

# **Investment Behaviour Of National Payment System Subscribers Under All Citizen Model**

**Anirban Patgiri<sup>1</sup>, Pinky Gogoi<sup>2</sup>**

<sup>1</sup>Lecturer, Lahowal College, Lahoal, Dibrugarh, Assam. 786010

<sup>2</sup>Assistant Professor, Department of Commerce, Dibrugarh University, Assam.

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## **ABSTRACT**

The study has been conducted with the National Pension System subscribers under the All Citizen Model of the scheme. The objective of the study is to find out the awareness level of the subscribers, their investment pattern, perception about NPS and level of customer satisfaction. The study was conducted in Regional Office of Alankit Ltd. Guwahati where 130 subscribers had signed up for the scheme in the study period. It was found that the general outlook of the scheme in the eyes of the subscribers is good and they have a fair knowledge about the salient features of the scheme. The subscribers, however, have an erratic mode of contribution with the sole objective of tax planning and not for retirement planning. The subscribers are satisfied with the customer servicing of the organization. One major finding which is worth mentioning is that the youth have not been enticed enough to subscribe to this scheme. Efforts must be made to change their mindset. Technology must be harnessed more aggressively to make the functioning more speedy and smooth. It shall enhance customer experience.

## **INTRODUCTION**

One cannot escape death. It is the ultimate reality. But before dying one must live and spend his life comfortably. While the youth is a healthy and lively affair, it is the old age for which one must accumulate resources to spend a life of comfort and fulfillment. Unfortunately, we are complacent and keep postponing the accumulation of resources for our old age. This has a serious implication on the economy as the financial burden of maintaining a vast aging population is a loss making affair. Therefore, it is the need of the hour to introduce schemes for inculcating a habit of saving for the old age. The National Pension System (NPS) is such a scheme devised by the Central Government of India to make the aging population financially secure.

National Pension System (NPS) is a pension cum investment scheme launched by Government of India for all central government employees joining after January 1, 2004 with an aim to provide old age security. Here, a fixed amount i.e. 10% of Basic Salary and Dearness Allowances is compulsorily deducted from the salary and contributed to the Pension Fund and an equal amount of contribution is made by the employer. Over the years all state government employees were included in the system and in the year 2009, the scheme was made open to all the citizens of India above the age of 18 years up to the age of 65 years to make contributions for their retirement plans on a voluntary basis. This model of NPS is called “All Citizen Model”.

## **REVIEW OF LITERATURE**

Asher & Nandy, 2006 studied the then prevalent pension system in India and found it to be insufficient to provide old age financial security and called upon the new pension system to be regulated by the Pension Fund Regulatory & Development Authority to be urgently implemented.

Harrison et al, 2006 studied the consumer behaviour while making purchase decisions with regard to pension schemes and the factors affecting the decision. The study found that the purchase decisions made are neither completely informed nor rational.

Kabra et al, 2010 attempted to find out the factors which influence the investment behaviour and decision making process of the men and women of different age groups. It found that investors' age and gender predominantly decides the risk taking capacity of investors.

Anita & Kumar, 2014 tried to elucidate the problems faced in the pension system prior to introduction of National Pension System in India. It also gave a detailed idea about the characteristics of this system, its eligibility criteria, investment mechanism etc.

Apostolakis et al, 2016 took responses from pension beneficiaries as well as fund managers regarding greater involvement, investment autonomy and attitudes towards diverse and responsible investment mechanism. The study was conducted in Dutch healthcare sector and the study found a positive response towards greater involvement and freedom of choice. It also found that beneficiaries have a more positive attitude towards responsible investment as compared to fund managers.

Park, 2017 studied the impact of National Pension Scheme (NPS) of South Korea on the economic well-being of older people. The study found a gendered biasness as the NPS was positively associated with the economic well being of older men only. The study suggested promoting women labour market participation.

## **Research Gap**

Previous studies have concentrated on the loopholes of the Pension system in India and how the National Pension System has emerged due to the lacunae prevailing in the earlier system. The studies have also tried to bring forward the impact of the pension fund schemes on the overall economic growth of the nation.

However, not much study has been conducted on the subscribers who are availing the benefits of the NPS. We have little knowledge about the characteristics of the subscribers, their frequency of contribution, their awareness level regarding the different features of the scheme like available tax benefits, different types of accounts that can be opened in the National Pension System structure and whether they are aware or not that the scheme is a Central Government monitored . Not much has been done to study the satisfaction level of the subscribers with respect to the National Pension System. Citing this research gap, a study on this topic has been undertaken.

