

INTERCONTINENTAL JOURNAL OF BANKING, INSURANCE AND FINANCE

Volume 1, Issue 2

October - December 2014

Impact Factor: 0.432

ISSN:2350-0875 (O) ISSN:2350-0867 (P)

Champs



INDEX

SR. NO.	PARTICULARS	PAGE NO.
1	PERFORMANCE EVALUATION OF INDIAN INSURANCE SECTOR AND TAX BENEFITS ON INSURANCE: A STUDY <i>CA (Dr.) CHITTARANJAN SARKAR</i>	1-9
2	CHALLENGES IN BANKING FINANCIAL ACCESSIBILITY IN GROWTH AND DEVELOPMENT OF MSME's IN ASSAM <i>RAJATBHATTACHARJEE ARUNA DEB ROY</i>	10-16
3	FINANCIAL PERFORMANCE OF AIRLINES INDUSTRY: A COMPARATIVE STUDY OF EMIRATES AND AIRARABIA. <i>Dr. VENKATA SAI SRINIVASA RAO MURAMALLA IBRAHIM SALEH M ALTAMIMI</i>	17-22
4	SEGMENT REPORTING PRACTICES OF FOREIGN BANKS WORKING IN INDIA <i>Dr NEETU PRAKASH</i>	23-35
5	PROGRESS OF DEPOSITS IN SAPTAGIRI GRAMEENA BANK AFTER MERGER <i>Dr.A.PADMAVATHI B.BHAGAVAN REDDY</i>	36-41
6	OPTION PRICING MODEL: A NEW APPROACH IN QUANTITATIVE FINANCE <i>TUHIN MUKHERJEE TUSHAR KANTI DEY</i>	42-45
7	AN ANALYTICAL STUDY ON PROFITABILITY OF LOCAL BANKS IN SULTANATE OF OMAN <i>Dr. RIYAS. KALATHINKAL Mr. SHAFIK</i>	46-53
8	PUBLIC PROVIDENT FUND (P.P.F.) SCHEME OF GOVERNMENT OF INDIA: AN INVESTORS PERSPECTIVE <i>CHAMPA RAMKRISHNA PARAB</i>	54-66
9	A STUDY ON THE SALARIED ASSESSEES PREFERENCE TOWARDS TAX PLANNING PRACTICES WITH REFERENCE TO THE COIMBATORE CITY <i>R VASANTHI Dr. P.JAYASUBRAMANIAN</i>	67-81
10	AN ANALYSIS OF FINANCIAL PERFORMANCE OF TATA MOTORS LTD <i>Dr .S.M.YAMUNA R.SHIJI</i>	82-86



“PUBLIC PROVIDENT FUND (P.P.F.) SCHEME OF GOVERNMENT OF INDIA: AN INVESTORS PERSPECTIVE”

CHAMPA RAMKRISHNA PARAB

Associate Professor, Department of Commerce, M.E.S. College of Arts and Commerce, Zuarinagar, Goa (India).

ABSTRACT

The Public Provident Fund or P.P.F. as it is called is a central government backed investment scheme that allows the risk-conscious investor to invest his money for the long term and earn interest on it. Public Provident Fund Act was passed in 1968. Public Provident Fund is an excellent way to get tax exemptions under Section 80C of the Income Tax Act. Investment in P.P.F. Scheme is directly linked with Section 80C of the Income Tax Act of India, as maximum investment in P.P.F. account during a year is a Maximum Exemption under Section 80C. The Maximum Limit was 70000 changed to 100000 and now raised to 150000. Since there is no Social Security Net in our country, the PPF is an excellent tool for retirement planning, especially for the non-salaried person. P.P.F is a well-known long term debt of Government of India which can be conveniently opened by an individual anywhere in the country to avail tax benefits under section 80C. The P.P.F. also allows tax free interest income where in an individual is not only exempted from the payment of tax on the interest earned by him but he is also exempted from wealth tax. Withdrawals are allowed, besides this a P.P.F. account holder can avail Loan against his P.P.F Account. The most important strength is that the amount to the credit of P.P.F. cannot be attached against any decree, as such a need was felt to know the perceptions of investors about the P.P.F. scheme of Government of India and accordingly survey was carried. out and questionnaire was administered to those investors who make investment in P.P.F. Scheme.

Key Words: P.P.F. Scheme, Section 80C.

