ABSTRACT

The purpose of the paper is to understand the saving and investment pattern of households and the importance of investment in motivating the household people towards financial development. The author uses the previous literature and findings to highlight saving and investment as a major source in enhancing the middle class families. The author has used literature reviews from the perspective of the investment activities pertaining to the middle class people.

KEYWORDS

Saving and Investment, Household Saving, Household Investment

INTRODUCTION

Saving is a key variable in the concept of financial development. Investment scheme is one of the significant issues of the working class families as their investment funds of today are to meet the costs of tomorrow. A National saving proportion extensively in accordance with the economy’s venture needs is the way to diminish the country’s vulnerability to shocking movements in global capital streams.

In India, there is no summed up government managed savings system. Starting here of view, India is the main private business sector economy on the planet, as the parts of the state from the perspective of government managed savings is negligible and levels more in North Eastern Region. In this connection, people need to rely on upon their own particular investment funds or on joint-family reinforce in their seniority. Thus, there is a desperate requirement for families to spare and contribute appropriately, particularly in the setting of expanding future and decrease of the joint-family system. Not just that, the family needs to put something aside for the training of their kids, youngsters' marriage, for their medicinal services needs, particularly after retirement, and even, for their own particular memorial service costs. In this way, families require long haul points of view about their investment funds and need satisfactory profits for their speculation. For this reason part of capital business sector is likewise essential in preparing and diverting speculations of the general population.

REVIEW OF LITERATURE

SAVING AND INVESTMENT PATTERN OF HOUSEHOLD

In the early 1980’s small saving scheme in Tamil Nadu has a special reference to the Madras District. The author has observed that there was more dependence on mobilization of resources through small savings which will ensure and promote self reliance of the individual. The Central Government should give proper assistance and encouragement to small saving agencies, which will be...
useful not only in the mobilization of funds but also for the economic development of the nation (Arangasami 1992). The household saving and investment pattern found a high proportion of saving and unproductive assets loading to low income and low saving (Panikar 1992). The people need to have savings so that they are controlled when their incomes are temporarily low. The household surveys help us to understand the macroeconomics of savings which is a link between the saving and growth, and also between the saving and economic development (Deaton Angus 1997). Everyone has to manage his or her personal finance in one way or the other. Some tend to save a lot, some like to collect information before each savings purchase. Likewise private investors are not of same kind, but individuals with various financial practices combined with different levels of experience and interest in the finance matters (Gunnarsson & Wahlund 1997). Bank deposits and chit funds were the best known modes of savings among investors and the least known modes were Unit Trust of India (UTI) scheme. The attitudes of the investors were highly positive and showed their intentions to save for the better future. The researcher says that nearly two- third of the investors were satisfied with their savings. Both income and expenses of a family influenced the level of satisfaction over savings. A large proportion of investors were concerned about the children wellbeing. The most common mode of investment was bank deposits. Among several parameters in investing, safety of money was considered to be the most important element. Next, the investors expected regular return from their investments (Somasundaram 1998).

The researcher’s time spent on Investment analysis was inadequate and equity portfolio diversification was moderate because they were the first generation investors. Regional Industry had its impact on Industrial Portfolio. Educational level of investors had its impact on the use of technical analysis. Occupational category had an impact on the use of fundamental approach on savings (Shanmugam R and Muthuswamy P 1998). The reasons cited for saving in urban areas by the investors are: social considerations, tax benefits, and provision for old age are based on the investor’s awareness towards post office saving schemes (Gavini and Athma 1999). The researcher tried to evaluate the investment behavior and problems faced by middle class investors in India. Though the middle class investors were highly educated, they lacked skill and knowledge in investing. There was a moderate and continuing shift towards shares and debentures from bank deposits which was a massive shift towards traditional important financial instruments namely Life Insurance Policy and Government Securities (Bandagar, P.K 2000).

Rangarajan R (2000) conducted a study on “Investor Lifestyle and Investment Characteristics” finding out the lifestyles based on the segmentation of individual investors and to analyze the investment size pattern and future investment on the basis of their lifestyles. This study was carried out in State Capital of India, New Delhi. The researcher has identified investors are divided into three groups namely active investors, individualists and passive investors. The association between the lifestyle groups and the various investment related characteristics was studied.

The study revealed that the level expenses, earnings and investment were associated with the size of the households. Active investors group was dominated by officers, individual group by clerical and passive investors group by professionals. The expected rate of return from the investment varied based on the investment styles. As for risk bearing is concerned, it was found out that investors who had more than 40 percent of their financial assets on risky category dominated the active investors group. Individuals were processing up to 20 percent of their financial assets in the risky investment. Securities and Exchange Board of India (SEBI) and NCAER (2000) ‘Survey of Indian Investors’ has reported that safety and liquidity were the primary considerations which determined the choice of an asset.

Ranked by an ascending order of risk perception fixed deposit accounts in bank were considered very safe. Bank deposits, which had an appeal across all income classes and tax-saving
schemes, were preferred by middle-income and higher-income groups. There was a correlation between the income levels and investments of households in market-related securities.

