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Research Article

CHANGING TRENDS IN HOUSE HOLD SAVINGS

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ABSTRACT

The concept is as old as the human beings are. Indians are well known across the world as good savers. The economy of a country depends on its capital formation. Household savings and investments have a significant share in capital formation. The concept of savings and investment is changing with time. From savings deposited in Bank or Post offices as fixed deposits or risk free schemes of the government, people are slowly moving towards investments in mutual funds, equities etc. A major boost in investments in equities and mutual funds came after 1990 (post liberalization). Now, with demonetization, people have again shown interest in deposits in banks and investing in mutual funds. This paper tries to look into various modes of savings and investments adopted by Indian households over the years and the changing trends that emerging these days. It also takes in to account the impact of government policies, initiatives taken up by SEBI and the effects of demonetization.

Objectives

Objectives of this paper are to study -

- The pattern of savings by Indian households
- Different ways of investments followed by Indian households
- Roles of different financial institutions as investment bodies
- The changes that are taking place in savings and investments in Indian households with time.

Methodology

The information gathered for this paper is based on the secondary data collected from various books, articles, reports, and news available in different newspapers, magazines, journals and websites.

INTRODUCTION

The practice of saving for future use or to deal with adverse situation is as old as the human beings are. There are a number of stories told to children all over the world that highlight the need of saving for future. Remember the story of an ant and the grasshopper that tries to teach children the value of hard work and saving for adverse environment. We all do our best to earn money to buy necessities and comforts in life. While doing so, most of us try to keep some part of the earnings for a comfortable future or to fulfill dreams that require lot of money. In early times people used to keep their savings in the form of currency (mostly coins at that time) or gold at their home only. To protect their savings, they kept it at safe places in the house, inside the walls or buried under the earth.

Indians have been known as good savers. 'Saving for seven generations' is a famous saying. Parallel to the concept of saving came the concept of 'lending' and earning interest on it. History reveals that giving and taking money as loan on a fixed interest was prevalent in ancient India as well. Even in modern Indian history, we find mention of 'sahukaars' who lend money on interest. When banks came into existence, people, mostly from the upper socio-economic strata and the business class took advantage of making transactions. With time people learnt to go for insurance, invest in fixed deposits moving slowly to equities and mutual funds. In this paper, an effort has been made to study the savings habits and investment options used by Indian households and how they are steadily changing with time.

Saving habits of Indian households

Household Savings mean the part of income saved by households during a certain period of time. Most of the people save money, though their purposes may be different. Our culture and traditions have always supported the idea of saving and it is reflected in a number of stories, and quotes. Indians save for a number of reasons like education of children,

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building a house, marriages and other social functions, handling emergencies, security in old age etc. For rural population, saving to handle emergencies is most important as their agricultural output is dependent on a number of factors which are beyond their control.

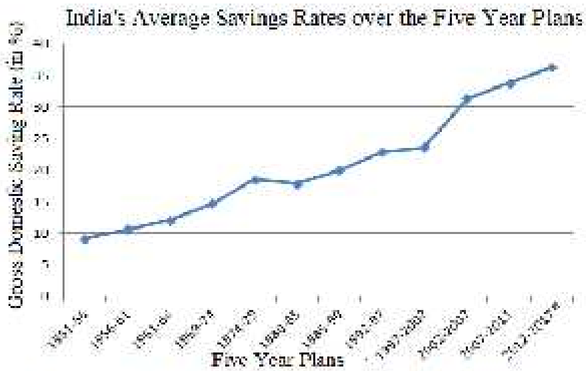
Different people have different saving habits. It has been noticed that the salaried class is most serious about saving. A part of their savings is invested in various tax saving schemes to save income tax. As per NCAER (NSHIE 2004-05 data), only 18% of Indian households are the salaried class and they do the highest amount of saving. The second category known to do savings is self employed households. Agricultural households on an average save about 20% of their earnings and the labour dependent category saves the least (only around 8%).

People invest the money saved by them either as 'Physical Assets' like property, gold etc. or as 'Financial Assets' like depositing money in banks, Post offices, buying insurances or investing in shares, debentures, mutual funds etc.

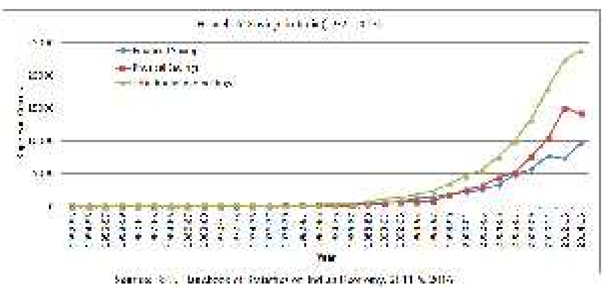
Role of Household Savings in Economic Development of a country

Increase in productivity of a nation requires capital. Capital formation requires inputs by domestic resources or support of outside agencies. By domestic resources we mean households and individual investors that contribute towards capital formation and help increase the productivity of nation. This is turn is responsible for economic growth of the country. So, we need to look into the ways Indians save and invest and their contribution in economic growth of the country.