INTRODUCTION

Warren Buffett defines P.P.F., as “a systematic savings plan, works on the dual benefit of power of compounding and regular investments”. The Public Provident Fund or P.P.F. as it is called is a central government backed investment scheme that allows the risk-conscious investor to invest his money for the long term and earn interest on it. Public Provident Fund is an excellent way to get tax exemptions under Section 80C of the Income Tax Act. Since there is no Social Security Net in our country, the PPF is an excellent tool for retirement planning, especially for the non-salaried person. P.P.F is a well-known long term debt of Government of India which can be conveniently opened by an individual anywhere in the country to avail tax benefits under section 80C. The P.P.F. also allows tax free interest income where in an individual is not only exempted from the payment of tax on the interest earned by him but he is also exempted from wealth tax. Beside the amount to the credit of P.P.F. cannot be attached against any decree, as such a need was felt to know the perceptions of investors about the P.P.F. scheme of Government of India

RESEARCH OBJECTIVES

1. The broad objective of the study was to understand the perception of investors with regard to investment in P.P.F. To achieve the above objective following objectives were set:
 - i. To analyze the reasons for the investment in P.P.F. and Investors preference towards P.P.F. over other Investments.
 - ii. To assess rating for investment in P.P.F. by the investors.

- iii. To analyze the perception of investors about prevailing rate of interest on P.P.F. and the Lock in Period.
2. To know the preference of Account Holders and reasons for opening P.P.F. Account with particular bank.

METHODOLOGY

The study is based on Primary and Secondary data. The required information was gathered from the official websites on Public Provident Fund (P.P.F.), Statistics of Ministry of Finance, and Government of India etc. The necessary Primary data was obtained from the selected 312 respondents (Investors) from Vasco City of Goa (India) making investment in P.P.F. thus while selecting sample care was taken to see that they make investment in P.P.F.

DATA COLLECTION INSTRUMENT

A multiple choice questionnaire method has been employed to generate opinions from selected respondents from Vasco city with regard to Public Provident Fund (P.P.F.). To elicit the opinion of the investors the questionnaire was personally administered to the respondents from period from December 2013 to March 2014.

SWOT Analysis of P.P.F.

STRENGTHS

- **Lowest Risk:** This is the lowest risk investment than any other Government or private sector schemes in India
- **No Tax on Interest Earned:** This is perhaps the greatest strength, unlike other Schemes, the Tax on Interest earned from P.P.F. is nil. Therefore a depositor can keep enjoying interest without payment of interest.
- **Exempt from all Wealth Tax:** The funds accumulated under P.P.F. is exempt from all types of Wealth Taxes.
- **Protection against Attachment:** The amount standing to the credit of any subscriber in the Fund shall not be liable to attachment under any decree or order of any court in respect of any debt or liability incurred by the subscriber.

WEAKNESSES (WEAKNESSES)

- **The Interest rate keeps changing:** The main problem with P.P.F. is that, the rate of interest keeps changing according to the government policy. Once upon a time (In 80s), the interest rate on P.P.F. was as high as 17% per annum. The Government has gradually reduced the interest rate to 12%, 10%, 9.5% and today it is 8.7% only.
- **Long Lock-in Period:** The Long lock-in period of 15 years is another disadvantage. Because if one has to put aside money for 15 Full years. Instead one can go for investment in Equity because in the long run (more than 10 years), the risk from equity becomes almost zero.
- **Lack of Liquidity:** Money invested in P.P.F. is stuck for a period of 15 years.

OPPORTUNITIES (BENEFITS)

- **Tax Benefits:** Tax benefit under section 80C of the Income Tax Act of India is available and maximum investment which can be made in P.P.F. is ₹ 1, 50,000 from the Financial Year 2014-15 i.e. the amount deposited in this account can be claimed as a deduction from the Gross Total Income.



- **Great Returns:** This investment at present enables interest @ 8.7% Compounded Annually
- **Flexibility of Investment:** Minimum investment in P.P.F. is ₹500 per annum and Maximum of ₹1,50,000.

THREATS

Affect other Investment Schemes: The highest opportunities available from P.P.F. Schemes may attract more and more investors towards this scheme thereby affecting investments in other schemes.

RESULT AND DISCUSSION

Table 01:- Analysis of the Respondents

(01 a) Analysis of Sex of the Respondents

Sr. No.	Sex	Percentage	No. of Respondent
1	Male	60.90%	190
2	Female	39.10%	122
Total		100%	312

(Source: Primary Data)

The survey results shows that, out of 312 investors under study, 60.89% of population represents Male respondents and 39.10% Female respondents. All the investors make investment in P.P.F. Scheme of Govt. of India

(01 b) Age of the Respondent

Sr. No.	Age	Percentage	No. of Respondent
1	20-24	5.13%	16
2	25-30	17.95%	56
3	31-35	19.87%	62
4	36-40	16.03%	50
5	41-50	22.43%	70
6	50% & Above	18.59%	58
Total		100%	312

(Source: Primary Data)

Sample consists of respondents' investors of different age groups right from newly entrants on job having fixed source of income as well as others in mid age group. Of 312 investor respondents, maximum respondents (22.43%) are in the age range of 41-50, settled in terms of income and the minimum respondents (5.12%) are in the age range of 20-24 and probable reason could be less income, savings and less investment in PPF Scheme.

