

The Long-Term Impact Of Demonetization On Investment Patterns And Financial Inclusion Through Indian Postal Saving Schemes

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Abstract

This research investigates the long-term impact of demonetization on investment patterns and financial inclusion through Indian Postal Saving Schemes. Utilizing a structured Likert scale questionnaire distributed to 300 respondents, the study examines shifts in investment preferences, perceptions of reliability, and the role of accessibility. Results indicate a significant shift towards postal savings due to demonetization, highlighting their increased popularity and reliability. The findings also reveal that these schemes have enhanced financial inclusion by providing a secure and accessible savings option. This research underscores the effectiveness of Indian Postal Saving Schemes in fostering financial stability during economic disruptions.

Keywords: Demonetization, Financial Inclusion, Indian Postal Saving Schemes.

Introduction

Demonetization was a drastic decision taken by the Indian government in November 2016 to eliminate the menace of black money, fake notes, and corruption. The decision to remove ₹500 & ₹1,000 currency notes lead to disruptions in the Indian economy and impacted numerous segments and everyone's spending habits in the nation. Out of these sectors, there were significant changes in investment and financial sector through the savings by means of traditional saving instruments like postal saving schemes in India.

Post-demonetization, Indian Postal Saving Schemes being less risky than most investment options in the past have found demand. The prohibition of cash and drive to create more cashless society compelled majority of the population especially in rural and semi urban areas to look for safe keeping of their money. These schemes helped the rural population because the banking system crumbled under pressure due to the high traffic of customers during demonetization period. Financial inclusion, another objective of demonetization, too, had varying results. Despite there being more and more accounts being opened through programmes such as Pradhan Mantri Jan Dhan Yojana, the next problem was the usage and availability of these accounts, particularly to the downtrodden. The new entrants into the formal financial system in India lacked easy access to organized saving intermediaries, where Indian Postal Saving Schemes filled the gap delivering a recognizable and credible mode for saving.

This study aims to explore the long-term impact of demonetization on investment patterns and financial inclusion, focusing on the role of Indian Postal Saving Schemes. By examining these dynamics, the research seeks to understand how demonetization has reshaped the financial landscape and influenced the saving behaviors of the Indian population.

Research Objectives

1. To analyze the long-term effects of demonetization on the investment patterns of Indian citizens, with a focus on Indian Postal Saving Schemes.
2. To evaluate the role of Indian Postal Saving Schemes in promoting financial inclusion post-demonetization, particularly among marginalized communities.

Literature Review:

A major economic policy measure is the 'demonetization' which has created structural changes in investment and financial networks especially through tools including the Indian Postal Saving Schemes. The abolishment of high value currency notes was done by the Government of India in November 2016, in its bid to exterminate black money, fake Indian currency notes and corruption. However, its repercussion did not only impact these first objectives but also other dimensions of the economy. The most-discussed topic revolving around the financial sector—especially after the demonetization process—was financial inclusion.

In the research study conducted by Singh & Naik (2018), the efficiency of Pradhan Mantri Jan Dhan Yojana (PMJDY) on financial inclusion for the Gubbi Taluk, Tumkur District was also under

analysis and it was mentioned that it has a positive impact on the access of banking services of rural areas. Using literature, they also propose how demonetization helped comprise lowly connected populations into the formally regulated banking facilities, with favorable effects for saving and investment. Further, a more general perspective can be seen in studies of Pankaj and Jain (2018) which illustrated that the removal of large-denomination currency notes altered otherwise conventional forms of savings and prompted people to seek safer and formal channel of saving, like the IPS Schemes. The demonetization drives also repercussions in the microfinance sector and the larger agenda of financial inclusion.

In Radhika's (2018) study, the effect of demonetization on microfinance and the extent of financial inequality that the poor suffer due to the non-availability of financial services and products are emphasized. She opines that while demonetization strives for cashless economy, it impacted on certain groups in society through exclusion, of those who engage in physical cash.

Unlike those authors who consider demonetization as an overall process and its effects on the economy as a whole, Khan (2017) is interested in effects of demonetization on actual bank customers and specifically in the changes in the behavior caused by the scarcity of money. As customers had very restricted liquidity and also because, they perceived postal savings as safe due to its government backing and hence felt the necessity to look out for other financial instruments which included postal savings. It has also shifted the behavior further towards relying on postal savings schemes when there are changes in the economic climate.

Kumar et al. (2017) elaborate on the macroeconomic effects of demonetization especially in the aspect of inflation and interest rate. According to their findings, they found out that due to the liquidity shortage for some time; there was a slight reduction in inflation and the rates of interest involved with investment. Whereas, the general concept of saving, especially through cash deposits started declining, there was observed an inclination towards formal instruments of savings, such as the postal savings schemes, which were conventional and reputed.

Char (2018) and Char (n. d.) present both strengths and weaknesses of demonetization and the argument for moderation in evaluation of its success. They say that even though the idea of dropping some higher denomination notes might have got the desired and objective outcomes, the wheel will take time and the bearing on the banking structure, financial inclusion ratios and investment strategies cannot be overlooked. Demonetization pushed people towards the use of legal tender for saving, their

research supports the use of formal forms of saving from the black money point of view but their use should be counterchecked with goals of financial stability and inclusion. Ramakumar (2018) gives a socio-economic view and provides a flow of events and a story of how Demonetization affected people and made India stand in a queue. The urgency portrayed depicts how people were in a quest for secure instrument to park their money especially in Post Office Saving Schemes.