Given below is a glimpse of saving pattern in India over the years. Notice the rise in savings from 1987 onwards.



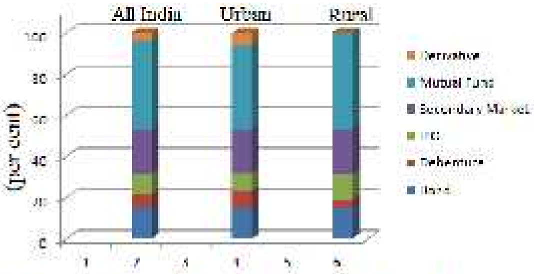
Source: Central Statistics Office (RBI Monthly Bulletin June 2012)
* Projected



Comparing the choice of people regarding putting their savings in physical or financial assets, one finds that the choice of investing in financial assets is slowly picking up and putting savings in physical assets has been more popular. This is evident from the graphic representation shown below: -

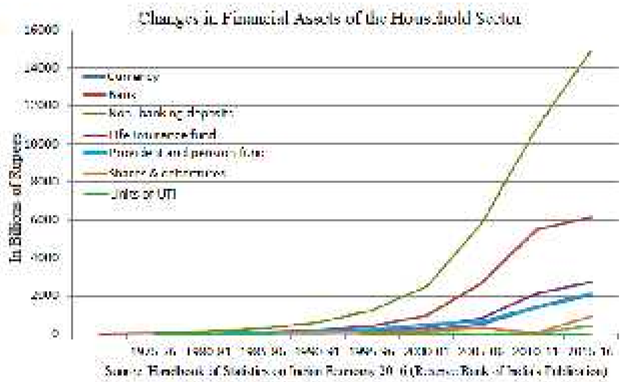
Savings and investment pattern of Indians depends on a large number of factors. In a survey by National Council of Applied Economic Research, around nine factors have been identified. They are - age, sex, education level, occupation, income, marital status, assets class, dependency ratio and area (rural/urban).

It is noticed that most of the Indian households (especially in rural areas) prefer keeping cash in hand as they feel is safer than investing it elsewhere. The priority areas to invest savings for large number of people have been the physical investments like property precious metals (gold and silver). Only about one third of the savings actually go for financial investments. Given below is the percentage of investment in different financial instruments by people in India, urban India and rural India.

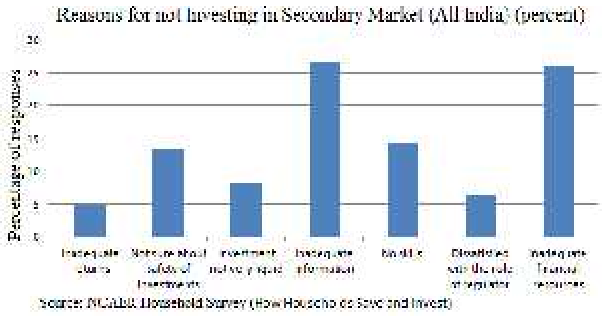


Distribution of Investors across Investment Portfolio
Source: NCAER Household Survey (How Households Save and Invest)

Looking at the household savings data in RBI's publication 'Handbook of Statistics on Indian Economy' 2016, a change is coming in the saving trends of Indian Households. With economic reforms people have shown interest in investing in equities, debentures and mutual funds. This trend is visible in the chart given below -



Though the change is coming, it still has to be bigger and bolder so that we get sufficient capital formation to accelerate country's economy. In a survey of around 38,412 households randomly selected from 44 cities and 40 villages from all over India, NCAER has concluded some of the major reasons of not investing in secondary market (Equity shares, bonds, preference shares, treasury bills, debentures, mutual funds etc.). They are presented in the following chart -



Winning the confidence of investors

A good capital is required to make markets dynamic and enhance the economic growth. This requires mobilizing household and individual investors to invest in different financial instruments. We have to take various investor friendly steps that not only generate awareness among the investors but also make their savings safe enough. These efforts are necessary to make investors confident and safe.