(01 c) Analysis of Education Qualification

Sr. No.	Qualification	Percentage	No. of Respondent
1	Less than SSC	8.33%	26
2	HSSC	13.46%	42
3	Graduate	41.67%	130
4	Post-Graduate	26.92%	84
5	Diploma (ITI)	3.21%	10
6	Doctorate (PHD)	3.85%	12
7	Not answered	2.56%	8
Total		100%	312

(Source: Primary Data)



Of the sample population i.e. 41.67% are Graduates and making investment in P.P.F. Result also shows that 72.43% of the sample under study, having qualification less than SSC makes investment in P.P.F.

(01 d) Analysis of Investors Category

Sr. No.	Type of investor	Percentage	No. of Respondent
1.	Individual (salaried)	79.49%	248
2.	Professionals:	-	-
a.	Lawyer	5.13%	16
b.	Doctor	2.56%	8
c.	C.A	1.92%	6
3.	Businessmen	5.77%	18
4.	Contractor	2.56%	8
5.	Any other	2.57%	8
Total		100%	312

(Source: Primary Data)

The study reveals that 79.49% investors represent salaried class, 5.13% are professionals, 5.76% belongs to businessman class, 2.57% are contractors and 1.92% belongs to other category. The salary class being fixed income earners prefers to make investment in this saving scheme of P.P.F.

(01 e) Analysis of Income of the Respondent

Sr. No.	Frequency / Class Interval	Percentage	No. of Respondent
1	Less than 100000	12.17%	38
2	Between ` 100001-300000	28.85%	90
3	Between ` 300001-500000	22.44%	70
4	Between ` 500001-700000	18.59%	58
5	Between ` 700001-900000	10.90%	34
6	Between ` 900001-1100000	3.85%	12
7	More than ` 1100000	3.20%	10
Total		100%	312

(Source: Primary Data)

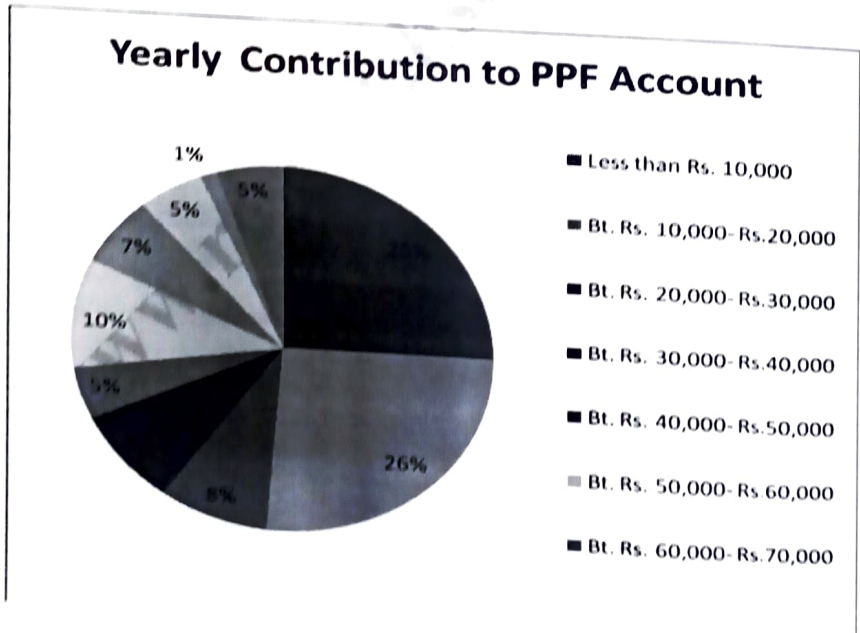
It has been observed that maximum % of investors under study have an annual income ranging between `1, 00,001-3, 00,000 and only 3.20% investors have an annual income of more than `11, 00,000, have made investment in P.P.F., which indicates that low income group those who are not coming in tax bracket of 30% income tax also have invested in P.P.F. One of the reasons for such investment could be safety of this investment in P.P.F., back up by the Central Govt. of India and nontaxable returns.

Table 02) Analysis of Perception of Investors of P.P.F. Scheme

(02 a) Analysis of Yearly Contributions to P.P.F Account

Sr. No.	Contributions (₹)	Percentage	No. of Respondents
1	Less than ₹ 10,000	25%	78
2	Bt. ₹ 10,000- ₹ 20,000	26.28%	82
3	Bt. ₹ 20,000- ₹ 30,000	8.33%	26
4	Bt. ₹ 30,000- ₹ 40,000	8.33%	26
5	Bt. ₹ 40,000- ₹ 50,000	4.49%	14
6	Bt. ₹ 50,000- ₹ 60,000	9.62%	30
7	Bt. ₹ 60,000- ₹ 70,000	6.41%	20
8	Bt. ₹ 70,000- ₹ 80,000	5.13%	16
9	Bt. ₹ 80,000- ₹ 90,000	1.28%	4
10	Bt. ₹ 90,000- ₹ 1,00,000	5.13%	16
Total		100%	312

