.6
Not Aware	2.7	2.1	1.5
Not at All Aware	0.4	0.9	0.3
RESULTS	F=13.89 (0.000)**	F=14.75 (0.000)**	F=21.49 (0.000)

Source: -primary data, Figures in brackets are P value; ** indicates significance at 5% level.

Table 7 clearly expresses that there is significant difference regarding the awareness level related to the features of postal saving schemes among the people of panchayath, municipality and corporation. Most of the people of panchayath (10.0), municipality (10.3) and corporation (10.8) are aware about the features of post office saving schemes. Only a very few are not at all aware about its features in all the regions.

8. Level of awareness regarding various types of Post Office Savings Schemes.

To assess the level of awareness about the post office saving schemes one-way ANOVA 'F' test has been conducted. Test results are furnished in table 8.

Table 8: Level of awareness about post office saving schemes

	Panchayath	Municipality	Corporation
	Mean	Mean	Mean
Highly Aware	9.2	8	7.8
Aware	12.4	13.9	13.2
Neutral	4.8	6.1	9.6
Not Aware	5.4	3.2	2.3
Not at All Aware	0.4	0.9	0.7
RESULT	F=12.52 (0.000)**	F=21.9 (0.000)**	F=23.02 (0.000)**

Source: -primary data, Figures in brackets are P value; ** indicates significance at 5% level.

Table 8 Clearly expresses that there is significant difference regarding the awareness level about postal saving schemes among the people of panchayath, municipality and corporation. Most of the people of panchayath (12.4), municipality (13.9) and corporation (13.2) are aware about the post office saving schemes. Only a very few are not at all aware about its features in all the regions.

Findings

1. In all the regions (panchayath, municipality and corporation) households have almost same investment choices.
2. In all the regions peoples rank investment opportunities differently. But in all the regions peoples rank bank as their first choice and Post office as their second choice.
3. Households of all the three regions give the last ranks for

Securities and Mutual funds.

4. Among the post office saving schemes, the most preferred scheme is Post Office Saving Account by the people of three regions.
5. In all the three regions of Kozhikode says that Post office saving schemes are very suitable in fulfilling their needs.
6. The results show that people have the opinion that Post office saving have comparative advantages than Bank savings.
7. The features of Post office saving schemes are familiar to most of the people only a few of them are unaware of it.
8. People are familiar with the saving schemes of post office especially Post office saving account.
9. In certain features, people are not at all satisfied like Cheque facility and A.T.M.
10. Many of the people are unaware about the many saving schemes of Post Office and its benefits.

Conclusion

Among the three regions (panchayath, municipality and corporation) People have same investment preferences. In each region they rank investment opportunities differently but giving first rank to Bank and then to Post Office. From the study it is very clear that people are unaware about certain schemes and features of Post Office. By understanding the importance of Post Office in mobilizing savings, Post Offices are expected to do more advertisement in connection with their changing objective.

To conclude even though people of Kozhikode have dissatisfaction with regards to certain features of Post Office Saving Schemes, most of them are interested and impressed by the operational efficiency of Post Office than Banks on certain aspects.

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