Post Office Compared To Banks

Post office has always been the preferred place to deposit ones savings owing to the instinctive smugness in a country like India where "prevention has always been better galore". The concept of investing in instruments of high risk has started seeping in, but mostly into the urban educated people. A majority of 74 % of the rural population still prefers to deposit their savings in a post office rather than a bank on the basis of the indispensable security of assets it offers. The low-income levels also prevent them from taking any sort of risk, in relation to the hard earned bucks. Call it superstition or aversion to change it is difficult to convince a villager into investing into the bank and not the local post office. The post office officials have achieved near demi god status owing to the long-term relationship and impact the post office has had in their lives for decades. In modern marketing terminology it can be termed as an unrefined brand that exists only among the risk averse people per se.

This is obvious from the fact that small savings collections figures are buoyant. Savings products like the post office monthly income plan, Kisan Vikas Patra, National Savings Certificate, and even post office time deposits are seeing increased collections as investors shun traditional bank and company deposits. During the same period last year, small savings collections increased 19.3 per cent over the previous year to Rs 50,484 crore. Small investors are particularly enamored of the post office monthly income plan, which offers returns of 8 per cent per annum, with a kicker of a 10 per cent bonus on maturity. However, despite the Rs 3 lakhs maximum investment limit for an individual in this plan, new investors are attracted. Besides, new maturities have also added to the increased funds flow in small savings.

Also, as bank deposits yields have fallen, more investors are shifting their deposits to post office time deposits. Company deposits, which used to be popular a few years ago, have all but vanished. The few that are still around don't seem worth a look. The National Savings Certificate too, which is similar to the PPF in its section 80L and 88 tax benefits, is also seeing a surge in collections. This is because investors want to lock in to an interest rate in a falling interest rate scenario.

What will investors do now that there are indications of a rate hike? Investors are following events more closely now and they know that there's little chance of rates rising here. People are still investing heavily as they do not want to lose interest in the intermediate term.

The only bad apple in the basket of post office seems to be the PPF. The time-honored PPF (public provident fund) seems to be losing out to other postal savings schemes–if the latest collection figures are any indication. With an 8 per cent tax-free interest rate and the added advantage of tax rebates, the PPF was among the most attractive schemes for investors in the highest tax bracket. But between April 2003 and March 2004, PPF collections fell Rs 220 crore to Rs 11,042 crore over the previous year. The reasons are: -

- Investors seem to prefer shorter-duration tax-savers to the 15-year PPF.

- Also, the interest rate for PPF is decided annually as against a standard fixed rate for other plans
- The government has reduced section 88 tax rebates.
- Besides, over the last four-five years, PPF interest rates were cut every year. This uncertainty every year about whether the rates are going to be changed or not has also deterred fresh investments in PPF. People prefer a steady interest rate rather than seeing changes every year in their investments. Hence, not many people are going in for the PPF.

However savvy investors still prefer the PPF purely as an investment due to its tax advantages. As interest is tax-free.

The other advantages that post office enjoys over the banks apart from the exemption from income tax are also the wealth tax exemption in a few offerings.

The post offices in India also have a world wide acceptability considering the fact that transaction can be made through other post offices in the west on account of acceptability by the Western Union.

Many financial experts believe, however, that this trend is now set for a decisive shift. Returns from safe bank deposits average 5 per cent, and from the artificially propped up, assured-return post office schemes–likePPF, NSC, post office deposits–only slightly higher. Going by the broad direction of the ongoing financial reforms, these props will go sooner rather than later. The interest rates on these schemes will be aligned with rates current in the economy, and the generous tax breaks that make real returns higher will slowly go. The risk-averse small investor still clings to the hope that this may never happen, but the writing is on the wall.

The people now are shifting towards banks. The reason why banks are preferred to the post-office is because banks also offer liquidity. In my opinion, this is the crux of the matter – the growing liquidity preference of the people. One of the prime reasons can be associated to the fear of the future in light of the present environments scenario which predicts of unemployment and lowering of investments in the times to come.