(Source: Primary Data)



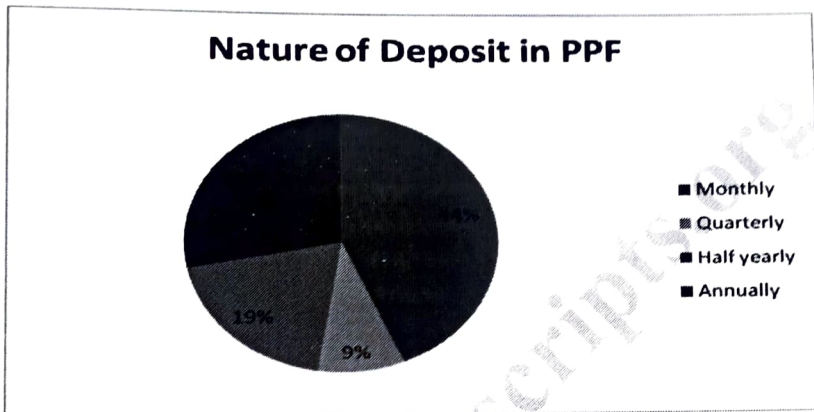
The survey results shows that maximum respondents make a yearly subscription between ₹ 10,000 – ₹ 20,000 and 1.28 % of respondents make a contribution of ₹ 80,000 – ₹ 90,000. Though the maximum limit for investment was ₹ 1,00,000 as on 31-3-2014, only 5.13% investors made full investments and others did not take full advantage of the scheme.



(02 b) Analysis of Nature of Deposit in P.P.F.

Sr. No.	Nature of Deposit in P.P.F.	Percentage	No. of Respondent
1	Monthly	43.59%	136
2	Quarterly	8.97%	28
3	Half yearly	19.23%	60
4	Annually	28.21%	88
Total		100%	312

(Source: Primary Data)

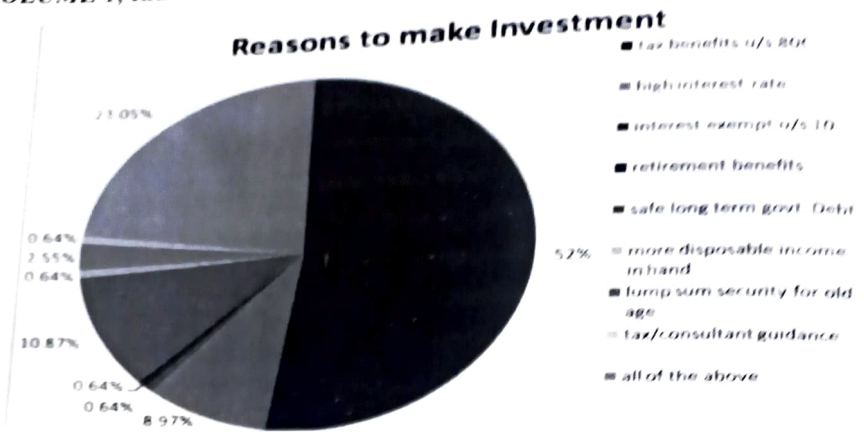


Survey conducted on 312 investors shows that 43.59% respondents prefer to make monthly deposit in P.P.F. The probable reason could be to avoid pressure on salary income at a time and also to generate regular income on the monthly deposits. 28.20% make annual subscription and deposit ones a year as per the above table.

(02 c) Analysis of reasons for Investment in P.P.F.

Sr. No.	Reasons to make Investment	Percentage	No. of Respondent
1	Tax benefit u/s 80C	52%	162
2	High interest rate	8.97%	28
3	Interest exempt u/s 10	0.64%	2
4	Retirement benefits	10.90%	34
5	Safe long term Govt. debt	0.64%	2
6	More disposable income in hand	0.64%	2
7	Lump sum security for old age	2.55%	8
8	Tax/consultant guidance	0.64%	2
9	All of the above	23.08%	972
Total		100%	312

(Source: Primary Data)

