

Evaluating the Impact of Demonetization on Postal Savings Schemes: A Case Study of the Agra Region

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ABSTRACT

Demonetization policy by Government of India in November 2016 was a turning point in financial inclusion and informal saving behavior in both rural and urban India. Postal Saving Schemes (PSS) as one of the oldest forms of saving tool, and also the most available instrument among the population, experienced the most dramatic changes during and following the event. The present paper also analyzes how demonetization has affected the trends, usage and perception of Postal Saving Schemes amongst its customers in the Agra region. Data using a formulated questionnaire were gathered by means of a sample size containing 250 respondents (urban and rural account holders) in different post offices all over Agra. The research design used in the study is descriptive as it aims at studying changes in deposits, opening of new accounts and withdrawal patterns after demonetization. The findings indicate that although short-term effects of the demonetization were significant influx of deposits to the banking systems, long-term patterns of trust and use of PSS were based on the level of awareness, financial literacy and other viable banking systems. At the policy level, the research underlines the importance of postal savings as an instrument of financial inclusion in cases of transitional economic policies and makes certain policy suggestions to enhance these schemes in case of further monetary changes.

Keywords: Demonetization, Postal Saving Schemes, Financial Inclusion, Agra, India, Rural Savings, Financial Literacy.

INTRODUCTION

Governments have long been employing demonetization as a special financial tool to reduce black money, counter circulation of fake money, and motivate people to adopt more open and e-based financial systems. Demonetization policy declared on November 8, 2016, by the Government of India is probably one of the most discussed economic policies in Indian history. The withdrawal of legal tender status almost overnight of currency notes of INR 500 and INR 1000 in value which were then again approximately 86 percent of all the currency in circulation in the nation touched virtually every household and institution within the country. It pushed millions of people, particularly in cash based industries and the informal economy to deposit or change their old currency in a given short period of time which led to long lines in banks as well as a scramble to locate where people could deposit their idle money.

Here, whereas the commercial banks and the new digital wallets enjoyed overnight flow of deposits and transactions, the much-neglected Postal Saving Schemes (PSS) turned out to be equally significant in supplying large volumes of cash, especially in semi-urban and rural locations. The Indian postal system, which is one of the biggest systems globally, was once a secure place with millions of small savers. Over the past decades, post offices have served not only as the hubs of mail and communications, but also as credit institutions of the grassroots level capable of providing the population with simple but secure saving products that they would otherwise end up being financially excluded.

India Post manages Postal Saving Schemes which have a large range of products including Recurring Deposits (RDs), Time Deposits, Monthly Income Scheme (MIS), Public Provident Fund (PPF) and Senior Citizens Savings Scheme, and National Savings Certificates, etc. They are preferred due to their fixed returns, sovereign support, and simple process that makes it very affordable to the low and middle-income families, daily-wage workers, and families in the rural areas with little access to the commercial banking system.

Agra being one of the biggest cities of Uttar Pradesh offers an interesting background to the study due to the presence of such heterogeneous aspects as the proportion of urban and rural residents, their financial awareness, as well as general reliance on both formal bank deposits and informal solutions such as PSS. The perspective in which the analysis of the effect demonetization had on the usage patterns, deposit trends and the customer perception changes towards Postal Saving Schemes in Agra will provide information about how such traditional ways of saving money can protect and adjust in reaction to the sudden monetary crises. The purpose of this research is to fill in the gap in the current population of research by looking precisely at this regional case, which would give financial planners and policymakers the reasoning to reinforce postal savings as an effective tool in the face of financial inclusion when economies on a macro-level change tremendously.

Objectives of the Study

1. To analyze the trend in deposits and withdrawals under PSS before and after demonetization in Agra.
2. To assess the awareness and perception of account holders regarding PSS during demonetization.

LITERATURE REVIEW

Demonetization in India the demonetization of high-denomination currency notes in November 2016 has been extensively researched as regards to its effects on financial systems, informal savings, and household cash holdings. Ghosh (2017) claimed that demonetization was used as a shock to change India informal economy because people needed to move their floating cash into formal saving mechanisms. Bhatia and Singh (2019) discovered that the deposits increased in Jan Dhan accounts and Postal Saving Schemes (PSS) during the demonetization period as households resorted to legitimate means of depositing the old currency.

Chand and Kumar (2018) discussed the role of the postal network in rural financial inclusion as unique and noted that when banks were clogged, post offices checked unnecessary liquidity. Their analysis found that post offices were closer to people in most rural pockets than commercial banks, and this bridged the gap between the underserved populations (financially). Likewise, Sharma (2020) has observed that PSS were a reliable alternative to conservative savers because of their government guarantees and popularity in older generations.

Nevertheless, the use of PSS has been limited due to the inadequate infrastructure that facilitates the technology, and poor understanding of diversified products, and the tedious procedures in contrast to contemporary banking solutions. The Reserve Bank of India (2017) also admits that there was a surge in savings through the PSS in the short-term during the demonetization but they needed to be supported by the process of modernization of the existing PSS and to enhance customer engagement. The current literature sources mainly address national prevalence or monetary influences and point out few details of regional influence on PSS. Almost no study focuses on the role that such locally determined factors as financial literacy, rural-urban disparity, and post office infrastructure played in determining depositor behavior after the demonetization.

