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Profitability of Long Term Investment proposals of Central Govt.

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ABSTRACT

This paper analyses two investment proposals of Government of India: sukanya-samriddhi-yojana and Adal pension yojana. Both schemes are virally shared in the social media as highly profitable schemes for the common people. But the analysis shows that the long term investment proposals are not that much attractive, considering the other investment opportunities available to common people. Moreover the exaggerated social media campaigns are misleading. The article suggests the investors to read the actual guidelines given in the circular published by the issuing authorities or at least the primary lenders of the schemes like scheduled banks. The information given in English language also prevents the common investors to take right inferences on the investment avenue. Moreover the article finds that investers uses social medias and agents, rather than the authentic website.

INTRODUCTION

National Savings Institute mobilises savings for India government through various schemes. The institute functions under Department of Economic Affairs, Ministry of Finance of Government of India. There are various schemes of savings like Post Office Saving Account,

National Saving Recurring Deposit Account, National Saving Time Deposit Account, National Saving Monthly Income Account, Senior Citizen Savings Schemes, National Savings Certificate, Kisan Vikas Patra, Public Provident Fund Account and Sukanya Samridhhi Account. These savings schemes are generally operated through Post Offices and designated Banks (National Saving Institute).

Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, and Atal Pension Yojana are the three pension schemes supported by the government at present for the unorganised sector (Ministry of Finance).

Objectives of the study

1. To assess the profitability of the govt. supported schemes to the lower income beneficiaries.
2. To examine the accuracy of widely spread promotion campaign through social media about these schemes.

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3. To examine the habit of common people to evaluate an investment scheme.

Methodology

In order to assess the profitability of the schemes for the investor, the actual benefit available to the investor is calculated, by studying the investment schemes from the authentic source. It is compared with the benefits offered in the widely spread messages in the social media. Common public is interviewed to know the influencing source of their investment decisions.

Sukanya Samridhi Yojana

Sukanya Samridhi Yojana was introduced for the benefit of girl child, introduced in 2015. It is a government-backed savings scheme as part of the "Beti Bachao, Beti Padhao Yojana". It can be opened by the parents of a girl child below the age of 10. Parents can open a accounts for maximum two girls (SBI).

The major campaign through social media about Sukanya Samridhi Yojana (SSY) is that it offers higher rate of interest to the account holders. At present the rate of interest is 8.6%. The investor can withdraw the deposit only after 21 years, unless on extremely compassionate grounds. Irregular payment or revival of account will attract a penalty of Rs.50 per year (SBI). Hence it is like a rigid long term deposit. The following table gives a picture of other investment options available.

SL No	Scheme	Institution	Current Rate of Interest	Premature Closure	Aproximate value of ₹1,000 after 21 years
1	FD/Term Deposit	Scheduled Banks*	6.85%	Yes	4020
2	Kids RD (Recurring Deposit)	Scheduled Banks*	7.81%	Yes	4851
3	FD/Term Deposit	Multy State Cooperative Banks*	8.2%	Yes	5233
4	FD/Term Deposit	Primary Cooperative /banks	9.5%	Yes	6725
5	Sukanya Samridhi Yojana	Govt. of India	8.6%	No	5655

*Interest rate for FD is based on SBI (SBI), Kids RD is based on TMBL (TMBL), Multy State cooperative bank is based on Sahyadri Cooperative Credit Society (Sahyadri credit cooperative society) and Primary Cooperative Bank is based on Kanjikuzhy service cooperative Bank (regional Bank). Quarterly compunding rates are converted to annual rate.

Atal Pension Yojana

Atal Pension Yojana is a pension scheme for the unorganised sector. The scheme aims to provide a defined pension to the beneficiary. The amount of pension depends on the

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contribution and the period of contribution. Government contributes 50% of the beneficiaries' premium but upto Rs.1,000 per year, for five years (Ministry of Finance).

