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## **An Overview on Post Office as an Avenue for Savings**

**Dr. Balu A and Muthumani K**

### **Abstract**

Post offices have since ages been viewed as an avenue for communication. This paper reveals the repositioning strategy adopted by post office as an investment avenue too. Further the various investment scheme offered have also been elaborated. The various types of savings account and its growth over the years and the percentage change in growth has been traced in this paper.

**Keywords:** Post Office, Investment Avenue, Savings

### **Introduction**

Presently in India, there are various investment schemes and opportunities available for an individual for his savings and he can choose the appropriate investment schemes, which suit his needs. There are different types of opportunities provided by many financial institutions like commercial and co-operative banks, India post, Life Insurance Corporation, public limited companies etc. Among all the above institutions, Post Office Savings Bank schemes play a vital role. It provides numerous benefits to the investors. Post office saving bank is the largest savings institution in the country. Rural people are facing an extremely risky environment when they save in the informal sector. Postal savings funds play a significant role in rural India. It provides numerous benefits to the investors. Post office saving bank is the largest savings institutions in the country and offer high returns than those given by scheduled banks. There are a number of attractive schemes, well designed to meet the individual requirements of different small savers. The major instruments of post office saving schemes enjoy tax benefits such as exemption of investment contribution or interest income from tax or both up to certain limits. The Post Office Savings Bank (POSB) is the oldest banking system in the country established in 1882 by the British government to mobilize savings. It functions under the Postal Department and operates as an agent for the Ministry of Finance, Government of India, for which it receives commission. It has the largest network of 155,618 post office branches of which 90 percent are located in rural areas. The network is significant as it is twice the number of all bank branches put together in the country. It remains the only formal system offering financial services in rural areas for many years. The growth of POSB's was rapid after independence particularly in rural areas. At the time of independence, India had 23,344 Post Offices, which were largely confined to urban centers. During the last 60 years, it has grown almost seven times.

### **Review of literature**

Vinayagamorthy and K. Senthilkumar (2012) <sup>[6]</sup> in their study titled “An analysis of Postal Investment and Small Savings”, have shown that mobilization of domestic financial resource has remained a major concern in many developing countries. Despite the variety of vehicles that are intended to mobilize and allocate financial resources, only very few offer strategies for meeting the needs of poor and lower income people. Savings are increasingly being acknowledged as a powerful tool for poverty reduction. Postal savings funds play a significant role in financing public debt and in a number of countries, the funds are intermediated through a variety of policy based financial institutions with developmental

objectives, returning the funds to the direct benefits of the community of savers. Savings is the excess of income over consumption expenditure. Savings are meant to meet contingencies and raise standard of living of individual savers.

Kalavathi. S (2009) <sup>[4]</sup> concludes that psychological and behavioral factors have positive influence on domestic savings.

Gupta (2008) <sup>[7]</sup> reveals that Most of the horticulturists in Shimla city who belong to Apple belt though being rich have a tendency of investing their surpluses in Post Office savings for want of safety and suitability of returns

**According to Mr. K. Shakthisrinivasan and Devi Lakshmi (2006)** Indian post was no alternative to any leverage infrastructure, trust and related services into a much larger role in e-commerce and e-Government. The humble post office is fighting a battle with the swanky technology driven new age banks. The savings bank and postal deposits are considered to be surging well into the present decade and it has seen a steady and consistent growth in post office deposits, fit to rival the best performers in the banking industry.

Karthikeyan (2001) <sup>[5]</sup> found that necessity of life and tax benefits were the two major ones that influence the investors both in semi-urban and urban areas.

Salam Abdu and Kulsum Uma (2000) in their study observed the savings behaviour in India. The objective of the study was to examine the determinants of savings by analyzing saving behaviour in India over a period of 19 years from 1980-81 to 1998- 99.

Tamilkodi (1983) <sup>[3]</sup> has stated that small savings schemes have a psychological appeal and it provides an opportunity for ordinary men, women, and even children to park their savings

### Objectives of the Study

- To study the importance of postal savings schemes available for common man to strengthen the savings behaviour.
- To understand the various products introduced for public by post office in the recent years.
- To critically exhibit the post life insurance schemes such as PLI & RPLI and its performance in the recent years in India.
- To draft out the growth trend of various products of Indian postal department in the recent years in India.