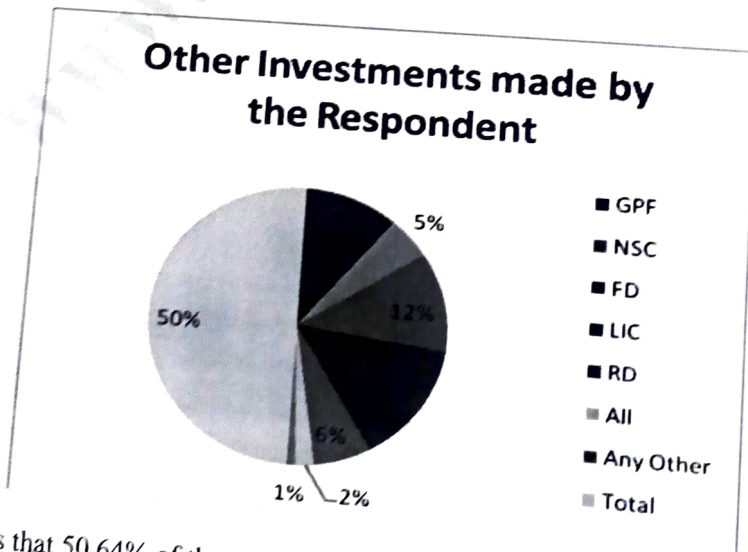


There are various attributes why investors make investment in P.P.F. Scheme of Govt. of India. Survey result shows 52% of the sample population deposit in P.P.F. to avail tax benefits under section 80C and 23.08% deposit in P.P.F. to avail all the benefits listed in the questionnaire.

Table No. 03 Analysis of Preference of P.P.F. over other Investments
 (03 a) Analysis of other Investments made by the Respondent

Sr. No	Other Investments	Percentage	No. of Respondents
1	GPF	30.12%	64
2	NSC	10.89%	30
3	FD	35.89%	72
4	LIC	50.64%	90
5	RD	15.38%	38
6	All	3.84%	12
7	Any Other	1.92%	6
Total		100%	312

(Source: Primary Data)



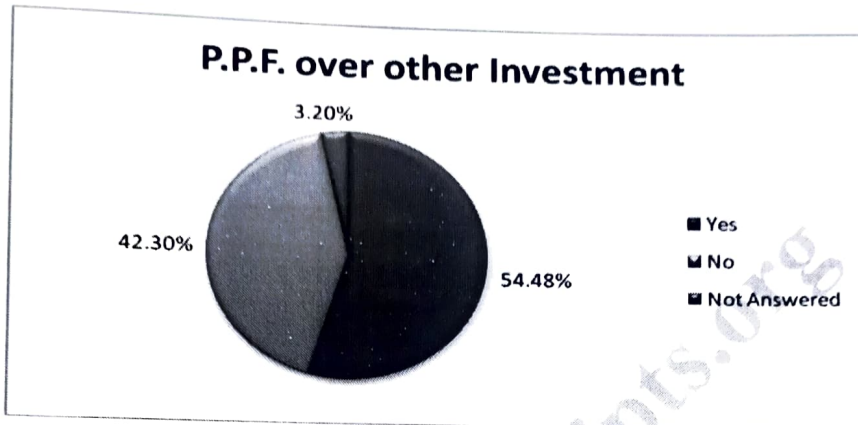
Survey result shows that 50.64% of the sample also makes investment in other Schemes like L.I.C and 35.89% make investment in Fixed Deposits.



✓ (03 b) Analysis of Preference towards P.P.F. over other investment

Sr. No.	P.P.F. over other Investment	Percentage	No. of Respondent
1	Yes	54.48%	170
2	No	42.30%	132
3	Not Answered	3.20%	10
Total		100%	312

(Source: Primary Data)

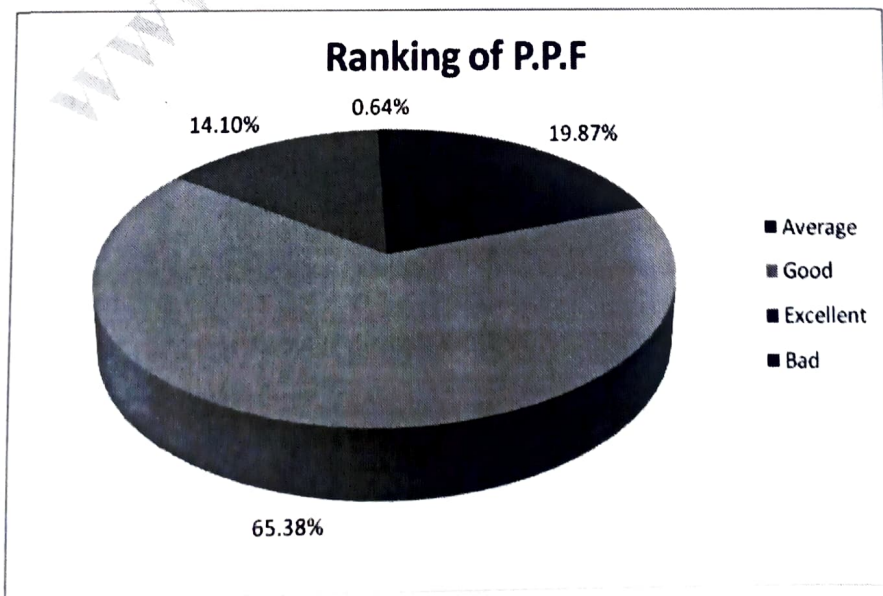


54.48% of the sampled population opined that they prefer to make investment in P.P.F. when compared with other investment under section 80C.

