



Post Office Savings Bank and Rural Customers¹

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Abstract

Post office saving is widely known and adopted savings mechanism by a large section of people in India. Its outreach has been continuously increasing both in terms of number of accounts as well as number of branches, especially in rural areas. Its strength lies in its reputation as a government of India's institution, and offers multiple services with standardized across India. This case study examines the factors behind customers' preference for the savings products of Post Office and its potential as an institution to ensure financial inclusion of the poor.

1. Introduction

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 remained 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 centres. During the last 60 years, it has grown almost seven times. Now a post office covers on an average 6,400 people, comparing well with Singapore and the United States. It has mobilized 172 million savings accounts with a total cumulative outstanding of Rs. 3,515 trillion by 2006-07. The postal banking services are provided by 600 thousand postal staff, supplemented by the service of 400 thousand agents who receive commission based on the volume of savings they mobilize.

As regards the operations of post office network, Branch Post Office operates at the lowest level and covers 10 to 15 villages. One or two staffs, i.e postmaster and / or postman, manage the Branch Office. Savings Accounts, Recurring Deposit Accounts and Postal Life Insurance Schemes are operated at Branch Post Office level. In the next level, Sub Post Office monitors 20 – 25 Branch Post Offices and operates all Accounts. A Head Post Office coordinates the work of about 30 to 50 Sub Post Offices in a district.

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POSBs offer various savings services and include both savings accounts and term deposits. National Savings Certificates are another savings instrument where the investor gets the income tax exemption on the amount invested. Apart from saving schemes, POSB offers money transfer and life insurance services. With good reach and popular saving schemes, POSB has played considerable role in inculcating savings habit among people in rural area.

In this paper an attempt has been made to understand peoples' perspective about savings schemes offered by POSB and the strategies adopted by POSB to include poor in savings mobilization. The study largely depended on the interactions with POSB officials, agents and postal bank customers and the secondary data. Field visits were made to Sub Post Office and Branch Post Office in Nelamangala Taluk of Bangalore (Rural) district, Karnataka.

2. An Overview of Different Savings Products of Post Office

POSB offers following eight savings schemes:

- 1) **Saving Account Scheme:** It is a basic saving instrument to the people with multiple deposit and withdrawal facilities.
- 2) **Time (Term) Deposit Scheme:** These are fixed deposit schemes starting with as low as Rs. 200. The periods available for time deposits are 1, 2, 3 and 5 years. Premature withdrawals are permissible with penalty after completion of six months.
- 3) **Recurring Deposit Scheme:** This is a five year scheme launched in the year 1972 with an objective to bring women under savings net. Keeping in view the women's strong inclination towards saving, this scheme was designed and popularized especially in rural areas. In this scheme a person can start saving with Rs. 10 per month,. Premature closure of accounts is permissible with penalty after completion of three years.
- 4) **Monthly Income Scheme:** This is a lump sum deposit scheme targeting retired persons who expect monthly income flow. The minimum deposit is Rs. 1,000 and the maximum is Rs. 300,000 with a lock in period of six years.
- 5) **National Savings Certificate:** This is tax-exempt certificate with a minimum contribution of Rs. 100 and no maximum limit. Interest is compounded six monthly and payable at maturity.
- 6) **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.
- 7) **Public Provident Scheme:** This is a fifteen-year scheme with a minimum deposit of Rs. 100 and a maximum annual deposit of Rs. 70,000. Withdrawals are possible after the fifth year and a loan facility (up to 40 %) is available after completion of one year.

- 8) **Senior Citizens Savings Scheme:** This scheme is designed for Government employees aged above 60 years or who is 55 years and has taken Voluntary Retirement Scheme

Apart from the above, POSB offers the following Life Insurance Schemes:

- 1) **Postal Life Insurance (PLI):** This scheme was introduced way back in 1884 for Government employees as a welfare scheme. Now also this scheme is available for central and state government employees, armed forces personnel, employees of local bodies, government aided educational institutions, universities and state banks.
- 2) **Rural Postal Life Insurance (RPLI):** To extend the postal insurance services to general public, Rural Postal Life Insurance was introduced in 1995. This insurance scheme offers four types of policies viz., whole life, convertible whole life, endowment and anticipated endowment.