### Methodology

Since the paper intended to critically evaluate the various investment avenues available for public and various innovations introduced by postal department for enhancing the public interest and strengthen the savings behaviour of the people, the 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 in India.

### Postal Services in India

For more than 150 years, the Department of Posts (DoP) has been the backbone of the country's communication and has played a crucial role in the country's socio-economic development. It touches the lives of Indian citizens in many ways: delivering mails, accepting deposits under Small

Savings Schemes, providing life insurance cover under Postal Life Insurance (PLI) and Rural Postal Life Insurance (RPLI) and providing retail services like bill collection, sale of forms, etc. The Department of Posts comes under the Ministry of Communications and Information Technology. The Postal Service Board, the apex management body of the Department, comprises of the Chairman and six members. The six members of the Board hold portfolios of Personnel, Operations, Technology, Postal Life Insurance, Human Resources Development and planning respectively. India possesses the largest postal network in the world with around 1, 55, 000 post offices spread all over the country of which 89 per cent are in the rural sector. Post offices in India play a vital role in the rural areas. They connect these rural areas with the rest of the country and also provide banking facilities in the absence of banks in the rural areas. India has been divided into 22 postal circles. Each circle is headed by Chief Postmaster General. Each circle is further divided into regions comprising field units, called Divisions, headed by a Postmaster General. Other functional units like Circle Stamp Depots, Postal Stores Depots and Mail Motor Service may exist in the Circles and Regions. Besides the 22 circles, there is a special Circle called the Base Circle to cater to the postal services of the Armed Forces of India. The Base Circle is headed by an Additional Director General, Army Postal Service holding the rank of a Major General. In 1854, the Post Office in the Province of Sindh, (then in British India), made postal history, when India became the first country to issue postage stamps. In October 1854, all the post offices of Indian sub-continent came under centralized control. In the same year Railway Mail Service was established and India had a network of 701 post offices across the continent. In 1911, India achieved another "first" when a biplane from Allahabad to Naini flew with 6500 pieces of mail. The flight was the first official Air Mail in the world. After independence, the Indian government broadened the vision of the postal system to reach the entire population of the country. Today Indian postal system has a reach that ranges from arid deserts of Rajasthan and Kutch to the icy heights of Laddakh. India has the highest post office in the world in Sikkim at a height of 15,500 feet (postal code - 172114). Indian postal service provide many facilities like - general or registered mail, parcel post, speed post, express post, e post and special courier service known as EMS-speed post. They also offer a number of post office saving schemes like National Savings Certificate, Recurring Deposits and Term Deposits.

### Vision

India Post's products and services will be the customer's first choice.

### Mission

The mission of the Department of Posts is as under:

To sustain its position as the largest postal network in the world touching the lives of every citizen in the country.

To provide mail, parcel, money transfer, banking, insurance and retail services with speed and reliability.

To provide value-for-money services to the customers

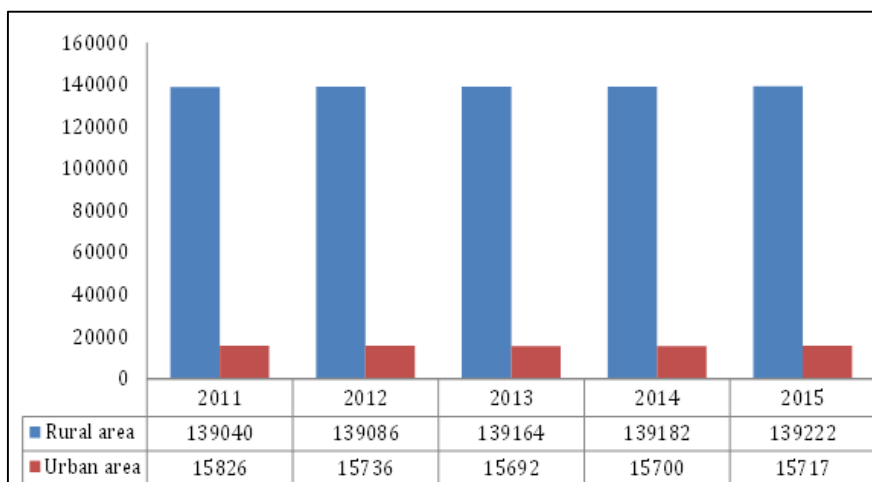
To ensure that the employees are proud to be its main strength and serve its customers with a human touch.

