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ARE PEOPLE IN INDIA BECOMING MORE RISK AVERSE POST MARKET ABERRATIONS IN 2008?

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The share of India's elder or senior citizen population is increasing from 8.6% in 2011 to 15.9% in 2041. This will pose huge challenge for policy making at social and economic levels. Unlike Developed Countries that have comprehensive social security schemes, India is fiscally constrained to provide a comprehensive social security cover to its senior citizens though in the last 7 years Indian Government has made several initiatives to enhance social inclusiveness of its citizens at the lower income strata. One of key components of financial savings of households in India is small savings, the rates of which administratively determined. There are many facets of this small saving collection data.

First, when we mapped the state-wise collections data with state-wise per capita income (the results were revealing. The post-office saving s deposits are negatively correlated to per capita income while bank deposits are positively correlated with per capita income. This indicate that poor people are more reliant on post-offices for their savings and when the income increase they shift to bank deposits first and not to financial products. That's why the proportion of post-office deposits in Maharashtra & Delhi, where per capita income is very high is only 60%.

Second, in states with low per capita income like West Bengal, Uttar Pradesh, Rajasthan and Bihar, the elderly population of 60+ has a clear preference to invest in post office saving deposits.

Third, what has sparked this large interest in small savings? If we see the trend of last 20 years data on gross small savings collections we clearly see a structural break in 2008-09. in particular, the share of different states in gross small saving collections were declining till the global financial crisis. However, post the financial crisis in 2008, there has been a significant jump in preference for post office savings. This jump is maximum in low income states like West Bengal and even in high incomer states like Maharashtra.

Fourthly, the huge post-office collections in states like West Bengal and Uttar Pradesh and the preponderance of Kisan Vikas Patras (indicate the lack of financial literacy for the products like mutual funds, etc. Particularly in West Bengal, sometimes the left of political ideology that everything that market does is bad in fact results in asymmetric results with poor people investing more in chit funds, etc. the live example of this is the Rs 20,000-30,000 crore Saradha scam. Most of the times these types of scams are also the product of political dispensation.

We believe the Government has taken the best decision of not changing the rates on small saving schemes as we are currently going through an unprecedented pandemic crisis. However, we believe a 3 fold strategy may be undertaken which could be beneficial for all.

First, the interest on SENIOR Citizen Saving Scheme is fully taxable. The Feb'20 outstanding under SCSS was Rs 73,725 crore. If the amount is given full tax rebate / upto a threshold level it will have nominal impact on the exchequer.

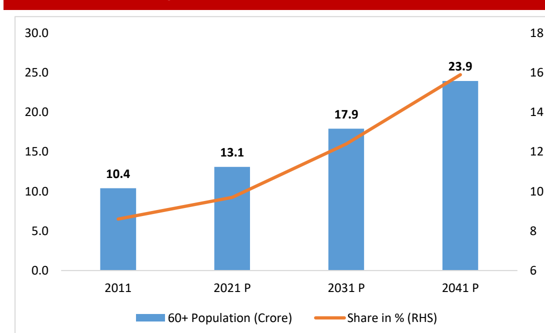
Second, serious thought could be given of whether interest rates offered on deposits in India are linked to an age-wise interest rate structure.

Third, PPF is a Government-backed, zero-default risk, long-term small savings scheme akin to quasi floating rate deposits with the objective to provide retirement security to self-employed individuals and workers in the unorganised sectors. As SSS rates are adjusted in every quarter, Government should ideally remove the 15 year lock-in period for PPF and give the investors the option to withdraw their money within a stipulated time with some sort of disincentive offcourse!

SENIOR CITIZEN & SOCIAL SECURITY IN INDIA

- India's elder or senior citizen population (citizens who have crossed the age of 60 years) is expected to increase from 10.4 crore in 2011 to 13.1 crore in 2021 and further to 23.9 crore by 2041. Thus the share of elder population in total population is increasing from 8.6% in 2011 to 15.9% in 2041 (Economic Survey 2018-19 Volume 1). This will pose huge challenge for policy making at social and economic levels as this age is plagued with financial tension and old age makes people vulnerable to various lifestyle diseases and more susceptible to regular ailments as well.
- Unlike Developed Countries that have comprehensive social security schemes (that has been also one of the primary causes of sovereign debt crisis in European countries), India is fiscally constrained to provide a comprehensive social security cover, though in the last 7 years Indian Government has made honest attempt to enhance social inclusiveness of its citizens at the lower income strata.
- Incidentally, due to lack of proper social security cover, interest from deposits often is the source the major source of livelihood for senior citizens. Our rough estimates suggest that there are around 4.1 crore Senior Citizens term deposits accounts in the country with total deposit of Rs 14 lakh crore. The average deposits size per account is around Rs 3.3 lakh and interest income from such deposits forms 5.5% of Private Final Consumption Expenditure (FY19). In India, only 12% of the workforce (or approximately 58 million people) are covered under various pension systems according to the 2011 census.