It can be observed that each of the saving product is designed to suit to particular segment of people. While the Recurring Deposit was targeted for rural women, the Monthly Interest Scheme suits to the retired employees. For farmers Kisan Vikas Patra is designed keeping in mind one time consolidated fund requirement of farmers. Similarly saving schemes exclusively designed for senior citizen caters to old age needs. It is notable that all the products are simple, have been in the market for quite some time without much change of features enabling common people to follow them well. In general, POSB has taken care of convenience of the savers with good accessibility and possibility of savings in small sums. With regard to liquidity the products are not very flexible. The lock-in period in different savings products ranges from six months to five years. This has been made deliberately to induce savings discipline among savers. Table 2 presents the product wise status, number of accounts and deposit amount mobilized.

**Table 2: Analysis of Scheme Wise Number of Accounts and Savings
(as on 31-3-2007)**

Sl. No	Name of savings scheme	No. of accounts (Millions)	per cent share	Total Deposit (Rs. Trillions)	per cent share	Average savings (Rs)
1	Savings Accounts	64.34	37.32	185.64	5.28	2,885
2	Recurring Deposit	67.02	38.88	602.3	17.13	8,987
3	Time (Term) Deposit	12.43	7.21	367.12	10.44	29,535
4	Monthly Income Scheme	24.92	14.46	1,894.39	53.89	76,019
5	National Saving Certificate	0.81	0.47	48.6	1.38	60,000
6	Public Provident Scheme	2.11	1.22	194.56	5.53	92,209
7	Sr. Citizen Scheme	0.75	0.44	222.84	6.34	297,120
	Total	172.38	100.00	3,515.45	100	20,394

Source: India Post, Annual Report, 2007-08

In terms of number of accounts, Recurring Deposit and Savings Accounts forms three fourth of the total accounts. But in terms of deposit mobilized Monthly Income scheme have the highest

proportion followed by Recurring Deposit. The good coverage under Recurring Deposit both in terms of number of accounts and deposit mobilization proves that it has made more people particularly women to save regularly.

3. Agent systems for Savings Mobilization

Post Office Saving Bank has traditionally been following 'agency system' for small savings mobilization. It has three types of agents designated for specific schemes:

- 1) Standardized Agency System (SAS) for mobilising deposits in Kisan Vikas Patra, National Savings Certificate, Time Deposit, Monthly Income Scheme.
- 2) Mahila Pradhan Kshetriya Bachat Yojana (MPKBY): Under this scheme only women agents are allowed to mobilize only Recurring Deposits aiming at popularizing the RD scheme in rural area. The agents receive 4 per cent commission from Government of India and 2 per cent special incentive from state government.
- 3) PPF agents mobilize only Public Provident Fund and receive one percent commission.

Totally there are about four lakh agents engaged in India for mobilizing savings in rural and urban areas. Of these four lakh agents, about 60 per cent are in the category of Mahila Pradhan Kshetriya Bachat Yojana and about 30 per cent are in standardized Agency System and remaining 10 per cent are for PPF mobilization.

Unlike other agency system where in single agent sells all the schemes, Post Office has adopted different set of agents for different products. The agents are recruited locally with minimum education and are in a position to earn the trust of people easily.

4. Perceptions on Post Office Savings Bank

The perceptions about the Post Office Saving Banks were elicited from PSOB's staff, agents and the customers. Interviews were made with each of these segments. Focus was given to know the customers behavior and factors responsible for their decision to save with Post Office.

4.1 Perception of POSB's officials in a Sub Post Office

The Nelamangala Sub Post Office comes under Channapatna Head Post Office, which has 40 Sub Post Offices under its jurisdiction. It has 20 Branch Post Offices covering about 250 villages. The total staff strength of Sub Office including all the Branch Post Offices is 46. All the Branch Offices are located in villages and are operated by one or two staffs, i.e postmaster and/or postman. There are 105 agents under the sub post office of which 73 are MPKBY agents and rests 32 are SAS agents. Overall, this Sub Post Office had the following schemes.