Securities and Exchange Board of India (SEBI) was established as a statutory authority under SEBI Act, 1992. As per the act, some of the major duties of the board are -

1. To protect the interests of investors in securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit.
2. To regulate the business in stock exchanges and any other securities markets
3. To register and regulate the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets in any manner;
4. To register and regulate the working of [venture capital funds and collective investment schemes, including mutual funds;
5. To prohibit fraudulent and unfair trade practices relating to securities markets;
6. To promoting investors' education and training of intermediaries of securities markets;

Financial Literacy

Standard & Poor's Financial Services LLC (S&P) - an American financial services company carried out a survey in around 140 countries to assess the knowledge of general public in four basic financial concepts - numeracy, risk diversification, inflation, compound interest (saving and debt). They covered 150,000 adults in their study. Their findings show that 76% of Indian adults do not understand basic, key financial concepts. They also found that only 14% of Indian adults save at formal financial institutions and therefore had a weak financial base.

Financial literacy helps people take right decisions, make judicious choice regarding savings and investments to get positive returns. There have been some efforts on the part of the government to spread financial literacy among the masses.

SEBI's initiatives for Financial Literacy

SEBI provides financial literacy to all groups of people in our society (school children, college students, home makers and others) on its website - http://www.sebi.gov.in/ sebiweb/ investors/ financial_literacy.jsp. It guides about do's and don'ts, rights and responsibilities. The language (Hindi as well as English) is simple and lucid.

RBI has formulated a National Strategy for Financial Education. The expected results out of this effort are –

A. Inclusive Growth, Financial Inclusion & Financial Education
B. Knowledge and skills (to help develop confidence, knowledge and skills to manage financial products and services).
C. Freedom from exploitation (ponzi schemes)
D. Avoidance of over indebtedness
E. Promoting entrepreneurship
F. Positive Spill-over effect (investment in right channels and income generation).
G. Shifting of Pension Responsibility from State / Corporations to Individuals
H. Behavioral Change through financial education
I. Deeper participation in Financial Markets

Project Financial Literacy

The Reserve Bank of India has undertaken a project titled "Project Financial Literacy". The Objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defense personnel and senior citizens.

The project has been designed to be implemented in two modules -

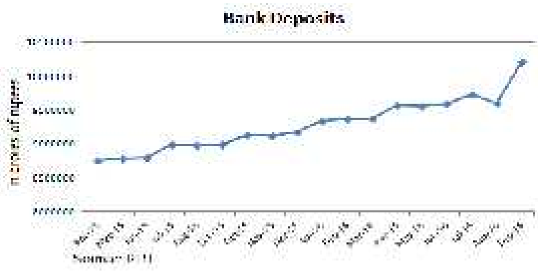
Module one in which a character named 'Money Kumar' familiarizes readers with the role and functions of the Reserve Bank of India; and Module two in which another character named 'Raju' introduces readers to banking concepts.

Financial Inclusion of Poor section of society through Jan Dhan Yojna

The 'Pradhan Mantri Jan-Dhan Yojana' launched by the Prime Minister on 28 August, 2014 is aimed at promoting inclusive growth through financial Inclusion of the poor. It is National Mission for Financial Inclusion that ensures access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. An account in a bank makes people confident and motivates them to save. It saves their hard earned money from theft, cheating in chit funds, and the clutches of money lenders. For poor women who lose their hard earned money to drunkard husband, Jan Dhan account is a boon.

Bank Deposits

Amount deposited in commercial banks is steadily increasing as seen in the graph below -



As a result of Pradhan Mantri Jan Dhan Yojana (PMJDY), the number of new basic savings bank deposit accounts (BSBDAs) rose from 398 million in March 2015 to 441 million in September 2015. After demonetization of 1000 and 500 notes in November 2016, there has been a steep rise in the cash deposits in banks. Most of the people feel that their money is safe in banks though the interest earned is not attractive (Savings accounts in banks fetch interest rate of 4% though some private banks offer 6% for deposits over 1 lakh. The fixed deposits get interest rates of 6.95 to 7.75% for one year).

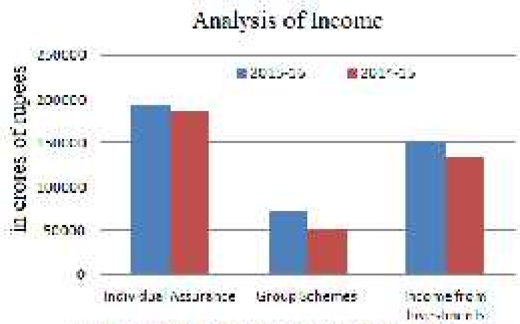
Pension Schemes

The National Pension System (NPS) launched by the Government of India is a contribution-based pension scheme. Its objectives are to provide old age income with market-based returns over the long run and extend old age income security coverage to all citizens.

