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A Study on Micro Savings by Different Classes of People in Punjab

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Abstract: *The objective behind micro savings schemes is to mobilize resources for development and promote the savings habit, especially among those with limited incomes and savings potential. These schemes were designed to provide safe investment options to the public as they carry attractive interest rates, sovereign guarantee and tax benefits. The present research paper based on primary data collected from various classes of people of S.B.S. Nagar district of Punjab. (Sample size 200 respondents) Respondents are divided in two classes- Salaried and Non-salaried on the basis of their profession. The two categories are further classified on the basis of their investment in micro-savings into: Investors in salaried class, Non-investors in salaried class, Investors in non-salaried class and Non- investors in non-salaried class. The object behind this study is to highlight the importance of micro savings. Micro level saving in financial assets (net) is estimated as gross financial assets net of financial liabilities, while household saving in physical assets is the net addition to physical assets by the households. Financial liabilities include the loans from all kinds of banks, other financial institutions, government and cooperative non-credit societies.*

Key Words: *Micro savings, Primary sector, Post office, banks.*

INTRODUCTION:

In 1945 the Micro Savings scheme was started as pressure group with the purpose of enhancing the surplus purchasing power to fight the inflationary forces in the post-war years. These schemes become the part of Five- Year Pans later on. After the end of Sino-Indian war, the micro small saving schemes were also used for building up the defenses of the Nation. The income invested in these types of Savings is define as the part of incomes not immediately, consumed, but save for future use, investment or for unexpected contingencies is considered as an essential weapon for economic growth and development. Micro level savings help in capital formation through improved capital stock and as a result of it the economy generates more and higher incomes.

However, the existence of micro level investors may not be necessary for generating the required volumes of long-term debt. The Insurance Companies and pension/provident funds are considered as the traditional institutional sources of such debt, could possibly meet the demand, at least in the instant future. Through some Public sector banks deposit Schemes for Retiring Employees are operated through selected branches. The micro saving schemes in operation include Post Office Savings Account, Post Office Recurring Deposits, Post Office Time Deposits, National Savings Certificate, Kisan Vikas Patra, Public Provident Fund, Various Deposit Schemes available for Employees of Public Sector Undertakings and Retiring Government Employees.

Importance of Micro Savings for its Investors:

- These savings provide medium term and long-term investment opportunities for investors. These are best way to save as compare to other investment method such as bank deposits, debentures, government securities and Bonds from the point of view of extend of maturity, Mutual Funds, liquidity and safety.
- Almost all these micro saving schemes renewed/ reinvestment after its maturity.
- It provides tax benefits for those who belong to the income-tax brackets. Investor can avail maximum benefit up to Rs. 1, 50, 000 p.a.
- At the time of death of depositor his/her nominee(s) can easily withdraw the deposits with interest.
- These schemes are started to provide benefit for small urban and rural investors.
- These schemes are not for institutions and Non-Resident Indians (NRIs). They are not permits to invest in micro savings schemes including Public Provident Fund (PPF) and for other Post office saving schemes.

Reasons for reducing Investment level of micro level savings:

Micro level savings schemes, which were once a popular among the middle class, have lost much of their popularity. In fact, withdrawals from and closures of deposits are on the increasing trends. The difference between gross and net collections is increasing. The main factors responsible for this discussed as follow:

- **Reducing interest rate**
  The main reason for the turn down in micro savings deposits is the high interest rates offered by banks on term deposits. With bank deposit rates on the rise, investors are turning away from micro savings to get better returns on their investments.
- **Investors' liking for alternative investment opportunities**
  The other reason of decline in collections of micro saving is that investor’s have many other alternative instruments for effecting savings. The risk enthusiasm of the average investor has enhanced and they has a wide choice of investment **opportunities** like unit-linked insurance plans (ULIPs), bank deposits, equities and mutual funds etc. Majority of people used The National Small Savings Fund (NSSF), for money investment purpose.
- **Increasing inflation level**
  Another reason for reducing micro savings deposits is growing inflation concerns among many households. Faced with sharp increase in primary products prices, many households are looking to high-risk instruments to better the returns on their investments.
- **Fear of Income Tax authorities**
  There is a risk to rich investors who indulge in malpractices like tax evasion from the increasing interference of income tax authorities in postal department. For example: a withdrawal exceeding Rs. 20,000 post office issues a cheque, and when the investor gets it en-cashed he is accountable.
- **Due to Lack of up gradation in schemes**
  Organizations those are involved in Micro Small savings schemes not been able to retain investors because they have failed in bringing changes in scheme design and their administration with changing times**.** These schemes were introduced way back and are still being continued with their old form.
- **Lack of prompt services**
  Post offices are failed in providing efficient services to present investors. This is because of the fact that they have been very slow in adopting modern technology. Investors find dealings with banks etc more comfortable as they provide quick and better services for 24 hours. People do not have to queue up in long lines, waiting for their work to be done. The use of Information Technology they have facilities like E-banking and Mobile banking. Whatever information is needed can be made available at the touch of a button. But no such attempt has been made by the postal department.
- **Negative Attitude of Employees**
  Attitude of postal employees is another reason for declining trend in micro savings. Non-cooperation, ill treatment at their hands is a common experience.
- **Depends upon the government**
  The micro saving schemes are fully controlled by the government and suffering badly due to its abandon. There is a slow marketing and promotional efforts on the side of government. This weak point has been one of the strengths behind the growing popularity of alternative investment avenues. The state governments are equally to be blamed. As the bulk of net micro savings has historically been transferred to state governments, they consider these flows as guaranteed receipts, in the process loosening fiscal regulation.