✓ (03 c) Analysis of Ranking of P.P.F over other Investments

Sr. No	Ranking of P.P.F	Percentage	No. of Respondent
1	Average	19.87%	62
2	Good	65.38%	204
3	Excellent	14.10%	44
4	Bad	0.64%	2
Total		100%	312

(Source: Primary Data)





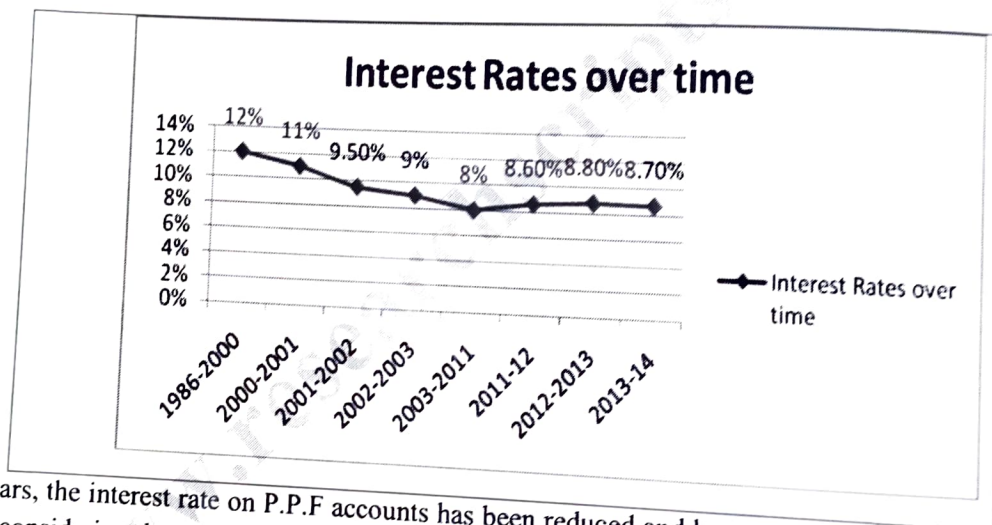
65.38% of the sampled population ranked investment in P.P.F. as good because of number of strengths of the scheme, 19.87% ranked it as average and 14.10% ranked it as excellent.

Table No. 04 Analysis of perception of Investors about prevailing rate of Interest on P.P.F. and the Lock in Period:

(04 a) Analysis of Prevailing rate of interest on P.P.F. over a period of Time:

From	To	Interest Rate
01/04/1986	14/01/2000	12%
15/01/2000	28/02/2001	11%
01/03/2001	28/02/2002	9.5%
01/03/2002	28/02/2003	9%
01/03/2003	30/11/2011	8%
01/12/2011	31/03/2012	8.6%
01/04/2012	31/03/2013	8.8%
01/04/2013	Present	8.7%

(Source: www.caclub.com and www.wikipedia.org)



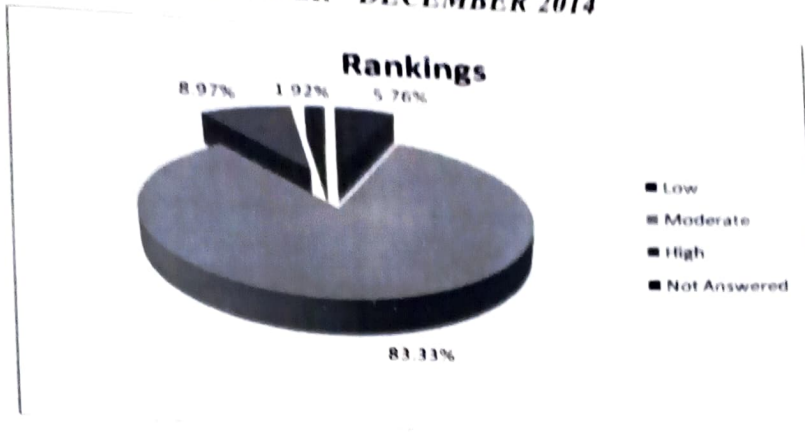
Over the years, the interest rate on P.P.F accounts has been reduced and has come down from 12% to 8.7%. Still, considering the other Instruments available in the market, P.P.F is among the best options. Considering the tax advantages on the interest income, the effective rate of return is quite high as compared to other saving instruments.

In 1968-69 the rate of interest was 4.8% and then increased to 12% in 1986-87 and remained stable for almost 14 years till 1999-00 and showed fluctuating trend after that.