### **Objectives**

1. To study the awareness level of NPS subscribers regarding the features of NPS
2. To analyze the investment patterns of the NPS subscribers
3. To study the satisfaction level and perception about NPS.

### **RESEARCH METHODOLOGY**

**Nature of Research:** The present study was descriptive in nature implying natural observation of the characteristics of the research subject without influencing the variables. It is a cross sectional design where a sample is taken from the population at one point of time.

**Target Population:** National Pension System Subscribers (All Citizen Model) of Alankit Ltd Guwahati Office.

**Sample Size :** From a total of 130 NPS subscribers of Alankit Ltd, 115 responses could be gleaned for the study, which comprises of the sample size.

**Area of Study :** The study covered the NPS subscribers who fell within the jurisdiction of the Guwahati Regional Office of Alankit Ltd.

**Sources of data :** The sources of data for this study are both primary as well as secondary. The primary data has been collected from the respondents through structured telephonic interviews. The secondary data has been obtained from the organization's database.

**Research Instruments:** Responses were collected from the respondents through structured telephonic interviews as well as organization's database of subscribers. Use of descriptive statistics are also prevalent in the study.

### **ANALYSIS**

#### **Demographic Profile**

Following Table summarises the demographic profile of respondents under study with frequency and percentages :

| <b>Sl. No.</b> | <b>Demographic Variable</b> | <b>No. of Respondents</b> | <b>Percentage</b> |
|----------------|-----------------------------|---------------------------|-------------------|
| <b>1.</b>      | <b>Occupation</b>           |                           |                   |
|                | PSE                         | 42                        | 36.5              |
|                | Self Employed               | 44                        | 38.2              |

|           |                                |    |       |
|-----------|--------------------------------|----|-------|
|           | Others(Govt. but not entitled) | 5  | 4.35  |
|           | Homemakers                     | 22 | 19.13 |
|           | Students                       | 2  | 1.74  |
| <b>2.</b> | <b>Age(in years)</b>           |    |       |
|           | 18-22                          | 1  | 0.86  |
|           | 23-28                          | 9  | 7.8   |
|           | 29-33                          | 9  | 7.8   |
|           | 34-38                          | 9  | 7.8   |
|           | 39-43                          | 22 | 19    |
|           | 44-48                          | 28 | 24    |
|           | 49-53                          | 21 | 18    |
|           | 54-58                          | 13 | 11    |
|           | 59 and above                   | 3  | 2.6   |
| <b>3.</b> | <b>Gender</b>                  |    |       |
|           | Female                         | 36 | 31    |
|           | Male                           | 79 | 69    |

Source : Primary Data

Occupation plays a major role in determining the quantum of contribution. Different occupation has different limitations and benefits in terms of surplus money available in the hands of the subscriber.

Age is a major demographic which determines how the mindset and lifestyle of different generations affect their financial habits which in turn impacts one's contribution to NPS.

Gender is a significant factor in a country like India. Where one half of the population has been subject to age long neglect and exclusion from reaping the benefits of social welfare schemes, this aspect will cast light into the success of implementing financial welfare schemes of the government on the basis of gender.

### **Awareness**

It should not happen that the subscribers remain aloof of the recent developments and amendments in NPS. They should be well versed with the important features of the scheme. The awareness level of the subscribers with regard to the following aspects: (i) NPS being a Central Government monitored scheme. (ii) Tax benefits provided in the scheme. (iii) Awareness about the two types of accounts in NPS.

#### **i. Awareness -Central Government Scheme**

Under this heading it is being checked whether the respondents are aware of NPS being a Central Government backed financial product. This aspect though trivial plays a big role in creating a trust in the midst of various financial scams being unearthed in the country.

It was revealed that all the 115 respondents (Source: Organization's Database) are indeed aware that National Pension System is a Central Government backed retirement planning financial product.

**ii. Awareness - Tax Deduction u/s 80CCD 1(B)**

This provision regarding NPS is one of the game-changing features. Under Section 80CCD(1B) of the Income Tax Act, a subscriber gets additional tax benefit of ₹50,000 other than the traditional tax deductions available under section 80C of the Act. This is primarily done to promote more investment in this scheme.

|           |     |       |
|-----------|-----|-------|
| Aware     | 108 | 93.9% |
| Not Aware | 7   | 6.1%  |

Source: Primary Data

**iii. Awareness - Tier1 & Tier2** There are two types of Accounts in NPS. Tier 1 has to be compulsorily opened while subscribing, and withdrawal facility and minimum deposit level is different as compared to Tier 2 accounts. Even the tax treatment is different for the transactions in the two accounts.

|           |     |       |
|-----------|-----|-------|
| Aware     | 108 | 93.9% |
| Not Aware | 7   | 6.1%  |

Source: Primary Data

Majority of the respondents are aware about the existence of two different types of accounts of NPS.