The Atal Pension Yojna was launched in May 2015 and it provides a defined pension, depending on the contribution and its period. The subscribers to the APY receive a minimum pension of R 1000, 2000, 3000, 4000 or 5000 per month, from the age of 60 years, depending on their contributions, based on the age of joining the scheme.

Life Insurance Corporation of India

LIC of India offers several Insurance plans, Group Insurance plans, Unit plans, Pension plans etc. A study of these plans also shows a continuous increase in number of people joining these schemes and the income generated due to their investments. The graph given below compares the income of LIC in 2015-16 with the same in 2014-15.



Source: LIC of India, Annual Report, 2015-16

Investment in Mutual Funds

Mutual funds put the invested money in a diversified selection of securities, managed by a professional fund manager. It allows investments as small as 500 and so is within the reach of every investor.

Mutual funds provide high liquidity. For open ended schemes, the investor gets the money as per the Net Asset Value (NAV) while close ended schemes can be traded in the stock exchange. Mutual fund investments are transparent and safe. In long term investments, returns are quite high. All these features make investments in mutual funds a wise option.

In 1964, Unit Trust of India (UTI) set up by the Reserve Bank of India was the only one to start mutual fund investment scheme (Unit scheme 64). Till 1987 UTI was the only institution dealing in mutual funds. This was the first phase of mutual fund in India.

In 1987 (second phase of mutual funds in India), some public sector mutual funds were set up by public sector banks, Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC).

Private sector funds came in 1993 (the third phase of mutual funds in India). At this time the first Mutual Fund Regulations came into existence under which all mutual funds, except UTI were to be registered. From 1996 the mutual fund industry started functioning under the SEBI (Mutual Fund) Regulations. Later many foreign mutual fund companies joined the business. The Fourth Phase of mutual funds in India started in February 2003 following the repeal of the Unit Trust of India Act 1963. UTI was bifurcated into two separate entities out of which one is the UTI Mutual Fund registered with SEBI and functions under the Mutual Fund Regulations.

The graph given below indicates the growth of mutual fund assets over the years.


Source: https://www.amfiindia.com

Systematic Investment Plan or SIP is an investment plan offered by Mutual Funds. In this one can invest a fixed amount in a mutual fund Scheme periodically at fixed intervals (e.g. once a month) instead of making a lump-sum investment. The SIP instalment amount could be as small as 500 per month. SIP is similar to a recurring deposit where you deposit a small /fixed amount every month.

SIP investment is very convenient as standing instructions can be given to the bank to debit the instalment every month from the investor's bank account.

AMFI data shows that the MF industry has been adding about 6.86 lacs SIP accounts each month on an average during the current financial year, with an average SIP size of about 3,200 per SIP account.

Gold Exchange Traded Funds (ETFs)

ETFs are simple investment products that combine the flexibility of stock investment and the simplicity of gold investments. ETFs trade on the cash market of the National Stock Exchange, like any other company stock, and can be bought and sold continuously at market prices. Though ETFs are flexible and tax efficient, they are good only for the active traders and professional investors. They are not suitable for small investors as the brokerage commissions are too high.

Investments in Real Estate

Investing in real estate has been a preferred investment option for most of the Indians. People not only bought houses to live in, they also invested in land and other properties with the objective of selling at higher prices. It was an attractive investment option for people having black money.

With the change of the government, the real estate sector has seen a fall in investments. It has been influenced by a number of initiatives by the government like Real Estate Regulator Bill (RERA), FDI relaxations, Benami Transactions (Prohibition) Amendment Act, Demonetization, GST, etc. With demonetization and digital economy, the cash transactions have been reduced to the minimum level. The un-organized segment of Real estate sector is being replaced by well established developers who deal with only the white money.

The present slump is for a short time only. People may not opt for real estate only for the investment purposes but the demand for affordable houses is going to pick up.

Investments for Tax saving

Government has mobilized people to invest money in certain funds by giving them incentive to save income tax under Section 80 C, 80 CC, 80 CCD (1), 80 CCD (1B), 80CCG etc.

CONCLUSION

Household savings and investments especially in the finance sector are very important for the growth of a country's economy. Indians have been saving since ages but their priority was mostly the physical assets (real estate, gold etc.). There was a lack of confidence in the finance sector where the investments were linked to the market shares. Government has made various efforts to mobilize people to gain financial literacy and start saving in the finance sector. The efforts of the government are bearing fruits and we are witnessing a steady growth in the household investments in finance sector. If this trend continues and if government policies remain supportive, India economy is bound to show a remarkable growth.

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