To continue to deliver social security services and to enable last mile connectivity as a Government of India platform

**Table 1:** Number of Post Offices in India

Years	Rural Areas	Urban Areas
2011	1,39,040	15,826
2012	1,39,086	15,736
2013	1,39,164	15,692
2014	1,39,182	15,700
2015	1,39,222	15,717

Source: [http://www.indiapost.gov.in/Annual\\_Reports.aspx](http://www.indiapost.gov.in/Annual_Reports.aspx)

**Chart 1:** Number of Post Offices in India

The above given table and chart explains about the number of post offices functioning in India under urban and rural areas for last 5 years from 2011 to 2015. In urban areas few post offices were closed during the years 2012 and 2013 but in the years 2014 and 2015 new offices were opened by the department. At the same time, in rural areas the numbers showed slight growth during all the 5 years.

#### Postal Life Insurance

Besides the above mentioned saving schemes the Indian post offers life insurance services since 1884. Initially the service was limited only to the employees of Post & Telegram Department but due to its popularity the service was later on extended to the employees of few other departments and banks also. It was opened for all people in the year 1995.

**Rural Postal Life Insurance:** To extend the life insurance service to the rural public, the post office extended the service to rural areas in 1995. The prime objective of the scheme is to provide insurance cover to the rural public in general and to benefit weaker sections and women workers of rural areas in particular and also to spread insurance awareness among the rural population.

#### Performance of Pli/Rpli

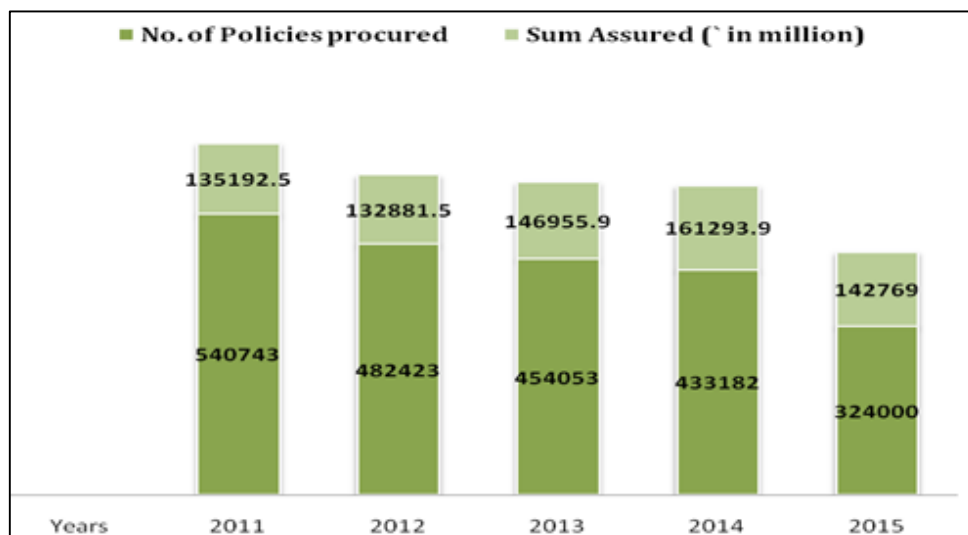
Postal Life Insurance (PLI) introduced in 1884, is the oldest life insurance scheme

operating for benefit of the Government and semi Government employees. Initially meant only for the Postal employees, today it caters to employees of the Civil and Military personnel of the Central and State Governments, Local Bodies, Government aided educational institutions, Universities, Nationalized Banks, Autonomous institutions, Public Sector Undertakings of the Central and State Government, employees of organizations such as Scheduled Commercial Banks, Credit Co-operative Societies, Deemed Universities and Educational Institutes accredited by recognized bodies such as NAAC, AICTE MCI etc., joint ventures having a minimum of 10% stake of Central/State Govt./PSUs and employees engaged/appointed on contract basis by Governments where the contract is extendable. Rural Postal Life Insurance (RPLI) Scheme was introduced in 1995 for inclusion of rural populace and to extend insurance cover with special emphasis on weaker sections and women workers.

