Investment Options for Conservative Investors.

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EXECUTIVE SUMMARY: *In India, more than 95% of household savings are invested into fixed income instruments like fixed deposits, recurring deposits, PPF, etc. Out of these investors many don't know that there are also other schemes offered by Postal department, Government and Mutual Fund industry in our country which suits the needs of small investors. However, there are very few schemes out of the list which actually are beneficial for the investors. These can be a part of the debt portfolio of an investor. Rest of the schemes can be avoided as better alternatives are available.*

In India, savings based on a systematic legal framework has been followed since the last 150 years, when the first savings bank was established in Calcutta by the Government in the year 1834. With the Govt. Savings Bank Act passed in 1873, it led to the establishment of Post Office Savings Bank (POSB) in 1882.

Post offices in India constitute the largest network in the country offering various services of financial, communication and retail services. Postal Savings System can be termed as one of the "Traditional Banks" of India. Since the last 123 years, POSB has been the main vehicle to spread these plans throughout the country. Some of the savings schemes like Public Provident Fund, Senior Citizen's Savings Scheme and Sukanya Samriddhi scheme are also operated through designated branches of Nationalized Banks and private banks like ICICI, IDBI, HDFC, etc.

Let us now look into some of the financial products being offered by Indian post, Banks and Mutual Fund Companies:

Product	**Offered by**	**Interest rate offered**	**Maturity**	**Min / Max Investment**	**Taxation**
Recurring Deposits	Post office and Banks.	8.4% per annum Compounded Quarterly.	5 years at Post Office and different options available with banks.	Minimum Rs. 10 per month. No upper limit.	Interest earned is taxable.
Post office Time Deposit Account.	Post Office	1 Year – 8.4% 2 year – 8.40% 3 Year – 8.40% 4 Year – 8.40% 5 Year – 8.50%	Option available from 1 Year – 5 Years.	Minimum Rs. 200. No upper limit	Investment under 5 year deposit is eligible for rebate under sec 80c. However, Interest is taxable.

Post office Monthly Income Scheme.	Post Office	8.40% per annum payable monthly.	5 Years	Maximum – Rs. 4.5 Lakh for individual account and Rs. 9 Lakh under Joint account.	Interest is taxable.
Senior Citizen Saving Schemes	Post office and Nationalised Banks.	9.3% at Post office and 9.2% at banks.	5 Years	One time investment in multiple of Rs. 1000/- not exceeding Rs. 15 Lakh.	Investment gets rebate under Sec 80c however, interest is taxable.
National Saving Certificate.	Post Office	8.50% for 5 Year deposit. 8.80% for 10 years Deposit	5 Years and 10 Years	Minimum Rs. 100 and no upper limit.	Investment gets rebate under Sec 80c, also interest earned is deemed to be reinvested under Sec 80C.
Kisan Vikas Patra	Post office and Nationalised Banks	8.70% annually.	Lock in period of 2.5 Years. After this amount can be withdrawn in every 6 months.	Minimum deposit of Rs. 1000 and no upper limit.	Interest earned is taxable on maturity or at the time of withdrawal.
Public Provident Fund	Post office and Nationalised Banks	8.70% Compounded Annually.	15 years.	Minimum Rs. 500 and maximum Rs. 1.50 lakh per year.	Investment gets rebate under Sec 800c up to the limit of Rs. 1.5 Lakh per annum. Interest earned is tax free and on maturity the amount received is also tax free.
Sukanya Samriddhi Scheme.	Post office and Nationalised Banks	9.20% Compounded Annually	Age of 21 years.	Minimum Rs. 1000 and maximum Rs. 1.50 lakh annually.	Investment under this scheme gets rebate under Sec 80c. Also interest earned and maturity amount are tax free.
Debt Mutual Funds	Mutual Fund Companies.	Not fixed but fluctuates. Similar or higher to Bank Fixed deposits	No maturity, however lock in period varies from scheme to scheme.	Minimum – depends upon scheme. And no upper limit.	Tax liability comes during withdrawal of amount. If amount is redeemed before 3 years then short term

					capital gain is applied at the respective slab rates. And after 3 years LTCG is applied at rate of 20% after indexation.

Let us understand about products in brief:-

1. Recurring Deposit Account: - This kind of systematic saving tool is useful for those conservative investors who want to deposit a fixed amount monthly or regularly. Currently interest rate is 8.4% per annum compounded quarterly offered by post office and interest rate is different at banks. This account can be opened by cash/cheque only and joint accounts can also be opened.

2. Post Office Time Deposit account: Time deposit account is for those investors who want to deposit a fixed sum of amount or a lump-sum for a specific period of time. Interest is payable annually but calculated quarterly. Interest rates for different periods are as follows: 1 year - 8.4%, 2 years - 8.4%, 3 years - 8.4%, 5 years- 8.5%. The minimum deposit starts with Rs. 200 only. If any of these accounts are closed before one year, interest of savings account shall be payable. The deposit made for 5 years will get income tax benefit under section 80C of IT Act.

