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Chapter- VI

Determinants of Saving Behaviour of Urban Households

In the last chapter the preference, awareness and perception of households with regard to saving and investment among the different income, education, age, occupation, and marital status has been analyzed. Households need to make successful financial plan to preserve apart funds for savings and invest it wisely. Savings are significant to maintain a good level of investment and thereby to get better returns .Economic; social and demographic factors influence the saving behavior of households. Saving is carried out to meet the needs of future and the saving behavior varies from one person to another. Household's rate and size of savings are determined by multitude of factors, an attempt is made to analyze the vital determinants related to saving.

6.1 Monthly savings of the households

The monthly savings of the households are categorized into different groups, the lower class include the respondents with less than 2500 and the upper class include saving above 20000. Table 6.1 depicts that 51.4 per cent has monthly savings below 5000 and only 15.6 per cent has monthly saving above 20000. 19.4 per cent has monthly saving between5000-10000, as such out of the total respondents 70 per cent has saving less than 10000.

Table 6.1
Saving profile

Saving group	Frequency	Percentage
Below 5000	185	51.4
5000-10000	70	19.4
10000-15000	23	6.4
15000-20000	26	7.2
20000 and above	56	15.6
Total	360	100

Source: Primary survey

6.2 Saving pattern under different socio economic factors

The pattern of savings of the households depends on various socio economic factors. Tables 6.2 show the saving pattern and extend of variations under different level of income, educational attainment, ownership pattern, dependents, marital status and family size.

Table 6.2
Saving pattern under different socio economic factors

Background variables	Attributes	Monthly savings					
		Below 5000	5000-10000	10000-15000	15000-20000	20000 and above	Total
Monthly income	≤25000	92(49.7)	0(0.0)	0(0.0)	0(0.0)	0(0.0)	92(25.6)
	25001-50000	68(36.8)	22(31.4)	1(4.3)	0(0.0)	0(0.0)	91(25.3)
	50001-75000	22(11.9)	30(42.9)	14(60.9)	4(15.4)	5(8.9)	75(20.8)
	75001-100000	2(1.1)	8(11.4)	8(34.8)	7(26.9)	8(14.3)	33(9.2)
	≥100001	1(0.5)	10(14.3)	0(0.0)	15(57.7)	43(76.8)	69(19.2)
Education	SSLC	44(23.8)	5(7.1)	0(0.0)	1(3.8)	2(3.6)	52(14.4)
	Plus two	29(15.7)	11(15.7)	3(13.0)	2(7.7)	5(8.9)	50(13.9)
	Degree	93(15.3)	30(42.9)	12(50.2)	10(38.5)	15(26.8)	160(44.4)
	PG/ Professional	19(10.3.)	24(34.3)	8(34.8)	13(50.0)	34(60.7)	98(27.2)
Ownership of house	Own	64(34.6)	5(7.1)	3(13.0)	2(7.1)	1(1.8)	288(80)
	Rented	121(65.4)	65(92.9)	20(87.0)	24(92.3)	55(98.2)	72(20)
Dependents	0	24(13.6)	10(15.2)	3(13.6)	2(8.7)	11(20.4)	50(14.6)
	1	80(45.2)	26(39.4)	10(45.5)	7(30.4)	26(48.1)	149(43.6)
	2	46(26.0)	22(33.3)	7(31.8)	8(34.8)	11(20.4)	94(27.5)
	3	23(13.0)	6(9.1)	1(4.5)	5(21.7)	3(5.6)	38(11.1)
	4 and above	4(2.3)	2(3.0)	1(4.5)	1(4.3)	3(5.6)	11(3.2)
Marital Status	Married	119(64.3)	59(84.3)	19(82.6)	19(73.1)	51(91.1)	267(74.2)
	Unmarried	39(21.1)	3(4.3)	1(4.3)	2(7.7)	2(3.6)	46(12.8)
	Widow/ Divorced	27(14.6)	9(11.4)	3(13.0)	5(19.2)	3(5.4)	46(12.8)
Family size	1	121(65.4)	44(62.9)	15(65.2)	14(53.8)	36(64.3)	230(63.9)
	2	63(34.1)	26(37.1)	8(35.8)	10(38.5)	16(28.6)	123(34.2)
	3 and above	1(0.05)	0(0.0)	0(0.0)	2(7.7)	4(7.1)	7(1.9)
	Total	185	70	23	26	56	360(100)

Source: Primary survey

6.2.1 Saving pattern under different level of income

Economic factors influence the saving behaviour of households, and income is one of the most important variables that influence the saving and investment of households. In Keynesian model saving depended upon disposable income, as such the current disposable income is one of the basic determinants of savings. The life cycle hypothesis propounds that there exists a positive relation between income and saving. Kraay (2000) has found that saving rates and levels of income per capita show positive correlation and the average saving rates increases as household income progresses. The relation between monthly saving and monthly income reveals that the respondents with monthly income less than 25000 has monthly savings less than 5000. As income level increases the saving level also increases and the respondents with monthly income greater than one lakh, 76.8 per cent has monthly savings above 20000.

6.2.2 Saving pattern under different level of educational attainment

Literature about saving behavior shows that educational attainment is one of the major variables to be dealt with while analyzing the saving behavior. As educational attainment has a positive relation on earnings, savings generally increase with higher level of education. Educated households are more aware of the need for savings and investment and plan in accordance with their financial goals. Literature related to this aspect reflects positive and negative relation between saving and level of education but majority of the studies moves along with the positive dimension Fisher (2013) has examined the impact of education on household savings and finds that a higher level of educational attainment substantially increases the likelihood of saving at the household level. Also lower education may be a hurdle to get information's about various feasible saving options. Education also helps one to be more financially literate. The income wise analysis shows that as educational attainment increases monthly saving also increases.