**Table 2:** Number of Postal Life Insurance (PLI) Policies and Sum Assured

Years	No. of Policies procured	Sum Assured (in Millions)
2011	540,743	13,5192.5
2012	482,423	13,2881.5
2013	454,053	14,6955.9
2014	433,182	16,1293.9
2015	324,000	14,2769.0

Source: [http://www.indiapost.gov.in/Annual\\_Reports.aspx](http://www.indiapost.gov.in/Annual_Reports.aspx)



**Chart 2:** Number of Postal Life Insurance (PLI) Policies and Sum Assured

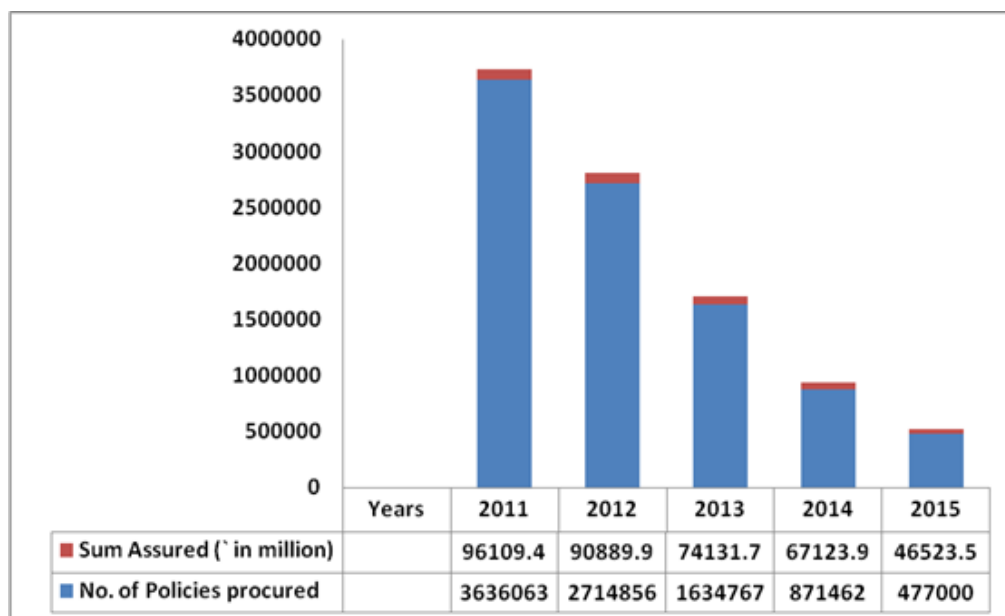
The above given table and chart explains about the number of postal life insurance policies and the sum assured during the years between 2011 and 2015. Number of policies showed a decline during all the years whereas the volume of sum assured during this period showed a slight decline in 2012 and

showed a steady growth during the remaining years. It can be concluded that people started to increase the sum assured of their policies as the money value has decreased as well as the cost of living index has increased.

**Table 3:** Number of Rural Postal Life Insurance (PLI) Policies and Sum Assured

Years	No. of Policies procured	Sum Assured (in Millions)
2011	36,36,063	96,109.4
2012	27,14,856	90,889.9
2013	16,34,767	74,131.7
2014	8,71,462	67,123.9
2015	4,77,000	46,523.5

**Source:** [http://www.indiapost.gov.in/Annual\\_Reports.aspx](http://www.indiapost.gov.in/Annual_Reports.aspx)



**Chart 3:** Number of Rural Postal Life Insurance (PLI) Policies and Sum Assured

The above given table and chart explains about the number of rural postal life insurance policies and the sum assured during the years between 2011 and 2015. Both the number of policies and the sum assured showed steep decline during all the years. It can be concluded that people either reduced investing in rural postal life insurance or started to move to other investment modes, which indicates the failure of the product.

