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Chapter – VII
Summary, Findings, and Suggestions

7.1 SUMMARY

Saving and investment are two crucial factors that play an important role in determining the growth process of the economy. Sound domestic savings accelerates the investment process and helps in capital formation; Indian economy is one of the fastest growing economies in the world, and its growth process is primarily financed by domestic savings. There is a secular uptrend in domestic growth and this is clearly associated with the increase in domestic savings and investment. The performance of the Indian economy suggests that there is a quantum jump in the real GDP growth rate in the post-reform period and the high growth phase is associated with higher order of increase in domestic savings. In India household sector occupies the dominant position over the private corporate sector and public sectors in terms of generating savings. The household sector has a very vibrant role in pooling savings, creating liquidity and channelizing funds into investment. As such household's income, saving and its distribution is fundamental to any economic analysis. Households plan for the future by making saving and investment decisions according to their financial goals. The financial success of an individual is related to proper financial planning and this depends on proper allocation of funds into various assets. The present study has analysed the saving and investment of Indian economy, allocation of resources within urban household, specifically focusing on asset portfolio, preference toward various saving and investment avenues, awareness levels and the major determinants of saving behaviour of urban households in Kerala based on the following objectives-

1. To examine the trends of saving and investment in Indian Economy.
2. To assess the saving pattern and investment preferences of urban household.
3. To examine the level of awareness towards various financial and physical assets.
4. To study the determinants of savings of the urban households.

The study relies on both primary and secondary data and is both analytical and descriptive. Secondary data has been obtained from various published reports, surveys, research papers and websites. Primary data relating to the research work was collected through the pre-tested structured interview schedule from 360 urban households, sixty each from the six municipal corporations of Kerala. The data obtained are analyzed with the appropriate mathematical and statistical tools.

The study intended to cover the various aspects of saving and investment of Indian economy and households saving and investment behavior by analyzing the preference, pattern, purpose, awareness, perception and determinants of saving. The whole work has been divided into seven chapters, the first and second reflects the design of the study along with the theoretical background and literature review. The third chapter details on the saving and investment trends in Indian economy .The fourth chapter gives a synoptic view of the profile of the study area and the fifth and sixth chapter give a detailed analysis of the primary data giving focus on the objectives taken.

MAJOR FINDINGS

7.2.1 The trends of saving and investment in Indian Economy.

- India continues to remain one of the high savings economies among the emerging market economies. The compound growth rate of Gross Domestic product during the period 1951 -17 is 12.6 and the growth rate of saving and capital formation is 15 and 14.7 during the period. The growth rate of investment was 15.6 during 1991-2000 and it has increased to 20 during 2001-2010. The growth rate of domestic saving and investment has got a greater momentum in the post reform period.

- From the mid of 1970's onwards the economy started progressing at a faster rate with acceleration in the gross domestic savings. The major share of saving came from the household sector and this period witnessed faster developments in agricultural sector, development of financial institutions, nationalization of banks and increase in foreign inward remittances. During this period the average annual capital formation also increased mainly due to increase in private corporate investment and household investment.

- The economic crisis in 1991 decelerated the growth process but the economy revived after the adoption of new economic policy. From the period of 1991 to 1994 a consistent increase was seen in Gross Domestic Product, Gross Domestic Saving and Gross Capital Formation. From 1991-2000 the decadal growth rate of GDS and GCF was 23 per cent and 24 per cent.

- The global recession of 2007-08 has its impact on Indian economy as a result there was a mild deceleration in the growth rate and a fall in gross domestic savings , but the economy started reviving from 2009-2010 onwards. The decadal growth rate of GDS and GCF was 32 per cent and 33 per cent respectively.

- The rate of gross domestic savings as a proportion of gross domestic product has more than doubled from an average of around 10 per cent in the 1950s to around 23.0 per cent in the 1990s and to 32 per cent in the 2000s. It scaled to a peak of 36.8 per cent in 2006-07. Gross domestic savings have increased continuously from an average of around 10.0 per cent of GDP during 1950s to almost 32 per cent during 2017. The average propensity to save showed a steady increase from 0.10 to 0.32 during the period.

- The rate of gross domestic capital formation has more than doubled from an average of around 12 per cent in the 1950s to around 24 per cent in the 1990s and to 33 per cent in the 2000s, and it has peaked to 38 per cent during 2007 and 2012.