60+ Population in India & its Share



Source: SBI Research; P: Economic Survey 2018-19

- The Indian government does recognize this issue of senior citizens and has taken several steps to address such. To enable the elderly people lead a stress-free life, the Indian government currently offers several senior citizen benefits in India. Rebate on income tax, discounts in train fare and airfare, and higher deductions on health insurance premiums under Section 80D of I-T Act; these are some benefits that senior citizens can avail in India.

IDENTIFYING THE TRENDS IN SMALL SAVINGS COLLECTIONS

- To analyse the trend of small savings in India, we looked at the latest available state-wise gross small savings collections data are of FY18. The data indicate that top five states accounted for 50% of total gross collections with West Bengal and Uttar Pradesh leading the league. Interestingly in both the states the post-office savings collections are of major proportion (around 86%) compared to bank deposits.
- When we mapped the state-wise collections data with state-wise per capita income (in this case we have taken per capita NSDP for FY18 as available with RBI), the results were revealing. The post-office savings deposits are negatively correlated to per capita income while bank deposits are positively correlated with per capita income. This indicate that poor people are more reliant on post-offices for their savings and when the income increase they shift to bank deposits first and not to financial products. That's why the proportion of post-office deposits in Maharashtra & Delhi, where per capita income is very high is only 60%. We also mapped the savings data with 60+ population. The results show that states with low per capita income like WB, UP, Rajasthan & Bihar, the elderly population has a clear preference to invest in post office saving deposits.
- However, what sparked this large interest in small savings? If we see the trend of last 20 years data on gross small savings collections we clearly see a structural break in 2008-09. in particular, the share of different states in gross small saving collections were declining till the global financial crisis. However, post the financial crisis in 2008, there has been a significant jump in preference for post office savings. This jump is maximum in low income states like West Bengal and even in high incomer states like Maharashtra. There are only some states like Gujarat, Rajasthan and Andhra Pradesh where the share has continued to decline.
- Further, the huge post-office collections in states like West Bengal and Uttar Pradesh and the preponderance of Kisan Vikas Patras (this has share of 11.3% in total small savings outstanding and y-o-y growth of almost 30% as of Feb'20) indicate the lack of financial literacy for the products like mutual funds, etc. Particularly in West Bengal, sometimes the left of political ideology that everything that market does is bad in fact results in asymmetric results with poor people investing more in chit funds, etc. the live example of this is the Rs 20,000-30,000 crore Saradha scam. Most of the times these types of scams are also the product of political dispensation.

SMALL SAVINGS (SS) RATES ARE HIGHER THAN BANK DEPOSITS RATES

- To give a support to the market and economy during pandemic, RBI has announced several liquidity measures and also reduced the key policy repo rate by 115 bps to 4.0% and CRR by 100 bps to 3.0%. With this, banks have also reduced their interest rates (both deposits & lending) significantly. If we look at SCBs, the lending rates (weighted average lending rates on fresh loans) has declined by 63 bps (PSBs:114 bps, Pvt Banks: 38 bps) and weighted average domestic term deposit rates reduced by 99 bps (PSBs: 82 bps, Pvt banks: 100 bps) during Mar'20 to Feb'21.

Gross Small Savings Collections (FY18)

State	Gross Small Savings Collections (Rs crore)				Per Capita NSDP (Rs)	Share of 60+ Population
	Post Offices	Banks	Total (PO+Banks)	Share in Total		
West Bengal	77,696	12,295	89,992	15.1%	91401	11.1%
Uttar Pradesh	60,156	9,504	69,661	11.7%	58821	7.9%
Maharashtra	37,937	25,088	63,026	10.6%	175121	11.5%
Gujarat	39,193	9,452	48,645	8.2%	175068	9.9%
Tamil Nadu	25,795	2,804	28,598	4.8%	175276	13.3%
Punjab	25,174	3,182	28,356	4.8%	139775	12.3%
Delhi	16,486	11,869	28,355	4.8%	322000	9.7%
Bihar	25,586	1,275	26,861	4.5%	36850	7.7%
Karnataka	21,019	5,245	26,265	4.4%	188765	11.1%
Rajasthan	16,607	3,494	20,101	3.4%	99366	8.2%
Andhra Pradesh	16,244	1,174	17,418	2.9%	139680	12.0%
Haryana	13,920	3,349	17,269	2.9%	211526	9.5%
Madhya Pradesh	14,082	2,858	16,940	2.8%	81642	8.3%
Telangana	13,723	2,146	15,869	2.7%	180494	10.6%
Odisha	13,757	1,663	15,421	2.6%	89287	10.8%
Kerala	13,781	982	14,763	2.5%	183435	16.2%
Uttarakhand	9,250	3,224	12,474	2.1%	182320	9.7%
Himachal Pradesh	10,153	1,729	11,882	2.0%	165025	12.2%
Jharkhand	9,796	1,836	11,632	2.0%	67484	8.4%
Assam	8,764	682	9,446	1.6%	75151	7.9%
Total	4,87,876	1,08,526	5,96,402	100%	-	9.7%