Research Methodology:

The primary data has been collected from two hundred respondents living in district Shahid Bhagat Singh Nagar and adjoining areas like Nawanshahr, Banga and Mukandpur with the help of a questionnaire. Respondents are divided in two classes- Salaried and Non-salaried on the basis of their profession. The two categories are further classified on the basis of their investment in micro-savings into: Investors in salaried class, Non-investors in salaried class, Investors in non-salaried class and Non- investors in non-salaried class.
The salaried class and non- salaried class consisted of hundred employees each, whose disintegration is as follows: Own business 40, Involved in Agriculturists- 32, Self-employed qualified professionals- 20 and Retired from service – 8. The data analysis was done with the help of various statistical tools such as %age, average and with the help of tables etc.

Review of Literature

Shivkumar C. ***(2007)*** studied in his research paper titled "States looking beyond small savings for funds" about the effects of reducing micro level savings collections on the state governments account. The states are facing a problem because most of them bank on small savings account for meeting their resource necessities. For solving this problems banks should reduced their capital expenditure to generate resources through alternative ways. Market borrowings are not a possible option as the current SLR ratio of banks is over thirty one per cent against the required twenty five 25 per cent, banks show less interest in State Development Loans (SDL). So, states are approaching financial players like Life Insurance Corporation (LIC) for meeting their resource necessities.

Mukul G. Asher (2008) says that micro level savings schemes was set up after the independence of India with the purpose of providing easy and reliable savings opportunities to poor and middle class of income groups. These schemes were administered by public sector institutions such as the Post Office Savings Bank and subsequently, the nationalized banks in India. The Public Provident Fund (PPF) was established in 1968 to encourage individuals to save for retirement. The ultimate responsibility for mobilizing micro level savings is vested with the National Savings Institute (NSI), a division of the ministry of finance. It markets small savings schemes nationally, provides policy-relevant feedback to the ministry, and addresses customer doubts.

Sahu Prashant K. (2008) reveals in his research paper titled "Investors shun small saving fund" that the National small saving fund (NSSF), which used to be a major source for the people to save money, was losing out to banks, mutual funds and insurance companies. The revised estimate of net collections from small saving instruments in 2007-2008 shows that the NSSF will garner Rs 18,000 crore in the year compared with Rs 57,500 crore in 2006-2007, a decline of 68 percent over the previous year. The budget estimate for 2007-08 was Rs 57,500 crore but was drastically revised downward to Rs 18,000 crore. The estimate of net collection is Rs 30,000 crore in 2008-09.

Peter Kooreman, (2013) in his research paper titled, "Framing Effects in an Employee Savings Scheme: A Non-Parametric Analysis", studied that evidence that in fact irrelevant details of an income components are depends how its brand have an effect on its usage. It is found that by applying a data set on more than one million employee-month observations, we investigate the role of functional form assumptions and time aggregation in the analysis of these effects. In most cases we find evidence that marginal propensities to save differ across income components. Study reveals a great amount of heterogeneity in savings manners within the year.

Sinha Pummy (2018) studied in her research paper titled "A study on the Small saving schemes In India and their impact on general masses" that micro saving is the part of individuals total income which is saved for precautionary motive. This income is not used on capital goods and services, income is saved or invested on some micro level saving schemes, such as Kisan Vikas Patrika Post office schemes, recurring deposits account etc. More Savings create more fixed capital, which ultimately help for economic growth. There is Positive relationship between savings and the rate of interests. This paper is mainly concerned with the different kinds of small saving schemes and their rate of interests from the period of 2014 to 2016 of India and its impact on the general people. It also studied the causes of fall in interest rates.