3. Post Office Monthly Income Scheme*:* Popularly known as post office MIS**,** this kind of scheme is for those investors who want to invest a lump-sum and want to earn monthly interest for their livelihood. Basically this account is popular among people who are retired and want safety of their money. The interest rate is 8.4% per annum which is paid monthly. This account can be opened in the multiples of Rs. 1500. The maximum investment limit of an individual account is Rs. 4.5 lakhs and for joint account it is Rs 9 lakhs. There is no limit to the number of accounts. One can open any number of accounts in any post offices subjected to maximum investment limit by adding the balance in all the accounts. The maturity of this deposit is 5 years, one can also break the account before maturity, however one has to pay 2% penalty if redeemed before 3 years and 1% if redeemed between 3-5 years.

4. Senior Citizen Savings scheme: This is one of the most popular saving schemes among senior citizens. The reason behind its popularity is that the amount deposited is exempted under sec 80c of income tax and the interest payable is highest among other similar product. The safety of capital is also very high. The current interest rate is 9.3% per annum at post office and 9.2% per annum at banks which is payable on 31st March, 30th June, 30th September, 31st December. An investor can only have one account which can be in multiple of Rs. 1000 and the maximum limit is Rs. 15 lakh. The maturity period is of 5 years and penalty of 1.5% of the deposit if account is closed after 1 year and 1% of deposit if closed after 2 years. TDS is deducted on interest if it is more than Rs. 10000 per annum.

5. National Savings Certificate (NSC) - It is a tax - saving instrument that gives high returns and also ensures safety. Minimum amount of deposit is Rs. 100 with no maximum limit. This instrument can be bought by an individual or on behalf of a minor or by minor himself. The deposits qualify for tax rebate under sec 80c of IT act. Also the interest every year is eligible for tax saving. Transferring of certificate from one holder to another is possible. These are of 2 kinds -

> **(a) 5 years National Savings Certificate** – Current Interest rate is 8.5% compounded six monthly but payable at maturity
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> **(b) 10 Years National Savings Certificate** - Interest rate is 8.8% compounded six monthly but payable at maturity.

6. Kisan Vikas Patra (KVP) - It is a saving instrument that provides interest income similar to bonds. This instrument was discontinued few years back to stop the flow of black money in system. However, recently newly formed government has once again launched this product with new features. The KVP certificate can be purchased by any adult at any post office or at few nationalised banks for himself of on behalf of minor. The certificate can be encashed after 2.5 years from the date of issue. The amount invested under this scheme gets doubles in 100 months. The different denominations of certificates are available which are of Rs. 1000, Rs. 5000, Rs. 10000 and Rs. 50000. Minimum deposit amount is Rs. 1000 and there is no maximum limit.

7. Public Provident Fund (PPF): PPF is useful for those people who do not have any structured pension plan covering them after retirement. It is also known as one of the retirement planning tool. The current interest rate is 8.7% per annum compounded yearly. The minimum deposit amount is Rs. 500 and maximum Deposit amount is Rs. 1,50,000 in a financial year. An individual can open an account with Rs. 100 but has to have a minimum deposit of Rs. 500 in a financial year. Maturity period is 15 years but the same can be extended within one year of maturity for further five years. Pre - mature closures before 15 years are not allowed, however, withdrawal is permissible every year from the seventh financial year, from the year of opening account and loan facility is available from the 3rd financial year.

8. Sukanya Samriddhi Account: This is one of the latest saving schemes launched by the government which is only for girl child. This account can be opened for any girl child who is below the age of 10 years. Only one account can be opened in the name of girl child and maximum two accounts can be opened by any specific guardian in the name of two different child. The minimum deposit to be made is Rs. 1,000 and maximum limit is Rs. 1,50,000 in a financial year. The amount deposited gets rebate under sec 80c of IT act. If the minimum amount is not deposited in that particular financial year then the account is discontinued and it can only be revived through a penalty of Rs. 50 per year with minimum amount required for deposit of that particular financial year. The account under this scheme can be closed after completion of 21 years only. However, premature closure will only be allowed after the completion of 18 years provided that the girl is married. Also 50% of withdrawal of the deposit amount is allowed after the account holder's age is 18 and If the account is not closed after maturity then it will continue to earn interest from time to time as specified in the scheme.

The current Rate of interest is 9.2% per annum which is compounded annually.

9. Debt Mutual Funds: These are the kind of mutual funds which have no exposure in the equity market thus ensuring safety of capital. The interest rate in this product is not fixed and depends upon the underlying security it holds. However, an investor can expect the returns similar on the lines of a fixed deposit of bank. Different kind of schemes are available under debt fund category such as long term funds, short term funds, income funds, gilt funds, liquid funds, etc.

With such variety of financial services available by the Government and Private companies, today's investors have a lot of options to choose from. The only thing matter is that the product should suit their convenience, their goals and their risk profile. Postal Schemes have taken quite a number of initiatives to encourage the middle class and the poor people to invest today, so that tomorrow they do not have to depend on loans and debt. From mail to money they have given our country excellent opportunities to future in a systematic manner. However, most of these schemes are still not capable of beating inflation in the long run. So, one should try to avoid such kind of schemes and look at other good schemes available in the market. On the other hand debt mutual funds are gaining popularity due to their flexibility and few tax benefits. An investor can consider and choose debt scheme according to his need and risk profile and make it a part of their portfolio.

Disclaimer: Please remember to consult your financial advisor before taking any final decision about any product.