Research on small investors perception on Post Office Saving Schemes and found that there was significant difference among the four age groups, in the level of awareness for Kisan Vikas Patra (KVP), National Savings Schemes (NSS), and Deposit Scheme for Retired Employees (DSRE), and the overall score confirmed that the level of awareness among investors in the old age group was higher than in those of the young age group. No difference was observed between male and female investors except for the NSS and KVP. Out of the factors analyzed, necessities of life and tax benefits were the two major ones that influence the investor both in semi-urban and urban areas. Majority (73.3 percent) of investors of both semi-urban and urban areas were very much willing to invest in small savings schemes in future provided they have more for savings (Karthikeyan 2001).

Ranjith’s (2002) research analysed risk taking preference of investors in the city of Ahmedabad. The study revealed that the increase in age leads to the increase in tendency to invest and decrease in risk taking attitudes among the investors. The study found that people in the service sector are the one who are actively involved in the share business. The respondents who are graduates actively participate in investment activities. Others who are working in government departments or organizations make the poor investment decision.

The investor’s awareness about the investment decision is limited to financial performance of the company. The author tried to compare the savings and investment rates are integrated for Myanmar and Thailand and it indicate the growth of savings rate causes the growth of Investment rate. Interestingly, the study found reverse causality between savings rate and investment rate that has been observed for Hong Kong, Malaysia, Myanmar and Singapore and to analyse the savings-investment relationships (Sinha 2002). The private finance companies and new emerging investment agencies offer higher returns for investment. The Tamilnadu investors are more conscious of security. Security wise diversifications were predominant among both genders. The most attractive periodicity of income received from the investment was monthly and quarterly (Pratap Singh et.al 2002). The determinants of household saving in the process of economic development, of the Taiwanese to experience during the period 1952–99. The study found that the household saving rate rises with both the level and the rate of growth of household disposable income and that the real deposit rate has a significant positive impact on saving.

Al-Tamimi (2006) studied the least influencing factors on the United Arab Emirates investors behavior. The most influencing investment factors identified by the authors were: corporate earnings get rich quickly, stock marketability, past performance of the firm’s stock, government holdings, and the creation of organized financial markets. In addition two factors had unexpectedly the least influence, namely religious reasons and family member’s opinions.

The fact that China’s household saving rate has been high and rising and that the main determinants of variations overtime and over space are lagged by the saving rate, the income growth rate, the real interest rate and the inflation rate. However, they found that the variables relating to the age structure of the population usually do not have a significant impact on the household saving rate. China’s household saving rate will remain high for some time to come. Regarding the issue of whether rural households can save or not, two conflicting views have been aired: the traditional or old view and the new view. The traditional view purports the idea that rural households cannot save because they are too poor and therefore rural savings mobilization efforts are deemed ineffective and worthless (Horioka and Wan 2007). Maditinos et al. (2007) examined the techniques and methods used by six different groups of Greek investors: official members of Athens Stock Exchange, Mutual fund management companies, portfolio investment companies, listed companies, brokers, and individual
investors. The results revealed that on average the participants ranked their instinct experience as the most important factor that influences their investment behaviour in the stock market.

According to the study, household savings, as a share of Gross National Savings in India, are the highest in the world at 69 per cent as against 55 and 44 per cent in France and China, respectively. And the banks have a reason to be concerned as only 47 per cent of these savings are accessed by the financial services sector. The lion’s share of investments is being made in the booming real estate sector and also in gold jewellery, says the study. The reason for banks” inability to attract domestic savings should be located in the high geographical fragmentation of banking operations with limited presence in rural areas (Naga Sridhar, G. 2007).

Finally, they concluded that increased availability of social security provisions and enhanced credit availability also seem to reduce availing (Prema Chandra and Pang Long 2003). The investment preferences of households that are able to save and to identify the factors influencing saving behavior and investment preferences of investors in India. The results of the study showed that there is a high propensity to save moderate to high proportion of the income. The level of literacy, educational achievement, occupational distribution and income profile of the respondents largely determine the saving and investment pattern. The relationship between choice of investment like bank deposits, insurance policies, gold and stock market instrument on one hand and educational level, occupation and income profile of the respondents on the other is found to be significant at 1% level of significance (Qamar 2003). The research findings says that investment on physical assets is consumer durables and financial assets like bank deposits. There is a relative poor level of awareness among the rural people about various financial assets. Large portions of the investors do not understand the basic fundamentals of the investments. Many investors have invested in safer financial assets like bank deposits. Only few investors preferred the investment on public issue but they are not aware about the market value of their holdings (Jayachandran C. 2004). Such preferences influence the direction in which, and the channels through which, household financial savings would flow. A developing economy, like India, and needs a growing amount of household savings to flow to corporate enterprises. Such flow can grow on a sustained basis if, and only if, there is an effective system to ensure that the enterprises receiving the flow are sound and will make proper use of the money provided. In the absence of effective checks on mismanagement and misappropriation at the corporate enterprise level, the savers investment preference is turned away from corporate shares and securities towards other saving instruments (The Indian Household Investors Survey 2005).

Verma (2007) considered savings, investment and economic growth for India using annual time series data for the period 1950-51 to 2003-04. The study finds that savings unambiguously determines investment in both the short run and long run. And, no evidence has been found to support the commonly accepted growth models in India, that investment is the engine of economic growth.

Conclusion

From the extensive literature reviews the researcher has related that saving and investments practices of households to influence on the income, lifecycle stages of individuals and financial literature based on their financial behaviors that benefit the saving and investment pattern.

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