**Investment Behaviour :** The variables which determines the Investment Behaviour factor of the subscribers are : i. Financial Product Preference ii. Frequency of Contribution iii. Amount of contribution by the annual investors iv. Plans of Increasing Contribution

**i. Financial Product Preferences**

Other than NPS there are a plethora of financial products catering to different financial goals of the individuals. The preferences of the respondents towards different financial products are studied in this section. It is important to note that mere preferences are not indicative of the fact that they have invested into those products. Here too the respondents were asked to choose more than one option.

| FINANCIAL PRODUCT            | NO. OF PREFERENCES |
|------------------------------|--------------------|
| Fixed Deposit                | 21                 |
| Insurance                    | 48                 |
| National Savings Certificate | 03                 |
| Mutual Funds                 | 65                 |
| Shares                       | 08                 |
| Provident Fund               | 07                 |
| Others                       | 02                 |

Source: Primary Data

**ii. Frequency of Contribution :** The rate at which one contributes into NPS also throws light into the popularity of the scheme. More importantly it throws light into the financial discipline of the respondents. High frequency shows greater discipline in managing the finance for retirement benefits and vice versa. However, people investing in NPS for different purposes

will have different frequencies. People investing for retirement benefits will park money on monthly basis; people parking money annually will have tax planning as their purpose of investing and the like.

| Frequency   | Monthly | Quarterly | Annually | Surplus |
|-------------|---------|-----------|----------|---------|
| % of sample | 3%      | 1%        | 52%      | 44%     |

Source: Organization's Database

Most of the subscribers (52%) invest annually into the system followed by respondents who invest money as and when they have surplus money in their hands (44%). There is no fixed plan for these respondents. The rest invested money either on monthly basis (3%) or quarterly basis (1%).

### iii. Amount of contribution by the annual investors

| Amount        | No. of Investors |
|---------------|------------------|
| 0-10,000      | 0                |
| 10,001-20,000 | 9                |
| 20,001-30,000 | 6                |
| 30,001-40,000 | 7                |
| 40,001-50,000 | 23               |
| Above 50,000  | 15               |

Source: Organization's Database

Of the 60 annual subscribers, 23 subscribers have invested amounts between ₹40001 and ₹50000, 15 respondents invested above ₹5000; 9 respondents invested amounts between ₹10001 and ₹20000; 7 respondents between ₹30001 and ₹40000 while 6 respondents contributed between ₹20001 and ₹30000 annually.

### iv. Plans of Increasing Contribution

As this scheme has minimum annual contribution limit of ₹1000 only and no upper limit, one can easily increase his/her contribution into the scheme. Gauging the willingness to increase one's contribution will give a picture about the popularity of the financial product.

| Willingness | No. of Respondent |
|-------------|-------------------|
| Yes         | 24                |
| No          | 91                |

Source: Field Survey

### Perception about NPS

Respondent's perception about NPS is assessed through three dimensions, which are : i. Transparency of NPS ii. Merits of NPS iii. Drawbacks of NPS

#### i. Transparency of NPS

Gauging the transparency level of NPS from the point of view of the subscribers is very important. Being the first hand users of the infrastructure, their perception of the scheme will throw a good light into the real status of this financial product. Transparency of NPS here refers to the level of ease with which the queries and apprehensions of the subscribers are satisfied.

| <b>Level of Transparency</b> | Not at all Transparent | Not So Transparent | Neutral | Moderately Transparent | Transparent | Very Transparent |
|------------------------------|------------------------|--------------------|---------|------------------------|-------------|------------------|
| <b>% of sample</b>           | 3%                     | 8%                 | 28%     | 30%                    | 29%         | 2%               |

Source: Field Survey

## ii. Merits of NPS

This section is one of the most important aspects of the study. It studies those factors which lured the respondents into the scheme. The factors which made them invest in this product could be: Retirement Planning, Tax Planning, Government Scheme, Flexibility, etc. These factors acted simultaneously on the psychology of the subscribers. Hence they were asked to choose more than one options.

| <b>Purpose</b>            | Flexible | Govt. Scheme | Retirement Planning | Taxation |
|---------------------------|----------|--------------|---------------------|----------|
| <b>No. of Preferences</b> | 10       | 26           | 20                  | 83       |

Source: Field Survey

## iii. Disadvantages of NPS

| <b>Drawbacks</b>                 | <b>% of Sample</b> |
|----------------------------------|--------------------|
| None                             | 82                 |
| Low Returns                      | 2                  |
| Very Risky                       | 0                  |
| Liquidity Problem                | 11                 |
| Timely Information Not Available | 1                  |
| Others                           | 4                  |

Source: Field Survey

Vast majority (82%) of the respondents are satisfied with the existing system and have not found drawbacks. As the financial product is for post retirement purpose, it imposes certain restrictions on withdrawal of money. This difficulty has irked some respondents and hence 11% of them find illiquidity to be a drawback of the system. Other issues are that no planning has been made as to how to utilize the money post annuitization, no fund allocation transparency, nominal tax benefits and slow internet response. These grievances account for 4% of the drawbacks.