- The composition of GDS shows the continued predominance of household sector savings. After 1990-91 the share of the private corporate sector in GDS has exceeded that of the public sector mainly due to rise in corporate profitability. The percentage share of private corporate sector has doubled to 32.1 per cent in 2011-15 from 15.3 per cent in 1991-95. The upward trend in the gross domestic savings is powered by savings in household sector and it continued till 2002, after that period it leveled off at around 23 per cent with minor variation over the years till 2015.

- The physical savings of the households increased continuously from 4.6 per cent during 1951-55 to 7.7 per cent in the period 1976-80. From 1990's onwards household's preference navigated towards financial savings and it was around an average of 10-11 per cent during the period 1991-2010. Gross savings in financial assets reached its peak in 2007 but in later periods it declined and preference was seen towards physical assets. During 2011 savings in financial assets came down at the same time physical assets regained and reached an average of 10.8 per cent during 2011-2015.

- Bank deposits continue to account for the predominant share of gross financial assets, and its growth rate was 27 per cent during the period 2003-05. The major share of the money with bank is deposited in term deposit schemes. The life insurance funds showed a consistent growth rate and maintained the growth as the sector was opened up to private sector and as a result of it there was higher insurance penetration. The volume of shares and debentures in the gross financial assets of households is very low and has even showed negative growth rate but later it progressed with lower growth rate.

- The saving-investment gap for the economy has come down over the years, recent years; the private corporate sector's has also become more vibrant. The Incremental capital output ratio (ICOR) has averaged from 4.6 during 2009-10 to 5.9 in 2013-14. Incremental capital output ratio has displayed an increasing trend from 2016-17 onwards. The correlation between saving and investment in India is about 0.99, exhibiting a very strong relationship.

7.2.2 Saving pattern and investment preferences of urban household.

- The asset portfolio of the households revels that households hold both physical and financial assets. In case of physical assets people are more inclined towards gold, 63.9 per cent invest in gold which is considered safe and due to its value appreciation. 21.4 per cent has investment in real estate like land, building and similar fixed assets and generally receive return in the form of rent and holds it on the expectation of future value appreciation.

- Majority of the households hold a savings account, 98 per cent own a savings account and this clearly shows that there is financial inclusion among the urban households. The preferred modes of saving are fixed deposits, chitty, NBFC, post office saving and recurring deposits. 47.8 per cent holds saving in pension and provident fund and it is more of a compulsory mode of saving.

- Among the financial investment instruments in the stock market the most preferred instrument is mutual funds, 35.3 per cent invest in mutual funds. Investment in more risky assets is very low, 10.8 per cent has investment in shares 2.9 in bonds, 1.1 per cent in debentures and only 0.3 per cent in IPO'S. The data clearly reveal the risk averse nature of the households and also less penetration into the stock market.

- Asset portfolio in relation to income level of households shows that among the lower income strata 89.1 per cent hold savings in the form of chitty, as it can be in small denominations, convenient and can be used for immediate needs. The middle and upper middle income group shows priority to fixed deposits and insurance and as the income level progresses, more space is given to investment instruments like bonds, shares and mutual funds.

- The education wise analysis of asset holdings shows that among the respondents with education level of SSLC, chitty occupies the dominant position with 67.3 per cent and investment in stock market instruments is negligible. Among the degree holders the preference is towards risk free assets. 68.1 per cent and 60.1 per cent is in the form of insurance and fixed deposits. . Higher education has thus a positive relation in holding diversified instruments and penetration into the stock market is high in this category. Among physical assets gold occupies an upper hand and next preference is given to real estate investment.

- The age wise analysis reveals that, among the age group of 31-40 the asset portfolio consist of all prominent financial and physical assets except investment in IPO's. Within the age group of 41-50, 70.3 per cent has insurance, 55.9 per cent holds chitty and fixed deposit. Above the age of 51 households portfolio includes diversified assets, but more weightage is towards risk less assets. Gold and real estate occupy 70.3 and 25.4 per cent respectively.

- Asset portfolio in relation to occupation reveals that self employed and regular salaried persons give higher place to insurance, fixed deposit and NBFC's. Among the regular salaried, pension and provident fund accounts to 62.8 per cent and is generally a compulsory mode of saving. Within casual laboures very few assets occupy their portfolio and the prominent one is chitty.