ANALYSIS:

Data Analysis and Interpretation:

The primary data has been collected from two hundred respondents. Respondents are divided in two classes- Salaried and Non-salaried on the basis of their profession. The two categories are further classified on the basis of their investment in micro-savings into: Investors in salaried class, Non-investors in salaried class, Investors in non-salaried class and Non- investors in non-salaried class.

Table- 1
Respondents' Profile

Occupation	Female	Male
Service	32%	68%
Business	-	100%
Agriculture	-	100%
Self- employed professionals	40%	60%
Retired	30%	70%

Table one showed that there are 68% male and 32% female respondents in the service class and 60% males and 40% females in self-employed professionals. In case of retired class people 70% males and 30% females are there.

Table-2
Investment and age wise classification

Age	Invest in small savings	Don't invest in small savings
Less than 28	14%	36%
28-38	39%	50%
38-48	20%	7%
48-58	19%	7%
58 and above	8%	-

Table-.2 represents that 86% of the respondents below 38 years do not invest in small savings. Thus percentage of non-investors below 38 years is higher in comparison to 14% non-investors belonging to upper age groups. 53% investors are below 38 years and 47% above 38 years. The age of an individual is crucial to his investment plan. Different people choose their investments by their age obligations. Youth have more risk taking ability in comparison to older people.

Table -3
Annual Income

	Less than Rs.100000	Rs.100000 to Rs.500000	Rs.500000 to Rs.1000000	Above Rs.10,00000
Investors in salaried class	-	-	74%	26%
Non - Investors in salaried class	-	-	67%	33%
Investors in non- salaried class	6%	12%	41%	41%
Non - Investors in non-salaried class	-	-	62%	38%

Table- 3 shows that majority of the respondents have annual income between Rs. 5, 00,000 to Rs. 10, 00,000. The largest variation is seen in third category i.e. investors in non-salaried class where 6% respondents have an annual income below Rs. 1,00,000 and 41% respondents earning above Rs. 10,00,000 annually. 62% of the non-investors in the fourth category have annual income between Rs. 5, 00,000- Rs. 10, 00,000. The income level of an individual is another major influence on the investment decision.

Table-4
Source of Information about Small Savings

	Newspaper	TV	Savings Agent	Friends/ Relatives	Other
Investors in salaried class	22%	6%	14%	50%	8%

Investors in non- salaried class	19%	19%	21%	37%	4%

Table-4 shows that friends/relatives are the most important source of knowledge about small savings in both categories of investors. Newspapers followed by small savings agent is the next source for salaried class whereas it is vice-versa for non-salaried class. T.V. is also a source of knowledge for the non-salaried class. Other sources include books, internet and magazines.

Table-5
Reasons for investing in small savings

	Government backing	Lack of knowledge about other investment sources	Tax Benefits	Other
Investors in salaried class	31%	-	66%	3%
Investors in non- salaried class	21%	-	46%	33%

Table-5 depicts that Tax benefit is the most important reason for investing in small savings in both categories. The fact that it is backed by sovereign guarantee makes it a save investment option for investors in both categories though in the non salaried class other reasons like future security, well being of the dependents and savings emerged as more important reasons.

Table-6
Knowledge about the various small savings scheme

	Yes	No
Investors in salaried class	100%	-
Non - Investors in salaried class	67%	33%
Investors in non- salaried class	88%	12%
Non - Investors in non-salaried class	63%	37%

Table-6, shows that 100% of the investors, in salaried class know about various micro saving schemes and their features. Only 12% of the investors, in non-salaried class do not know about the micro saving schemes. They invest in the schemes which are popular or as recommended to them. Less than 68% of non investors in salaried and non-salaried classes have knowledge about the schemes and their features, thus showing an average awareness level.

Table-7
Preferred Small Savings Schemes

	MIS	SCS	KVP	TD	NSC	PPF	POSA	OTHER
Investors in salaried class	3%	1%	3%	12%	30%	40%	8%	3%
Investors in non- salaried class	5%	-	8%	-	8%	38%	14%	27%

Table-7 shows that Public Provident Fund and National Savings Certificate are the most liked schemes in the salaried class followed by Time Deposit Account. PPF is also the most liked scheme in the non-salaried class followed by recurring deposits in other and Post Office Savings Account.