Source: SBI Research

Share in Gross Small Savings Collections

States/UT	2000-01	2008-09	2017-18
West Bengal	14.4%	13.2%	15.1%
Uttar Pradesh	11.9%	11.0%	11.7%
Maharashtra	10.3%	8.8%	10.6%
Gujarat	9.6%	9.3%	8.2%
Tamil Nadu	5.0%	5.9%	4.8%
Punjab	5.1%	5.5%	4.8%
Delhi	4.2%	3.3%	4.8%
Bihar	6.0%	4.4%	4.5%
Karnatka	4.5%	3.8%	4.4%
Rajasthan	6.0%	6.0%	3.4%
Andhra Pradesh*	5.4%	7.0%	5.6%
Haryana	2.8%	3.1%	2.9%
Madhya Pradesh	2.7%	3.2%	2.8%

Source: SBI Research; * including Telangana

Transmission of Policy Rates: Small Savings Rates vs Bank Rates

Instruments	Q1FY21 *	Q1FY22	Difference (in bps)
Savings Deposits	4.0	4.0	No Change
PPF	7.1	7.1	
5 year Recurring Deposit	5.8	5.8	
1-Yr Term Deposit	5.5	5.5	
2-Yr Term Deposit	5.5	5.5	
3-Yr Term Deposit	5.5	5.5	
5-Yr Term Deposit	6.7	6.7	
Sr. Citizen Savings Scheme	7.4	7.4	
Post Office Monthly Income Scheme	6.6	6.6	
KVP	6.9	6.9	
NSC	6.8	6.8	
Sukanya Samriddhi A/C	7.6	7.6	
Memo			
RBI's Repo Rate (26 Mar'2020)	5.15	4.00	-1.15
Wtd Avg Dom. Term Deposits Rates (WADTDR)	6.38	5.39	-0.99
Weighted Average Lending Rates on Fresh Loans (WALR)	8.82	8.19	-0.63
10 Yr G-sec Yield (Avg)	6.42^	6.05^	

Source: SBI Research * rates as on end March 2020 ^ Avg of previous quarter

- As the Small savings Rates (SSS) are benchmarked with the 10-Yr G-sec, the change in SSS rates was imperative as 10-Yr G-sec yield has been reduced by 37 bps to 6.05% (Avg Q4FY21) from 6.42% (Avg Q4FY20). However, to protect the small depositors, Government has not reduced the small savings rates since Q1FY2021, to reduce the COVID-19 burden on the people. We believe this decision should be welcomed by everyone given that India does not have a social security scheme for the senior citizens.
- Due to the rigidity in SS rates, the divergence between bank deposits rates and small savings rates has increased and people might push more of their savings into small saving schemes to have a better return. For example, the incremental small savings deposits has increased to 24.5% of incremental ASCB deposits in FY20 (till Feb'20), compared to 8.7% in FY19.

DEPOSIT RATES OVER THE YEARS

- The argument that the unprecedented low deposit rates that are currently prevailing are detrimental for savings is only partially true. Low deposit rates in India is not a recent phenomenon. But it is also important to note that deposit rates have always been higher when inflation was rampant. FY21 however being a year of pandemic is an aberration. We, believe that low interest rates are indispensable for the stable banking environment. With low inflation rate, the depositors will get adequate real interest rate on their deposits that is always important from the point of view of adequate purchasing power.

WAY FORWARD

- Government has fully committed to ensure the interests of senior citizens and is working continuously and whole-heartedly for the betterment of them. We, however have **following suggestions** that that will further improve the economic condition of senior citizens. Under Senior Citizens Savings Scheme (SCSS), a senior citizen can deposit Rs 15 lakh and the current interest rate is 7.4%. However, the interest on SCSS is fully taxable (the interest amount for Rs 1 lakh deposit for 5 years is around Rs 51,000 which is taxable). The Feb'20 outstanding under SCSS was Rs 73,725 crore. If such amount is given as full tax rebate it will have nominal impact on the exchequer. I
- Interest rates offered on deposits in India are also demography agnostic (barring the separate rate for senior citizens). However, going forward, in our view, this approach should shift to an age-wise interest rate structure, with rates linked to long-term bank deposit rates till a certain age group, and offering a higher than market rate over that age group. This could, in one go, serve the multiple purposes of (a) ensuring a lower lending rate structure, (b) adequate returns for senior citizens, (c) lower interest expenditure and (d) an alternative to floating rate deposits.
- Further, PPF is a Government-backed, zero-default risk, long-term small savings scheme akin to quasi floating rate deposits with the objective to provide retirement security to self-employed individuals and workers in the unorganised sectors. We expect the Government to maintain a parity in interest rates between organised sector / EPF and unorganised / PPF for the larger goal of social security. As SSS rates are adjusted in every quarter, Government should ideally remove the 15 year lock-in period for PPF and give the investors the option to withdraw their money within a stipulated time.

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