- Marital status wise analysis of assets shows that married category gives more prominence to assets like insurance, chitty and fixed deposits. 40.1 per cent has mutual funds and 11.6 per cent has shares. 71.2 per cent possess gold and 26.2 holds investments in real estate. Among the unmarried group the per cent of gold is low while 21.3 per cent has investment in mutual funds.

- Analysis of purpose of savings shows that the first order of preference is given to acquisition of physical assets. Among the income group of 75000-100000 the main objective behind saving is to earn interest. Saving for the purpose of marriage and other ceremonial expenses was given more importance by the households with less than 25000 monthly earnings. Preference was given to tax benefits, 23.9 per cent save to get benefit of tax exemptions.

- The education wise analysis of purpose of saving shows that the motive to earn interest has been given more importance by the respondents with plus two level of education. Within education group the preference given for unforeseen contingencies is similar, ranging from 7 to 10 per cent. As educational attainment is high people are more aware of various investment avenues and try to attain their investment goals by reducing risk.

- Analysis of investment preference of household's shows that majority of households prefer investment in financial assets. 69.4 per cent prefer to invest their money in financial assets while only 2.5 per cent prefer to invest in physical assets. Even though they show their preference is towards financial assets more volume of savings need to be channeled towards it.

- An analysis of the reasons of household's preference towards physical assets shows that 59.3 per cent has given importance to value appreciation as the main motive behind their preference towards physical assets.

- Reasons of household's preference towards physical assets reveals that quick gain is considered as the dominant factor with regard to investment in financial asset, 42.1 per cent has given this factor as the first priority. 35.4 per cent has considered higher return as the prime objective while they invest in financial asset.

- The time horizon of investment shows that majority of the respondents prefers medium tenure for investment purposes next to it is long term and the remaining prefer short term investments. As monthly income level progress preference towards long term investment also increases. Respondents within the income category of 25000-50000 give more priority to medium term allocations. Age wise analysis does not show much variation however lower income group prefers medium term and short term investments. 82.6 per cent of married respondents prefer long term allocations and this shows their interest in long term financial planning and concern for future.

- Households largely prefer to invest in public sector, majorities are risk averse and public sector is considered as a safe mode of saving and investment. As income increases respondents inclination towards private sector also increases showing interest to undertake risk and to get more return. 82.6 per cent of married respondents prefer long term allocations and these points towards systematic long term financial planning and expectations of continuous and regular flow of income.

- Among the factors considered at the time of saving and investment, safety and liquidity are given high priority, 90 per cent of the respondents has considered it as their prime concern. 82 per cent considers faster returns as the main factor. While investment in stock market instruments are concerned, dividends received is sighted as the major factor, while hedge against inflation and right issue are given lesser importance. 39 per cent and 35 per cent are giving prominence to tax benefit and size of investment while allocating funds for saving and investment.

- Regarding the source of information relied by the households while taking financial decisions, the respondents gave first priority to the information gathered from family and friends. 23.3 per cent depend on the advices and information that they receive from financial advisors. The sources like media and online platforms are given similar priorities and only 10.6 per cent was given to information's received through newspapers and other published sources.

7.2.3 Level of awareness towards various financial and physical assets.

- The level of awareness of the respondents in relation to the financial and physical instruments shows that bank deposit has the highest index value and it shows that respondents are highly aware of this conventional mode. High level of awareness is seen in the case of bank deposits and post office savings as the index value is 84.4 and 77.0. Moderate level of awareness is seen in the case of instruments like pension funds, insurance, mutual funds and bonds. Mutual funds are ranked high among the stock market instruments and low level of awareness is seen in the case of derivatives and the score is 31.5.

- The level of awareness of bank deposits reveals that, within education level the highest index value of 89.3 was with respondent's having post graduate level of education. As education level progresses the awareness level also increases and this helps them to take more wise investments. The variation in index is less and the lowest value is only 79.8.

- Post office schemes are generally considered as one of the conventional and safest mode of savings. Among the age group the index value varies around 74 – 78, showing high level of awareness. As systematic way of savings the regular salaried are interested in this asset and are also aware of the saving schemes related to this instrument.

- Within the income category respondents with monthly income less than 25000 have low level of awareness regarding pension and provident fund. Income earners amid 25000-50000 have moderate level of awareness and those with income above 50000 have high level of awareness. Respondents with lower level of education have low level of awareness.