Table-8
Role of Lucky Coupons

	Yes	No	No answer
Investors in salaried class	42%	58%	-
Non - Investors in salaried class	-	33%	67%
Investors in non- salaried class	59%	41%	-
Non - Investors in non-salaried class	13%	63%	24%

Table-8 shows that Lucky coupons are a big attraction for 59% investors in the non-salaried class as compared to 42% investors in salaried class. Only 13% non-investors found them attractive. Majority of the non-investors in salaried class did not give any reply.

Table-9
Change in the Amount Invested in Small Savings

	Same	Increase	Decrease
Investors in salaried class	47%	32%	21%
Investors in non- salaried class	71%	29%	-

Table-9 shows that 21% investors in the salaried class have reduced the investment in micro savings whereas only 32% have increased it. In the non-salaried class 71% investors have kept the same amount as compared to 47% investors in the salaried class.

Table-10
Investment in Alternative Source

	Yes	No
Investors in salaried class	100%	-
Non - Investors in salaried class	67%	33%
Investors in non- salaried class	76%	24%
Non - Investors in non-salaried class	100%	-

Table and Chart-5.10 shows that Majority of the respondents have invested money in other investment avenues. The percentage of investments is sent per cent (100%) for first as well as fourth categories. 33% respondents have not invested their savings at all whereas 24% investors in non- salaried class have not invested their savings anywhere except micro level savings.

Table-11
Alternative Mode for Investment

	Stock market	Mutual Fund	Gold	Real estate	Banks	Other
Investors in salaried class	14%	34%	6%	16%	14%	16%
Non - Investors in salaried class	13%	25%	-	-	-	62%
Investors in non- salaried class	2%	9%	19%	9%	31%	28%
Non - Investors in non-salaried class	5%	18%	18%	35%	24%	-

Table and Chart-5.11 shows that the table clearly indicates that there is an increasing preference for other investment avenues compared to micro savings schemes. 34% investors and 25% non-investors in salaried class have invested in mutual funds. Investors have equal preference (16%) for real estate and life insurance (other). Banks and stock market are next preferred sources with gold being last in preference. Investors as well as non-investors in non-salaried class prefer banks followed by life insurance and gold. Life insurance is preferred among all categories though in varying proportions.

Table-12
Reason for investing in other sources

	Savings	Higher Returns	Tax Benefits	Other
Investors in salaried class	13%	44%	25%	18%
Non - Investors in salaried class	9%	55%	9%	27%
Investors in non- salaried class	24%	48%	20%	8%
Non - Investors in non-salaried class	15%	32%	15%	38%

The table and chart-5.12 clearly indicates that the lure of higher returns is the most dominant purpose of investment in other avenues. Tax-benefits and savings, too, are important but for non- investors other reasons like future security, well- being of the dependents, awareness and better facilities emerged as more important reasons.

Table-13
Recommendations to Others

	Yes	No	No answer
Investors in salaried class	74%	16%	10%
Non - Investors in salaried class	17%	67%	16%
Investors in non- salaried class	71%	24%	5%
Non - Investors in non-salaried class	38%	50%	12%

Table and Chart- 5.13 shows that more than 70% investors have or will like to recommend micro savings to others. It was also seen previously that recommendation from friends/ relatives is the most important source of knowledge about micro savings.

Table-14
Change from Small Savings Scheme to other Sources

	Yes	No	No answer
Investors in salaried class	32%	58%	10%
Investors in non-salaried class	29%	71%	-

Table and Chart-5.14 shows that 32% investors in salaried class will like to shift from micro savings scheme to any other source in comparison to 58%. 71% investors in non- salaried class will like to remain with micro savings.

FINDINGS:

Observations & Findings of the Study:

Employees/Salaried class:

The percentage of investment to non-investment is 76% and 24% respectively. Investors below the age of 38 years make only minimum investment in these schemes because of tax benefits. Friends/relatives, newspapers and small savings agents are the sources of knowledge about the schemes. 100% of the investors knew about various schemes and their features. Public Provident Fund (PPF) is the most preferred scheme due to its attractive features. Lucky coupons are not an attraction. Only 32% investors have increased the amount of investment with the rise in their income. 47% have kept it constant and 21% have reduced the deposit amount because of decreasing returns and choice of alternative avenues providing higher returns. 59% respondents have invested in mutual funds, 16% each in real estate and life insurance. Gold is least preferred.

The non investors don't invest in savings because either they do not feel the need to save or find other investment avenues more attractive in comparison. 67% of them have invested their money in mutual funds, life-insurance and stock-markets.