With the booming population and the increase in technology more and more labour is being substituted by technology. Under these conditions, labor's unemployment emerges from the unemployment of capital. Therefore, the liquidity preference of the individuals emanate from a greater uncertainty about a steady flow of income – the fear of unemployment is swelling savings and driving them to safety yet liquidity of the nationalized banks. Thus this is actually a ticker, which suggest of a shift from the post office to the banks.

The corporate sectors profitability; growth and investments have all declined. The corporate sector has slowed down and has started exhibiting financial conservatism by using internal accruals to invest and reducing borrowings to a minimum. The financial conservatism shows that the corporate sector apprehends that the slump might continue. This in turn is making people to go more for liquidity provided by the banks.

The other factor that is obvious but nevertheless needs mention is the accessibility and convenience that they provide to the customers. Liquidity now has a new dimension with security coupled to it in the form of credit/debit/ATM cards. Morover the active management of funds is also being taken care of. Securities management is also an instrument that gives the shine to its operations.

The bottom line is that the diversification into various products and segments is attracting people towards banks more and more. The convenience offered in the form of online banking and Internet banking operations is also an ace to the post office operations.

The value addition done by the banks are also proving to be a tough competition for the post offices. The include for example

- Transfer of accounts from one Branch to another branch without any charge
- Nomination Facility available
- Facility to open your Savings Account in Single or Joint Names
- Low Minimum Balance Requirements
- Full Security of your money at all times

The highlights of the present banking system seem to be the following: -

- Security: The marketing strategy has been the security of money by understanding the value of the hard earned bucks of the customer.
- Liquidity: The convenience of loan/overdrafts against deposits without the inconvenience of having money locked in.
- Transferability: Withdrawals and deposits in various branches bringing in the concept of roaming deposit accounts.
- Flexible and timely payment of interest.

The recent proposal to amend the Government Savings Act, 1873 by the honorable finance minister Mr. P. Chidambaram can be the last nail in the coffin for the post offices vis-a-vis the banks. The state granted monopoly of the post offices on issuing small savings instruments, totaling a staggering a Rs 4.35 lakh crore, may go for a toss with the enabling of certain banking companies, or other companies or institutions, by notification in the official gazette to accept deposits under certain schemes of the central government, which currently is the sole preserve of the post office.

The loss-making postal department makes a pretty packet out of selling small savings schemes like the National Savings Certificates, Indira Vikas Patra, Kisan Vikas Patra, Post Office Monthly Income Scheme and Post Office Recurring Deposit Scheme to the public and collecting deposits. Though the money is turned over to the state governments under the watchful eye of the Reserve Bank of India, the post office earns about 40 per cent of its total income from such commissions. In 2002-03, the post office earned Rs 1577 crore of its total revenue of Rs 4009 crore by accepting deposits and issuing National Savings Certificate and it's been a growing business, with deposits rising to Rs 3.84 lakh crore in 2003-04 from Rs 3.74 lakh crore the previous year. If it loses its monopoly, the postal department will also lose its position as the biggest collector of deposits in the country to State Bank of India, which mobilized Rs 3.5 lakh crore last year.

This step will further increase the range of service offered by banks. For the postal department it is already bad news. Loss of revenues from shrinking mail loads forced them to foray into retailing ICICI insurance products, IDBI bonds and to strike long-term contracts with corporates like Reliance Infocomm for courier services.

As of now the department receives Rs 106 for a small savings account and Rs 22 on each National Savings Certificate through 1.4 lakhs post offices in the country directly or through its six lakhs agents. The agents get 1% commission on the deposits they collect. Of the six lakhs employees, 40% work in savings bank section of the department.

The union government has allowed the respective state governments to borrow from the small savings kitty at 9% interest rate. From 2000 the state governments were allowed to borrow 100% compared to 80% earlier. The Maharashtra postal circle accounts for the highest deposit of Rs 18000 crore. The expenses of the post office in the mean while has increase by 68.2% as compared to 1998-99 to Rs 5374 crore.

These factors may actually lead to the fall of the post office and the banks may be the eventual winners.