- Income wise analysis shows that a respondent with less than 25000 monthly incomes has low level of awareness regarding various types of insurance. Education wise analysis shows that as education level progresses the awareness of this financial instrument also increases and this helps respondents with higher education to take wise financial decisions.

- Within the income classes respondents with income above 100000 has high awareness about mutual funds and the index value is 68.1. . Respondents less than 30 years of age have low awareness while above 30 years of age respondents have moderate awareness. Regular salaried and self employed has moderate level of awareness about investing in mutual fund while casual laborers has low level of awareness and because of this their investment participation is low in mutual funds.

- Regarding the level of awareness of bonds and debentures, moderate and low level of awareness is recorded and it shows that majority lacks knowledge about these financial instruments and that is one of the main reasons for less participation in such financial instruments. Above 100000 monthly income the index value is 57.6, and this reveals that even in high income strata the awareness towards bonds and debentures is only moderate. The index value shows that respondents less than 30 years of age has low awareness, the value is only 28.2. Awareness level is highest among the age group 31-40 and this also shows their interest to earn more by investing in avenues with higher return. Occupation wise analysis shows that casual labourers have very low level of awareness, only 22.5.

- In case of awareness of real estate, higher income group has more affinity towards it. Respondents with monthly income above 100000 have awareness about the various aspects of investment in real estate and the index value is 64.9. Education wise analysis shows that, respondents with plus two level of education exhibits higher awareness and the index value is 53.3. Regarding the awareness of gold all categories are moderately aware of this physical instrument.

- Perception of investors in relation to saving and investment shows that household perception varies around the index value of 39.7 to 88.05. Majority of the household moves along with the perception that saving and investment improves one's standard of living. The least index value of 39.7 is given to the statement that saving and investment helps to enhance social recognition.

7.2.4 Determinants of savings of the urban households.

- 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.

- 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.

- Multiple regression model employed to determine the determinants of saving among the urban households shows that, 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 coefficients of income, education, family size are is positive and is statistically significant at one per cent level. The coefficient of household ownership and marital status are positive and statistically significant at 5 per cent level. The number of dependents has found to be negatively related to savings, as the number of dependents increases the saving declines.

- Overall the regression analysis shows that household income, education, dependents, family size, ownership of house and marital status are significant determinants of household saving in the study area.

7.3 Suggestions

- Households saving and investment preferences and pattern vary across socio, economic and demographic conditions as such they require customized financial products in accordance with their financial needs and economic conditions.

- There should more awareness and easy accessibility to the products available in the market so that households can diversify their asset portfolio to reduce risk and to enhance return.

- The incentives attached to various instruments must be more attractive so that households are more interested to save and channelize the funds into investment avenues.

- There is a need to provide more awareness about the various financial products available in the market. For the successful mobilization of savings of the household sector there is a need for more players and more financial products.

- Households especially with low income and educational attainments have certain embarrassment and aversion to engage in financial markets. This condition must change and for this financial product terms and conditions should be provided in a lucid, intuitive and salient manner.

- There is a need to increase financial literacy and channelization of funds into financial assets. This leads to the expansion of the financial intermediation and more funds will move to productive investment channels.

- Complicated paper works and procedures must be avoided, technological up gradation in a more customer friendly manner should be adopted.

- Financial products must be provided at attractive terms and conditions along side with good financial advice that moves along with the interests of the households. There should be efficient and quality service along with stringent statutory protection for the asset holders.

- In the present scenario the delivery and access to various financial products must be made easy through digital end to end distribution networks. Information's related to various assets must be disseminated in a timely manner

- Financial institutions must organize awareness programmes and seminars so that households can get useful information's and can divert fund into more productive channels according to their financial interest.

7.4 Scope for future research

Household saving and investment always has a prime position in the growth and development of the economy. Continuous changes occur in the pattern and behaviour of households and in relation to these changes customized financial products and reforms should take place in this area. Thus sustained research in the field of household saving and investment is imperative in order to understand the changes in this sector so that conducive and appropriate measures can be taken.

7.5 Conclusion

Household finance occupies a very important role in the long term growth process of the economy. As the economy expands and become more dynamic, there is a need to raise the level of saving and investment to finance the growing needs. Household sector plays a critical role in this regard and the savings generated in this sector need to be properly channelized into productive sectors. The different segments of the financial market are interconnected and there is a need for unified financial market regulation. A robust household sector always strengthens the economy to faster its pace of growth and to enjoy sustained development.