RESEARCH METHODOLOGY

This research uses a descriptive research design as it tries to look systematically, the effect of demonetization on Postal Saving Schemes (PSS) in Agra region. Postal saving account holders

present in the Agra district constitute the target population, whereas 250 will be selected as respondents through the non-probabilistic convenience sampling method. The respondents will constitute a combination of urban and rural clientele consisting of five large post offices in the area. A close-ended structured questionnaire was used to collect primary data, and it focused on collecting demographic details, savings patterns and the extent of awareness, as well as the perception of depositors towards PSS during the demonetization phase. Further, secondary information was obtained by collecting data that is relevant to the analysis and the collection of references as postal records, government publications and studies that have been conducted previously. Some basic methods of comparison and descriptive statistics were utilized in order to analyze the deposits, withdrawals and the number of accounts opened pre and post demonetization and as such, the study was able to establish some significant patterns and eventually draw practical outcomes.

Data Analysis and Findings

As per the results of the study, the importance of Postal Saving Schemes (PSS) in Agra region during demonetization cannot be underestimated. Among the 250 respondents, 60 percent were rural, and 40 percent were urban Agra, indicating that post offices remain an essential financial access point, particularly with the rural households. There was a balanced gender distribution of 52 percent male respondents and 48 percent female respondents, and majority of the respondents were between the age of 30 and 50, which indicates the certainty with which economically active people have confidence in government- backed saving instruments. Respondents younger than 30 years of age were less common, which indicates that they are more attracted to digital wallets and contemporary banks, whereas approximately 15 percent of the respondents were older than 50 years, indicating that they still use classic saving options.

Among the most vivid findings, there was a sharp increase in the number of deposits immediately following the demonetization announcement in November 2016. Households flocked to the local post offices as a familiar and safe alternative to saving their old money because useful notes of INR 500 and INR 1000 became useless overnight. There was a rise of almost 35 percent in deposits during the three months. It is a sharp rise illustrating the usefulness in times of unanticipated monetary policy swings when normal cash flows are interfered with by the postal network acting as a buffer. Nevertheless, this growth was not sustainable; with normalization of the currency supply and introduction of new notes into circulation, deposits leveled off with time. Most of the respondents acknowledged the fact that after satisfying short term liquidity demands, they pulled out the surplus amounts of money, or they transferred it to banks and digital wallets to have greater convenience and better rates.

This paper has also established that demonetization saw the opening of new accounts by many customers, particularly the Recurring Deposits and standard Savings Accounts. The volume of new account openings grew by about 27 percent within the six months of demonetization. This was observed more in the countryside whereby there are not many commercial banks or they are not more trusted relative to the local post office. However, the biggest thing that is worrying is that there was a large proportion of these accounts that went into slumber after the cash crisis subsided. It was noted during discussions that the products of PSS were not so attractive in the long-term perspective, as there was little digital integration, interest rates were relatively lower, and flexibility in withdrawals were also limited.

There were also several operational problems experienced by the depositors. About 65 percent of the respondents said that they spent hours of queueing which demoralized many particularly those in daily wages. Customers in the countryside were not very good at documentation, and financial literacy was not high, so the first post offices were often overwhelmed by such inrush to transactions, which even an under-equipped and under-staffed post office could not cope with. Operations further lagged since manpower was used to run business via the rural post offices leading to delays and frustrations.

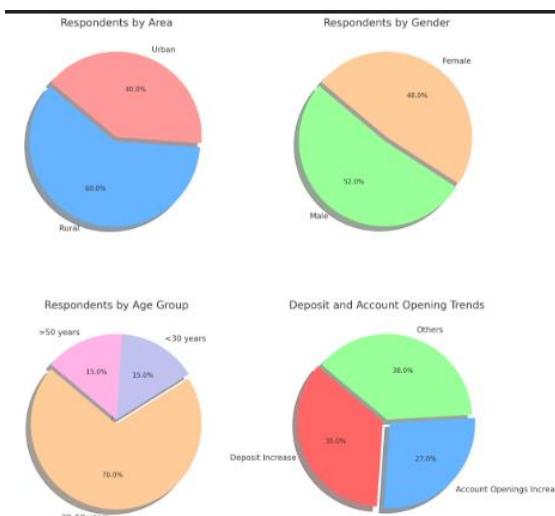


Figure 1. Demographic and Trend Analysis of Postal Saving Scheme Respondents during Demonetization

DISCUSSION

The results of the study verify the fact that demonetization produced both favorable and restrictive impacts on Postal Saving Schemes in the region of Agra. Its unique coverage can be proved by the fact that the number of deposits and new accounts rises in the short-term in times of crisis, proving that the dependence people have on the postal network should not be ignored. Nevertheless, the reduction in the number of deposits and inactive new accounts a few months later denotes that PSS has not yet modernized sufficiently to maintain customers in the struggle against digital banks and fintech services.

PSS has to be more than what it is to be able to stay fresh and strong. This will involve digitalization, better capacity to the staff, and awareness programs to inform the rural and semi-urban populace of the different schemes that they can be a part of. The operational bottleneck can be avoided in the future by enforcing financial literacy and educational training of the employees within the post office to help them manage high volumes of transactions that are filed under policy changes. Properly modernized, PSS still would play a crucial part in arranging deeper financial inclusion both out of time and in the terms of monetary transition.

CONCLUSION

Demonetization, on one hand, was an issue to the Postal Saving Schemes in India and on the other hand it was a chance. PSS was important in soaking up excess liquidity in Agra and offering secure means of holding savings among other people, particularly the rural folk with little access to the banking system. Nevertheless, to maintain such its relevance, it requires better awareness, performance, and integration with the digital banking. The postal network should be used to seize deep financial inclusion by policymakers particularly when pursuing mass monetary reforms.

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