Non-salaried class:

The non- salaried class consisted of businessmen, agriculturists, self-employed professionals and retired people. The percentage of investment to non-investment is 89% and 21% respectively. The reasons for investment in small savings are availing tax benefit in addition to future security, well-being of dependents and savings. In comparison to other people, businessmen belonging to upper income groups also make only minimum investment in these schemes for the purposes of tax planning. Friends /relatives, small savings agents, newspapers and T.V. are the sources of knowledge about the schemes. People invest in the schemes that are popular or as recommended to them by savings agent. PPF is the most preferred scheme followed by Recurring Deposits and Post-Office Savings Account. Lucky coupons are a big attraction for 59% investors. Only 29% investors have increased the amount of investment with the rise in their income. 71% have kept it constant. Both the investors as well as non investors have deposited their money in banks, life insurance and gold besides small-savings.

The non investors don't invest in savings because of the following reasons:

- Lengthy lock - in period
- Procedural formalities
- More attractive alternative sources of investment 100% of them have invested their money in banks, life insurance and gold because of higher returns.

Additional findings:

- Decrease in the interest rates and availability of more investment avenues has been a major cause for the decline in small savings. Approximately 30% of the investors will like to shift from small savings scheme to any other source.
- Majority of the respondents want better customer support, professionalism and efficient services.
- The saving schemes offer substantial tax incentives. The schemes attract funds more for the purpose of taking tax advantages. Small savings investments have been used for tax planning by higher income groups, and for channeling unaccounted and tax-evaded incomes.
- Majority of the respondents have invested money in other investment avenues. Mutual funds, banks and life insurance are the most preferred choices. The lure of higher returns is the most dominant purpose of investments in these avenues.
- 86% non-investors below 38 years prefer other modes of investment like mutual funds and insurance schemes. The trend has caught on recently due to the awareness and information available about these products. These products had been in existence for long but then people did not have so much information about them.

For instance:

There is low awareness about small savings schemes in students who are about to begin their careers. But they do possess knowledge about stock markets, mutual funds and other recent financial instruments.

- Very few women could be contacted for the survey. Working women invest more in the schemes in comparison to housewives as the latter do not have sufficient knowledge about small savings. Moreover due to financial dependence they do not have any say in financial decisions like savings.
- None of the respondents were aware about the website of the ministry of finance national savings institute- www.nsiindia.gov.in which has been launched to facilitate interface with the public and online registration and settlement of investors' grievances.

CONCLUSION / SUMMARY:

Conclusion: In Punjab, the 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. The Punjab Finance Minister has taken up the matter with the union Home- ministry and demanded some changes in the policy like revising the rate of interest on time deposits to make them comparable with banks. Financial sector is facing a problem of disorder and un-pragmatic approach of doing things; it is difficult and risky for an economy to rely on it for any realistic and durable growth and development. For the development of economy the financial system will mobilize domestic savings and or contribute to the sustainable growth. Therefore the basic conditions of a durable financial system require above all, emphasis on the encouragement and sustainable development of the formal financial sector. The social security cover provided through budget is not sufficient, though the Government provides the institutional setting for contractual savings schemes which also serve the purpose of social security. Contractual savings, which are made mainly to provide for old age adds to the social welfare and complement Government efforts in this direction. From this viewpoint, tax concessions may be advisable on contractual saving schemes like provident/pension funds, life insurance, etc., and other social security provisions. Thus, changes in the tax regime and regulatory prescriptions in the financial sector to promote contractual savings with favourable treatment to them and less favourable but inter se equal treatment to all non-contractual savings can be advocated.

Micro level savings schemes are designed to provide safe and attractive investment options to the middle class people and at the same time to mobilise resources for development of the economy. At present, the micro level saving schemes in operation include Post Office Savings Account, Post Office Recurring Deposits, Post Office Time Deposits, National Savings Certificate, Kisan Vikas Patra, and PPF (Public Provident Fund). These schemes are a crucial part of the Indian economy as it effectively adds up to providing a fillip to it. There are many micro level schemes provided to the customers by various banks seeking to tap the vast potentialities there in. These schemes introduced by the department of Post under Government of India are significant for their flexibility and viability.

The state of Punjab has always been one of the top states in the collection of micro savings in India. Once hailed as people's movement the schemes are fast loosing sheen for the aam aadmi who has traditionally been investing in them. The unending allure of small savings has begun to erode, considerably, due to the stiff competition and the reach of the banking and non- banking sector to diversified groups of people. The negative trend is a warning signal. If timely and adequate measures are still not adopted to revive the scheme, the small savings could be in trouble.

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