Table 3: Saving Accounts at Nelamangala Sub Post Office

Sl. No	Scheme	No. of accounts
Savings Scheme		
1	Savings accounts	22,486
2	Recurring deposit	25,744
3	Monthly Income scheme	4,006
4	Senior citizen scheme	50
5	Time Deposit - Total	664
	a) 1 year	164
	b) 2 year	145
	c) 3 year	186
	d) 5 year	169
6	Kisan Vikas Patra	764
Insurance Scheme		
1	Postal Life Insurance	956
2	Rural Postal Life Insurance	4,728

Like the all India trend, here too, Recurring Accounts and Savings Accounts form the major proportion. There were also a large number of accounts under monthly income scheme also.

Interaction with officials at Sub Office revealed the followings:

- About one-fifth of the households in the rural area have accounts in post office.
- In general, people have more trust on postal savings schemes, as it is fully backed by government and functioning for long.
- Simple procedure and tax advantages are the major factors contributing for the preference of post office savings by the public.
- The RD Accounts are the most preferred scheme in rural areas, which are marketed by women MPKBY agents. Most of the households are saving Rs. 100 and Rs 200 per month. The incidence of premature closure of accounts is a rare phenomenon.
- Mainly urban customers, particularly retired government officials open monthly income deposit schemes.
- Rural areas account for most of the Time Deposits. Here too, the incidences of premature withdrawals are very less.

4.2 Perceptions of agents in a Branch Post Office

Arasinakute Branch Post Office comes under Nelamangala Sub Post Office. This Branch Office is serving the surrounding 14 villages and is managed by two staffs viz., postmaster and postman. This Branch Post Office operates Savings Accounts, Recurring Accounts and Rural Postal Life Insurance Schemes. It has 178 Savings Accounts, 164 RD Accounts and 145 Rural

Postal Life Insurance Schemes. The postmaster informed that only Savings Accounts is maintained in the branch and all other accounts are maintained at Sub Office, Nelamangala. The Sub Post Office monitors the agents and maintains their accounts. Since agents play a major part in the savings mobilization, we interacted with two agents, one of MPKBY and other, a SAS agent.

4.2.1 MPKBY agent

Ratnamma has been working as MPKBY agent in Nelamangala for the last five years. She completed PUC and joined as an agent on the advice of her friend who also worked as an agent. So far she had mobilized 278 RD Accounts, half of it from Nelamangala town itself and remaining from nearby villages. Regarding the strategies adopted for approaching the households, she recalled that in the early years, relationship networking yielded major dividends, later reorganization in the field and service quality helped to get more customers. She visits regularly all the households to collect the monthly deposits and issues passbooks. On an average she mobilizes Rs. 30,000 every month and earns commission of about Rs. 1,500 every month. This has greatly helped in enhancing her family income.

Mobilizing RD Accounts from the regular salaried class is an easy task compared to that from rural households. But, I feel the ardent and urge to save is more in rural women compared to the urban women. Lack of regular incomes is the major hurdle for savings in rural households. However, they (rural households) come forward to open small denomination accounts and RDs of Rs 100 is common among rural households in the region.

She perceives that the incentives are motivating her to mobilize more savings and savings accounts, however of late agents are neglecting mobilization in rural areas, as they cannot get savings more than Rs. 200 per month, whereas urban customers save Rs. 500 and even Rs. 1,000 in few cases.

4.2.2 SAS agent

Mr. Krishnappa has been working as post office agent for the last six years. He is a graduate and has taken up agency work on the advice of his father who was a government employee. He sells Time Deposits, KVP, NSC, Monthly Income Schemes of Post Office Saving Bank. Currently he has about 800 accounts most of which are NSCs and Time Deposits. He mainly approaches government employees for savings mobilization. About 10 to 15 per cent of accounts are from rural areas, mainly for Time Deposits. He opines that, due to rise in interest rates in banks, preference for post office savings has come down and lot of premature withdrawals are also taking place. However, according to him the government staff prefers postal savings scheme due to the tax advantage.