✓ **(04 b) Analysis of Ranking to Prevailing Rate of Interest on P.P.F**

Sr. No	Rankings	Percentage	No. of Respondent
1	Low	5.76%	18
2	Moderate	83.33%	260
3	High	8.97%	28
4	Not Answered	1.92%	6
	Total	100%	312

(Source: Primary Data)

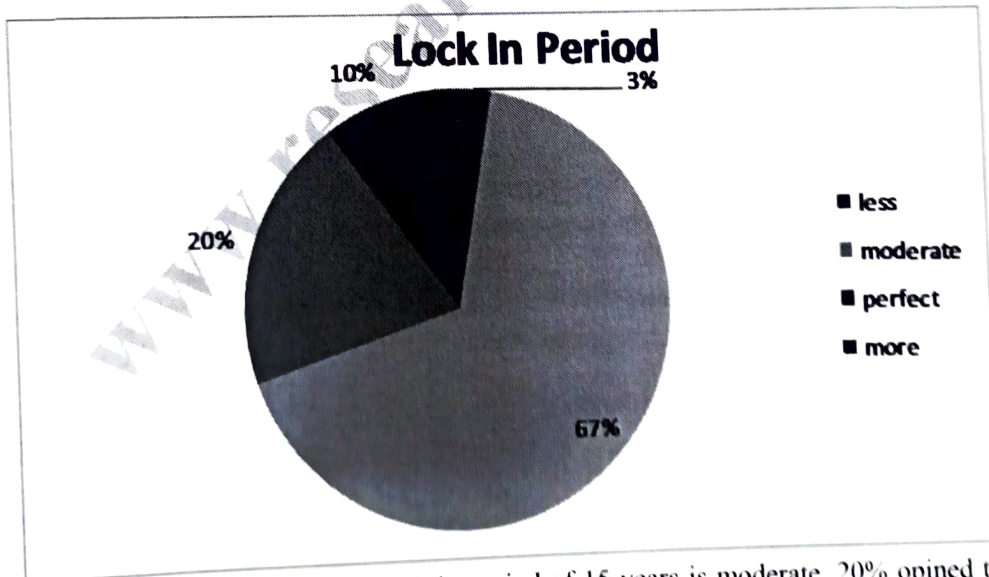


83.33% of the sample population feels that the prevailing rate of interest on P.P.F is moderate.

✓ (04 c) Analysis of Lock in Period of P.P.F.

Sr. No	Lock In Period	Percentage	No. of Respondents
1	Less	3%	8
2	Moderate	67%	200
3	Perfect	20%	64
4	more	10%	40
Total		100%	312

(Source: Primary Data)



67% of the sampled investors feel that lock in period of 15 years is moderate. 20% opined that it is perfect.



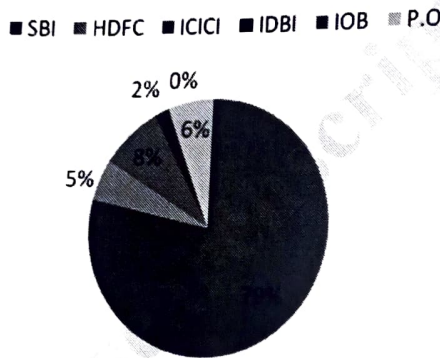
Table No. 05) Analysis of reasons for opening P.P.F. Account with a particular Bank

✓ (05 a) Analysis of Banks / Post Office in which P.P.F. Account is Opened

Sr. No	Name of the bank	Percentage	No. of Respondents
1	SBI	79%	240
2	HDFC	5%	14
3	ICICI	8%	26
4	IDBI	2%	12
5	IOB	-	-
6	POST OFFICE	6%	20
Total		100%	312

(Source: Primary Data)

Banks / Post Office in which P.P.F. Account is Opened



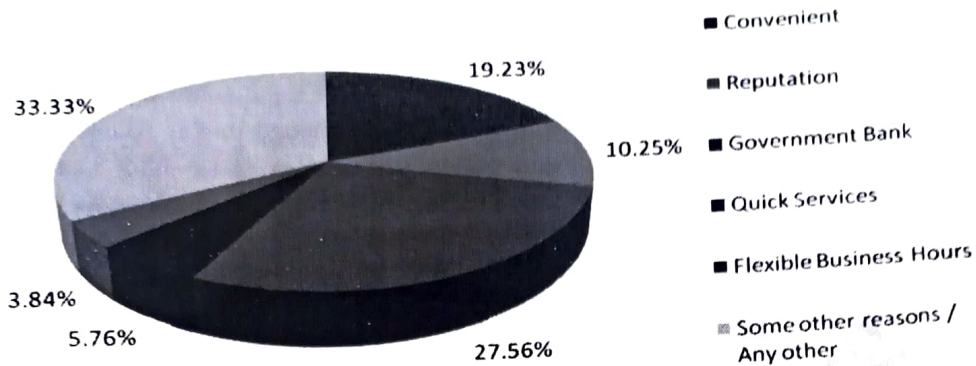
Ministry of Finance has authorized number of public and private banks to open P.P.F Account and provide related service in the country including Indian Postal Department as investment in P.P.F. is recognized as Small Saving Scheme. Of the total sample, 77% of investors have opened their P.P.F Account in State Bank of India Vasco, Goa branch. The State Bank of India is the largest Public Sector Bank in the Country with highest number of branches.