6.2.3 Saving pattern under different ownership pattern of house

Ownership of a house is an important physical asset and it enhances the wealth of a person. Households always set apart their income, to own a house of their own. Among the respondents majority ie 80 per cent has ownership of house. Saving level of households with own house is more when compared to the group that do not possess a house.

6.2.4 Saving pattern in relation to the size of dependents

The number of dependents has an important impact on savings and saving rate. Dependents as a determinant of saving are relevant, as the number of dependents increases the saving potential declines. Dependents generally constitute children and old age group, and as the number increases the propensity to save falls. The analysis of primary data shows that as the number of dependents increase savings declines.

6.2.5 Saving pattern in relation to marital status

Married households are more inclined to save as they give more priority to the needs and overall welfare of the family .As such they set apart money for the financial well being in a more systematic manner than the unmarried. Compared to unmarried category married persons focus on getting high returns by channelizing funds in more productive avenues. They keep aside money for their children's education and related aspects and also for future needs.

6.2.6 Saving pattern in relation to family size

There exists a positive relation between large families, as additional members add to the income of the family. As the numbers of earning members are more there is a positive relation between income and savings. Increase in the size of family, improves the propensities to save.

6.3 Factors determining household savings

A multiple regression model has been employed to determine the determinants of saving among the urban households. The independent variables taken are income, education, dependents, family size, household ownership and marital status. The model can be stated as

$$S = \alpha + \beta_1 Y + \beta_2 ED + \beta_3 DE + \beta_4 FS + \beta_5 HO + \beta_6 MS$$

Where,

S - is the amount of savings

Y – indicates household income

ED – indicates the level of education

DE – number of dependents

FS – indicates the family size

HO – indicates household ownership

MS – indicates marital status.

Based on the above model the regression results are stated in Table 6.3

Table 6.3
Regression Results of the Determinants of Household Saving Rate

Variables	Model
Constant	-10095.53 (.000)
Income	0.062 (.000)
Education	752.66 (0.000)
Dependents	-1285.78 (0.000)
Family size	840.41 (.000)
Household ownership	1596.82 (.031)
Marital status	1608.13 (.015)
R^2	0.688
F test	129.71 (0.00)

Note: The figure in parentheses underneath each coefficient is the p-ratio of the

Coefficient

Source: Computed from primary data

The empirical household saving function can be stated as-

SAVIN = -10095.53 + 0.062INCOME + 752.66EDUCATION -1285.78 DEPENDENTS +

840.41 FAMILY SIZE + 1596.82 HOUSEHOLD OWNERSHIP +

1608.13 MARITAL STATUS

The estimated savings equation of model is statistically significant at the one-per cent level in terms of the F test. The F value 129.711(sig 0.000) shows the overall acceptance of the model and that collectively all the explanatory variables have impact on the dependent variable. The R^2 value of the model is 0.688 and it shows that 68 per cent of the variations in the dependent variable-savings are explained by the independent variables taken in the model. The presence of multicollinearity is not detected as none of the VIF values is greater than 5.

The coefficient of income is positive and is statistically significant at one per cent level. Holding all other variables constant, saving increases by about 0.062 for every one unit increase in income. As income increases' saving also increase and this is in conformity with Keynesian Absolute income hypothesis. Thus households experience shows that the level of income is an important determinant of savings and propensity to save.

The results show that there exist a positive relationship with education and saving. The educational attainment of the household is found to be significant at 1 per cent level. The average saving increases by about 752.66 for every additional year of education, holding all other variables constant. This also confirms with the literature and theoretical aspects stated earlier. Higher education helps to generate better knowledge about the financial instruments and also to gain financial literacy.

The number of dependents has found to be negatively related to savings, as the number of dependents increases the saving declines. It can be interpreted as a rise in one dependent member is associated with a decline in household saving of about 1285.78. As number of dependents increase their need also has to be catered and this leads to higher expenditure and reduces saving.

Family size has a positive relation with savings, as the numbers of earning members are increasing along with increase in size of family this relation exists. The result shows that as there is increase in one member the savings increase by about 840.41, keeping all other variables constant.

The coefficient of household ownership is positive and statistically significant at 5 per cent level. It shows that holding all other variables constant the average saving of the

household with own house is higher than the average saving of others by about 1596.82. The procession of house is having a positive relation with savings. It is an important physical asset and contributes towards the total wealth of the household.

Marital status also holds a positive relationship and is found to be significant at 5 per cent level. The marital coefficient of 1608.135 means, holding other variables constant, the married persons saving is higher than the saving of others by about 1608.135. Financial planning is more among married households as they want to cater to the needs of different age groups especially to the education and related needs of their children.

6.4 Conclusion

Family income determines saving and it is the major source out of which saving is generated. Educated households have a better understanding and knowledge of financial products and this reduces their stigma towards investing in new assets, according to their changing financial needs. Increase in the number of dependents negatively influences saving as more money may be allocated for consumption purposes and less flow will take place towards savings. Family size positively contributes towards saving and is one of the important determinant factors. Procession of own dwelling enhances saving, and is an important component as far as physical savings are considered. Married households have a significant positive influence on household saving. Thus based on the above regression analysis, household income, education, dependents, family size, ownership of house and marital status are significant determinants of household saving in the study area.