4.3. Peoples' Perceptions

To get the perception of the users of the Post Office Savings Bank, five users in Arasinakunte village of Nelamagala Taluk were interviewed. Out of the five customers, three had Recurring Deposit Accounts; one had savings account and another one had Time Deposit.

4.3.1 Perceptions on RD Accounts

People attributed the guidance by the lady agent who earlier lived in the same village as the reason for going in for this scheme. They had all opened the account four years back and with savings of Rs. 100 per month. Every month, the agent (Some times her husband) came to collect the deposits. They feel that savings is very beneficial as it comes in handy in time of need. On being questioned on the purpose of saving in this account, two of them said that, they had no specific purpose for this saving. One customer said that, it was for purchase of household articles on maturity. One customer had the plan to start provision stores with in the village with the matured amount. All these customers knew the exact amount that they would be getting on maturity.

Interest rates are not a major attraction in post office savings schemes. Good reputation being a government institution as it ensures safety of their investment is the main draw. The awareness level about saving schemes – both the postal and commercial banks – is high among the interviewed. They opined that opening savings accounts in commercial banks was not feasible for villagers as the procedures were not familiar.

To a specific question on who took the decision to open the RD Account, they said that both husband and wife together took the decision. However two customers said that they made the monthly deposits from the earnings of their wives. They felt that, still a lot of awareness was required to mobilize savings in rural areas.

Regarding the disadvantages, they felt that, flexibility could be built in the scheme to avail loans on savings. They also felt that, the premature closings give them very little interest and missing of monthly payments also proves costly. However, they felt that such conditions were necessary to make people go in for compulsory savings.

4.3.2 Perceptions on Term Deposit

One customer of Term Deposit said that, three years back postal interest rates were higher than that of any commercial bank. At that time he had received a lump sum of Rs. 40,000 from the business and based on the advice of elders deposited the amount for five years in Nelamangala Sub post office with the help of SAS agent in anticipation of requirement of money for his daughter marriage. He is of the opinion that, these post office schemes were beneficial then but not any more.

5. Analysis and Conclusions

Post Office is the oldest formal institution offering saving services to people in India. It has an extensive network geographically covering entire country. The network of post office branches is the main strength of POSB and has the potential to bring about financial inclusion. The study focused on the people's perception on Post Office savings and savings mobilizations strategies in this context.

The image of post office as the oldest institution run by government is the biggest motive for people to save in the postal savings instruments. Their trust is high in rural areas where safety of the deposit money is more important issue than the returns on investments. Second important learnings from the people's point of view are the simplicity of the schemes / products features. Such simplicity makes people to know and remember the products easily and develop trust in the scheme / product. Advice of the locally rooted agents is also an important reinforcing factor which made the people to opt for postal savings scheme. Apart from motivation provided by the agents, the postman/women also play a role in mobilising the savings.

From the operational point of view, standardized product with simple features has played important role in mobilising the deposits. Each product targeting a particular segment has been designed with simple features. While designing products, stress was given for the elements that the customers considered important and necessary. For example Kisan Vikas Patra is designed in such a way that the deposited amount will get doubled within a certain time period to meet the requirement of large sum at a later point of time for the farmers.

Secondly Post Office offers multiple services like postal services, money order, insurance, savings at a single place. As most of the Branch Post Offices are located in the rural areas, it is very easy for people to have a direct interface with the institution. Such system of offering multiple services at an easily accessible point is the most important learning from the Post Office. This strategy can be easily adopted to economize the operation costs. Adding multiple services also provided an opportunity for cross subsidization of the products so that poor section can be better served.

Another important feature of the POSB is the use of large number of agents particularly women. The attractive commission structure of four percent of the amount mobilized made many women to work as agents of POSBs savings schemes and have succeeded in mobilizing the Recurring Deposit in rural areas. The door step services by the agents are also an important factor for mobilizing considerable savings from rural areas. Though it is not financially viable to adopt such incentive structure, the POSBs is managing as it is being subsidized by government.

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