Atal Pension Yojana (APY), a pension scheme mainly focused on the unorganised sector workers. The scheme offers a guaranteed minimum pension of Rs.1,000/- or 2,000/- or 3,000/- or 4,000 or 5,000/- per month at the age of 60 years, depending on the contributions by the subscribers. In addition, contributors can expect a share of return on investment, if any, made with the collected fund. The most attractive feature is that the govt. will return 50% of the yearly contribution at the end of each year to the subscriber directly, provided he paid all the installments. This return of 50% contribution shall be for a period of five years and there is a ceiling of Rs.1,000/- per year (maximum return from the govt. to the subscriber) for the same (Department of Financial Services).

Return to the Subscriber

The following table gives the actual rerun available to the subscriber to the scheme. The calculation is based on an investor at the age of 18. At the time of maturity, ie after 42 years, the investor would reach 60 years of old.

SL No	Half Yearly Contribution	Value after 42 years @ 8.6% interest	Monthly return @8.6% after 42 years	Assured pension by the APY Scheme*	Assured* return to the Nominee
1	248	2,10,108	1401	1000	1,70,000
2	496	4,20,216	2801	2000	3,40,000
3	744	6,30,324	4202	3000	5,10,000
4	991	8,39,584	5597	4000	6,80,000
5	1239	10,49,692	6998	5000	8,50,000

*(Department of Financial Services)

Since the scheme provides no guarantee or hint on the investment return, the common investors has to depend on rumors as to the return. For that exaggerated return without any guarantee, they invest in these national schemes. Rumors virally spread through WhatsApp messages claimed that Rs.1000 will yield a return of Rs.6 lakh.

Risk Avers Investors

The people in the unorganised sector are generally risk averters. Hence they generally choose risk free investment opportunities. Moreover they prefer service at door. Post office saving schemes is still a popular saving scheme among the unorganised sector in India. They choose govt. supported schemes mainly because of they are risk free sources.

Another important fact is that workers in the unorganized sector had a much higher incidence of poverty (20.5 %) than their counterparts in the organised sector (11.3%). This is also an indicator of inadequate income levels and the extent of vulnerability in the unorganised sector (National Commission for Enterprises in the Unorganised Sector, 2007).

Social security schemes are designed to provide a minimum cover in case of the income-earner's death. It is relatable to focus on the human capital of the lowest income quintile. As per the human capital index, the value of lowest income quintile-1 at the age of 20 years is Rs.4,67,548/- (IFMR Finance Foundation, 2013). Government supported schemes, therefore ensure a support to uplift the standard of the unorganised poor.

An informal interview conducted by the scholar with 20 samples revealed the following:

SL No	Elements	Yes (%)	No (%)	Total
1	Read the brochure	5	15	20
2	Seen the brochure	18	2	20
3	Tried to read the brochure	8	12	20
4	Compared with other schemes	0	20	20
5	Received inference from the agent	20	0	20
6	Influenced by social media campaign	18	2	20
7	Awareness about inflation	18	2	20
8	Consider scheme as attractive	17	3	20

Source: Primary data

Findings:

1. The deposit scheme guaranteed by the government seems to be less interest bearing compared with the deposit schemes of cooperative banks.
2. Scheduled banks and cooperative banks could design better attractive schemes easily at the prevailing interest rates.
3. The purpose like education and marriage of the student seems to be attractive to the common people, to join govt. supported schemes.
4. There are no investment analysis opportunities for the common people, to evaluate and compare the benefits of various investment schemes.
5. People do not consider the reduction in the purchasing power of money due to inflation after a long period.
6. People do not take time to evaluate or compare the investment proposals/schemes before them, rather they trusts the agents and rumors.

Conclusion

Invest objectives of the low income people, includes safety, fair return and flexibility. The people trust the govt. supported schemes because they think that these schemes would ensure all these expectations. But the schemes provide comparatively less return to the investor.

Both saving schemes and pension schemes are less attractive compared with the deposit schemes of cooperative banks. Deposit schemes of scheduled banks appear to be more attractive, considering the penalties with the government supported scheme.

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