✓ (05 b) Analysis of Reasons for opening P.P.F. account with Particular Bank

Sr. No.	Reasons for opening P.P.F. A/c with Particular Bank:	Percentage	No. of Respondent
1	Convenient	19.23%	60
2	Reputation	10.25%	32
3	Government Bank	27.56%	86
4	Quick Services	5.76%	18
5	Flexible Business Hours	3.84%	12
6	Some other reasons / Any other	33.33%	104
Total		100%	312

(Source: Primary Data)

Reasons for opening P.P.F. A/c with Particular Bank:



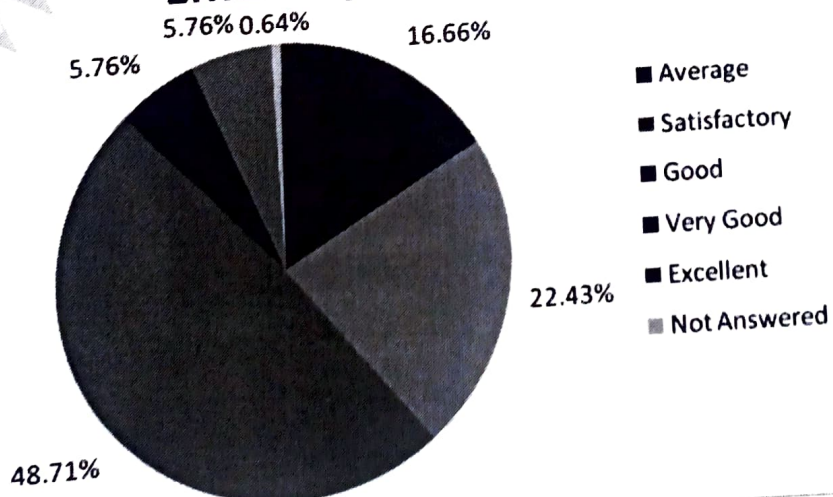
The survey result shows that maximum investors have shown preference towards SBI because it is a Government Bank allowing subscriptions and deposits in P.P.F. Scheme right from beginning. Study also shows that 33.33% have opened their P.P.F. Account for SBI for reasons other than specified in the questionnaire.

(05 c) Analysis of Efficiency of Bank while carrying process of P.P.F

Sr. No.	Efficiency of Bank	Percentage	No. of Respondent
1	Average	16.66%	52
2	Satisfactory	22.43%	70
3	Good	48.71%	152
4	Very Good	5.76%	18
5	Excellent	5.76%	18
6	Not Answered	0.64%	2
	Total	100%	312

(Source: Primary Data)

Efficiency of Bank





48.71% of the sample respondents replied that the Bank carries out the process of P.P.F. function efficiently and rated service of bank as "Good".

CONCLUSION

Investments being purchase of an assets or item with a hope that it will generate income or appreciate in the future and be sold at the higher price; the investment in P.P.F. Scheme fulfills this condition and as such is suitable to the investor of any type. Public Provident Fund scheme was floated by the Government of India in 1968 for salaried as well as for self-employed people to encourage savings habit and provide tax benefits. The survey result shows that a larger number of individuals prefer P.P.F because of its safety and back up of Central government. Thus, it can be concluded that the majority of individual is investing in P.P.F and the number of account holders are increasing over the period of time. Due to the popularity of P.P.F, most of the private banks also started dealing with P.P.F. Public Provident Fund scheme has been introduced. As compared to other small saving schemes introduced by government and non- government institutions, Public Provident Fund scheme stands out in terms of benefits offered. This is because investment in P.P.F scheme falls under triple E regime i.e. Principal, Interest and outflow all are tax exempted. The balance in the P.P.F account cannot be attached by any order or decree of court in respect of any debt or liability incurred by the subscriber. Thus Public Provident Fund Scheme is a small savings with big wonder.

References:

1. <http://en.wikipedia.org>
2. www.moneycontrol.com
3. www.investopedia.com
4. www.indiapostoffice.helpof.com
5. www.goodreturn.in
6. www.yourfinance.com
7. <http://www.indiapost.gov.in/smallavingschemes.pdf>
8. http://finmin.nic.in/reposts/Repost_Committee_Comprehensive_Review_NSSF.pdf
9. www.kapadiainvestments.com
10. www.intellivestor.org
11. www.rupeemanager.com
12. www.caclub.com