#### **An Overview of Different Savings Products of Post Office Saving account scheme**

Post office saving bank account (POSB) is the oldest and most popular postal saving instrument. Any individual can open a POSB A/C with a minimum balance of Rs. 50. A pass book is provided to the A/C holder and Cheque facility is also available for POSB A/C. Currently the rate of interest offered

against POSB A/C is 4%. This Account is regulated by the Government Savings Bank Act of 1873.

### **Recurring deposit scheme**

Post office offers recurring deposit facility with a maturity period of five years. The minimum deposit is Rs 10 and multiples of Rs 5 thereafter and there is no limit of maximum deposit. The present rate of interest offered against this A/C is 8.4%. Premature closure is allowed after three years and partial withdrawal is also allowed. Four defaults are allowed, more than four default lead to closure of the account. Depositors are provided with one passbook.

### **Time deposit account**

Post office offers time deposit for one year, two years, three years and five years. The rate of interest allowed is 8.2%, 8.3%, 8.4%, and 8.5% for one year, two years, three years and five years term deposit respectively. The minimum amount required to deposit is Rs 200 with no maximum limit. Premature withdrawal is allowed after expiry of six month.

### **Monthly Income Scheme**

Under this scheme, the savers make a lump-sum deposit, which gives him a monthly interest. The minimum deposit in case of single depositor is Rs 1000 and in case of joint depositor it is Rs 1500. Maturity period is five years and rate of interest allowed is 8.5%. Depositors are provided with one passbook.

### **National Savings Certificate**

This is a tax exempted certificate sold by post office with a minimum investment of Rs 100 and having no maximum limit. Certificates are available in the denomination of Rs 100, 500, 1000, 5000 and 10,000. Rate of interest is allowed at 8.9%. Trust and HUF are not allowed to invest in NSC.

### **Public provident fund scheme**

This is a tax advantage 15 years scheme with a minimum deposit of Rs. 500/- in a financial year and a maximum of Rs 70,000 per year. Withdrawal is allowed after expiry of five years from the date of initial deposit. Interest is allowed at 8.8% per annum. Depositors are provided with one passbook.

### **Senior Citizen Savings Scheme (SCSS) Account**

An individual of the age of 55 years or more but less than 60 years who has retired on superannuation or under VRS can also open account subject to the condition that the account is opened within one month of receipt of retirement benefits and amount should not exceed the amount of retirement benefits

### **Kisan Vikas Patra**

It is a certificate, which doubles the deposit over a certain period depending on prevalent interest rates. There is no maximum limit on investment. Premature encashment is not permissible except in case of death of the holder.

### **Sukanya Samriddhi Accounts**

Account can be opened up to age of 10 years only from the

date of birth. For initial operations of Scheme, one year grace has been given. With the grace, Girl child who is born between 2.12.2003 & 1.12.2004 can open account up to 1.12.2015

Rate of interest is 8.6% per annum (w.e.f 1-4-2016), calculated on yearly basis and yearly compounded. Minimum INR 1000 and Maximum INR 1, 50, 000 in a financial year. Subsequent deposit in multiples of INR 100, deposits can be made in lump-sum. No limit on number of deposits either in a month or in a financial year. A legal Guardian/Natural Guardian can open account in the name of girl child. A guardian can open only one account in the name of one girl child and maximum two accounts in the name of two different girl children

### **Mgnrega**

With a single stroke, the government has made over 3.5 crore existing post office accounts ready for its new Aadhaar-linked cash transfer scheme. The accounts, which belong to MGNREGA workers over the country, were originally to be used only for receiving wages under the rural employment guarantee scheme. However, the government has now woken up to the potential of using the ready-made network of accounts to directly transfer benefits such as pensions, scholarships and social welfare payments.