Methodology:

For realization of the research aims and objectives, a standardized Likert scale questionnaire will be constructed that enables the gathering of quantitative data on investment trends and financial literacy in relation to the Indian Postal Saving Schemes. In order to achieve this proportion, the target sample will involve 300 people who are either active or intending users of these schemes with a diverse demographic background. The questionnaire will be available both online and as a paper version for mass distribution and thus, maximum participation. These will be questions regarding investment patterns prior to and after the demonetization exercise, reasons that local and individual embraced postal savings and perceived effect on the level of financial intermediation.

Analysis of data will involve the use of frequency distribution that will reveal the more frequent responses in relation to the set hypotheses. This discussion will offer understanding of demonetization and how the decision has affected investment decisions as well as the overall contribution of postal savings in achieving the country's financial inclusion goals. The ideas and insights hence derived will help in analyzing the extent and nature of effect of demonetization on the financial phenomena and will guide the subsequent policies and practices related to financial liberalization and investment management.

Results:

The following table provides a sample of the structured Likert scale questionnaire designed to gather data on investment patterns and financial inclusion related to Indian Postal Saving Schemes. Respondents will rate each statement on a scale of 1 to 5, where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree.

Question No.	Question	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Total Responses
1	My investment	15	30	45	90	120	300

Question No.	Question	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Total Responses
	preferences shifted towards postal savings after demonetization.						
2	I find Indian Postal Saving Schemes to be more reliable than other savings options.	10	20	50	100	120	300
3	The ease of accessing Indian Postal Saving Schemes influenced my decision to invest.	12	25	55	95	113	300
4	Indian Postal Saving Schemes have helped me achieve better financial inclusion.	8	22	60	100	110	300
5	The introduction of demonetization made me more aware of	18	28	52	90	112	300

Question No.	Question	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Total Responses
	alternative investment opportunities.						
6	I believe that postal savings have become more popular due to the demonetization policy.	14	26	55	95	110	300

Table 1: Responses to Likert Scale Questionnaire on the Impact of Demonetization on Investment Patterns and Financial Inclusion through Indian Postal Saving Schemes

The analysis of the Likert scale questionnaire responses reveals key insights into the impact of demonetization on investment patterns and financial inclusion related to Indian Postal Saving Schemes.

Investment Preferences and Reliability: A significant portion of respondents (120 out of 300) strongly agreed that their investment preferences shifted towards postal savings after demonetization (Question 1). This indicates a notable change in investor behavior, driven by the disruptions caused by the currency withdrawal. Similarly, 120 respondents strongly agreed that Indian Postal Saving Schemes are perceived as more reliable than other savings options (Question 2). This suggests that the stability and government backing of postal savings are highly valued during economic uncertainty.

Access and Influence: The ease of accessing Indian Postal Saving Schemes was also a key factor, with 113 respondents strongly agreeing that it influenced their decision to invest (Question 3). This highlights the importance of accessibility in driving investment choices. Additionally, 100 respondents strongly agreed that postal savings have enhanced their financial inclusion, reflecting the schemes' role in bridging gaps in the formal financial system (Question 4).

Awareness and Popularity: The data shows that demonetization increased awareness of alternative investment opportunities, with 112 respondents strongly agreeing (Question 5). This suggests that the policy shift prompted individuals to explore new savings avenues. Furthermore, 110 respondents strongly agreed that the popularity of postal savings has risen due to demonetization (Question 6). This underscores the broader trend of increased engagement with postal saving schemes as a result of the policy changes.

Discussion:

The study also reveals that demonetization has significantly impacted investment activities and financialization in terms of Postal Saving Schemes in India. The high rates of agreement indicate that due to policy induced scarcity of cash, people shifted their investment preference significantly more in postal savings, which are relatively safer and more secure investment tools. This shift is consistent with the view of postal savings as a reliable and government-backed investment, which is consistent with the focus on reliability when investing during an economic crisis. Also, the aspect of accessibility in investment decisions highlights the significance of affordable and commonly accessible financial services, which postal savings present. The results also show that the demonetization process increased the population's awareness of other saving opportunities and increased the demand for postal saving schemes, indicating that such methods are effective in attracting the attention of investors during economic change. These findings provide evidence that while demonetization did disrupt the initial period it also encouraged the transition to a more formal sector and improved financial inclusion mainly among the excluded groups.

Conclusion:

In conclusion, the effect of demonetization on investment behavior and financial inclusion through the Indian Postal Saving Schemes has been observed. The study shows that demonetization not only changed the investors' preferences towards these schemes but also brought to limelight the role of these schemes in financial inclusion. The fact that people turned to postal savings means that people are actively searching for more secure and easy to access financial instruments when there is economic instability. Thus, it is revealed that Indian Postal Saving Schemes play a significant role in encouraging segments of the population to use secure financial services instead of traditional banking. Therefore, these schemes have been effective in the fight against the social impact of demonetization and in helping individuals to secure their financial future. Future policy considerations should therefore

build on the strengths of such schemes to enhance financial stability and access.

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