## RESULTS & FINDINGS

### Finding 1

The NPS subscriber base of Alankit Ltd. has majority of them working as a Self-employed individual or as private sector employee and belongs to the middle age category of 44 to 53 years. There is very less participation of the young generation in this scheme. With self

employed individuals, the source of income is variable and their contribution will also be erratic rather than following a constant pattern.

### **Finding 2**

The Gender Ratio of the respondents is roughly 7:3. Around 69% subscribers are male. Inclusion of the females in financial literacy and financial products has not been successful with regard to NPS.

### **Finding 3**

The perception about the transparency of NPS is quite positive in the eyes of the respondents. They perceive the entire system to be fairly transparent. The extreme sides, both negative as well as positive, are not touched. A good portion is neutral in their perception about NPS's transparency.

### **Finding 4**

The respondents are fairly aware about the basic features of NPS like the fact that it is a Government monitored scheme, it has additional tax benefits under the Income Tax Act and also the fact that there are different types of accounts that can be opened under NPS having their own distinct features.

### **Finding 5**

Going in line with a positive outlook about NPS, a huge chunk of the respondents (82%) don't find any drawbacks with the system. However, one issue which troubles the respondents is the lack of liquidity benefits. According to their responses, inability to withdraw at ease acts as a spoiler in the otherwise good and transparent National Pension System.

### **Finding 6**

The respondents primarily invest in NPS for their Tax planning purposes. Around 72% of the respondents do so.

### **Finding 7**

Out of many financial products available in the market, Mutual Funds stand out as a favourite with respondents. 56% of them have an inclination towards investing in Mutual Funds.

### **Finding 8**

The frequency of contribution aspect which shows the financial discipline of the respondents paints a poor picture. They invest money only when surplus is available in their hands. Other than those investing for tax saving purposes, none of them follow a strict pattern while parking money in NPS accounts. Those investing for tax planning follow an annual contribution pattern.

### **Finding 9**



Of those investing annually, the quantum of contribution is between 40000 and 50000 and above. The reason can be attributed to the threshold limit for additional tax benefits under section 80CCD 1(B) of the Income Tax Act is ₹50000.

## **SUGGESTIONS**

1. The younger generation in the age group of 18 – 43 needs to be wooed into the system. Awareness campaigns must be organized in educational institutions to serve the purpose.
2. Females must be sensitized about the scheme as well. Real empowerment of women will happen when their financial needs will be secured which will bring them at par with their male counterparts.
3. Financial discipline must be inculcated in the minds of the subscribers. They are whimsical in their approach while contributing to the scheme. They do not follow a fixed plan or pattern of investment. A healthy financial discipline is the key to financial freedom.
4. The tax benefit given for NPS schemes can be increased to lure more people into investing in this scheme.
5. The processing speed of the PoPSPs must be expedited and the NPS infrastructure must adopt latest technology to better serve the subscribers.

## **CONCLUSIONS**

National Pension System is a very noble initiative of the Government of India to cater to the financial needs of the old age generation. Even though India is a young country now, its population will age in the coming future. To prepare for such a future where the financial freedom of the retired old aged population is ensured, such a scheme was the need of the hour. It does not put extra burden on the government exchequer yet it serves the purpose of saving for one's last stages of life.

National Pension System is a scheme which has huge flexibility to cover different strata of the society. It has under its ambit all the central and state government employees. The private sector employees are covered under the Corporate Model and the rest are taken care of under the All Citizen Model. All the institutions taking care of different aspects of the entire system is decentralized and autonomous in nature. The reason for doing so is to avoid tampering with the subscribers' money. Having a decentralized architecture ensures that one institution is able to keep a check on one another and in the process the entire system tends to be transparent one. However, it is very much important that proper communication and integration of processes is maintained, otherwise failure in one institution will lead to total failure of the whole architecture. Technology must be harnessed more efficiently to reduce processing speed.

More attempts need to be made to include the youth and catch them early. Only that section of the population seems to be contributing who wants to avail of the tax benefits. As the scheme

is meant to serve the purpose of old age financial security, the youth should be sensitized about the issue.

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