### **Mahila Samridhi Yojana (M S Y)**

The Mahila Samridhi Yojana (MSY) was launched on 2nd October, 1993 with the objective of empowering the rural women through building thrift habit, self-reliance and confidence. During the first two years of its operation the performance of scheme, as measured by achievement against the all India target and the amount of the money deposited in MSY accounts was not encouraging, and the cost of the scheme was also on the higher side. Programme Evaluation Organisation was asked to evaluate the performance, implementation and impact of the scheme, to identify the gaps, if any, and suggest measures that would improve the performance of the scheme. The report was submitted in April, 1996.

With the objective of providing economic security to the rural women and to encourage, the saving habit among them, the Mahila samridhi Yojana was started on 2 October 1993. Under this plan, the rural women of above 18 years of age can open their saving account in the rural post office of their own area with a minimum Rs. 4 or its multiplier. On the amount not withdrawn for 1 year, 25% of the deposited amount is given to the depositor by the government in the form of encouragement amount. Such accounts opened under the scheme account opened under the scheme account opened under the scheme are provided 25% bonus with a maximum of Rs. 300 every year. Up to 31 March 1997, 2.45crore accounts were opened under this scheme with a total collection of Rs 265.09crore. The Department of Women and Child Development, the nodal agency for MSY, decided in April 1997 that now new MSY accounts should be opened from 1 April 1997 onwards but the existing account could be maintained.

**Table 4:** Number of Accounts under Various Investment Schemes

Saving Accounts	No. of Accounts in lakhs					Percentage (%) Change			
	2011	2012	2013	2014	2015	12/11	13/12	14/13	15/14
Saving Accounts	964.76	1158.25	1253.23	1335.01	1659.68	20.05	8.20	6.25	24.32
RD Accounts	843.05	859.21	938.98	1105.99	1229.38	1.92	9.28	17.78	11.16
TD Accounts	93.55	94.24	111.99	142.46	162.38	0.73	18.83	27.21	13.98

MIS Accounts	269.36	242.60	228.86	220.17	210.73	-9.93	-5.66	-3.79	-4.28
NSS Accounts	4.00	3.73	3.48	3.31	3.20	-6.75	-6.70	-4.88	-3.23
PPF Accounts	22.78	23.45	23.74	24.11	24.24	2.94	1.23	1.55	0.54
Sr. Citizens Accounts (SCSS)	14.05	12.17	10.85	10.67	9.5	-13.38	-10.85	-1.66	-10.96
Cumulative Time Deposit	2.96	3.14	3.05	2.69	1.81	6.08	-2.86	-11.80	-32.71
Fixed Deposit	0.14	0.21	0.0789	0.00516	0.00516	50.00	-62.42	-9.34	.....
MGNREGA	380.39	439.78	516.95	626.89	648.84	15.61	17.54	21.14	3.50
MSY Accounts	49.49	37.48	29.45	20.00	18.47	-24.26	21.42	-32.08	-7.65
SS Accounts	NA	NA	NA	NA	24.86	NA	NA	NA	NA
Total	2644.56	2874.31	3120.70	3491.36	3993.19	8.68	8.57	11.87	14.37

**Source:** [http://www.indiapost.gov.in/Annual\\_Reports.aspx](http://www.indiapost.gov.in/Annual_Reports.aspx)

The above table highlights the various investment schemes and the percentage change during 2011 to 2015. It is seen that savings account record the highest percentage of growth in 2015 over 2014; cumulative time deposit record a negative growth of 32.71% in 2015 over 2014 and so on. In short there is an increase in total number of savings accounts from 2644.56 in 2011 to 3993.19 in 2015. Further though there is a dip in percentage change in growth in 2013 over 2012; there is a steady increase in 2014 and 2015.

### Conclusion

Post office has for ages been a friendly place for the local people. Just like many organisations, the face of post offices as a communication avenue is slowly and steadily changing. It has not stepped back in grabbing the opportunities available to widen its horizons. By repositioning itself as solely as communication avenue, it has been successful in posing as an investment avenue too. In country such as India, where rural population is spread out, this repositioning strategy of post offices is apt and appreciable.

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