Trends in Indian Household Investments in Financial Assets

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Abstract: Investments result from domestic savings. Institutional and household savings contribute the capital formation, leading to employment and income generation. Household savings contribute more as the segment is a net saver. Examining the trends in household savings and investments provides information on the priorities of households and the demand for financial services. This article shows the trends in household savings and investments in various financial assets during 2014-2020, in major financial assets and the reasons for phenomenal changes. As GDP grows, domestic savings, household savings increase. Investment financial assets is comparatively less than in physical assets. This article finds that bank deposits, life insurance and pension funds are amongst the most preferred savings and investments in financial assets. Further the findings also reveal that reforms in pension and insurance sectors have shown positive impact on the household savings and investments.

Keywords: Domestic Savings, Household Savings, Personal Savings, Household Investments, Financial Assets.

INTRODUCTION

Domestic savings are converted into investments and propel the economic growth. The share of household savings is major as households are net suppliers of funds. Savings are a function of income and consumption. When the domestic savings fall short of the demand for funds, the difference represents the external debt.

In India, household sector contributes about 60 percent of gross domestic savings followed by private and public sectors in varying percentages over the years. A study on the personal savings and investments is imperative for understanding the pattern of domestic savings and investments in India. Such a study can provide insights into the interests of households on the type of vehicles they opt and how this may impact the availability of funds for investment by the corporates and public sector in achieving their strategic objectives. India has witnessed a phenomenal growth in personal savings and investments partially on account of policy measures initiated. (Singh, 2015)[1]

INFLUENCING FACTORS OF PERSONAL SAVINGS AND INVESTMENTS

- Employment and Per capita Income
- Consumption-Changes in Lifestyle, Tastes and Fashions
- Future Needs-Children Education, Pension, Medical and health Insurance needs
- Opportunities-Investment Vehicles, Services, liquidity, risks, and returns
- Concerns-Changes in Public Policies, Regulation, Taxes (Anuradha & Anju, 2015)[2]

REVIEW OF LITERATURE

Household sector includes individuals and unregistered small businesses. Household savings are determined by the difference between disposable income and consumption expenditure adjusted with changes in pension entitlements. Household savings are calculated as a ratio of savings to disposable income. (OECD, 2016)[3] There is decline in the ratio of savings to GDP over the past decade, investment in physical assets was 68 percent in 2013-14, observed a low participation of household sector in investment in financial assets and there were policy measures for financial inclusion in order to improve the domestic savings and investments in financial assets (Patnaik & Pandey, National Institute of Public Finance and Policy, 2019)[4]. Most of the household savings are channeled through banks but are not able to meet the financial requirements of growing demand for infrastructure development projects. Income and rates of interest or returns are determining factors of savings and investments along with other important variables of dependency ratio, inflation

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[1] Singh, Kanhaiya, Growth Of Personal Savings In Post Liberalization Era In India : https://ssrn.com/abstract=1700406

[2] Anuradha PS and Anju KJ et al., Saving and Investment Behavior – Review and An Agenda For Future Research, Contemporary Commerce Review, Vol 4, September 2015 pp43-73.

[3] https://www.oecd-ilibrary.org/docserver/factbook-2015-19-en.pdf?expires=1668776596&id=id&accname=guest&checksum=44535006DB008623530E8277A3B2A25C

[4] Ila Patnaik et al, Savings and Capital Formation in India, NIPFP working papers No 271, June 2019 pp 3,7 and 35

(Samantaraya & Patra, 2014)[5]. Price stability can enhance the domestic savings and propel the investment and capital formation. The financial reforms have lowered the transaction costs and improved the returns. There is a considerable increase in income levels with growth and employment in IT sector and investments in real estate was gained momentum in early 2000s. Savings and investments maintain a long-term equilibrium and important for sustainable development. Fiscal and monetary policy initiatives are imperative for savings vis-à-vis investment growth in an economy (Mishra, 2011).[6] The fiscal policy measures including the allowing the banks to operate mutual funds, tax relaxation for pension funds and insurance policies, more effective regulation of capital markets have yielded in higher savings and investments over the years (Singh, 2015).[7]

METHODOLOGY

The study is based on the secondary data collected from various authentic sources. The data collected from such sources were analyzed with simple and moving averages and proportions.

GROSS DOMESTIC SAVINGS

Gross Domestic Product at current market prices, during 2014-15 and 2019-20 has grown at an average of 10 percent and Gross savings have shown an equal increase. Prices have increased at an average of 5 percent, with variation across different measures of Industrial Workers Food Prices, Consumer Prices in rural and urban areas ranging 2 to 8 percent. Year 2019-20 has been earmarked with high rise in prices as compared to the previous years. (Reserve Bank of India, 2019)[8] Gross Domestic savings in India have grown at an annual average of 3.32 per cent over the past 60 years from 1961 to 2020, and the Compound annual growth rate was found at 2.3%.

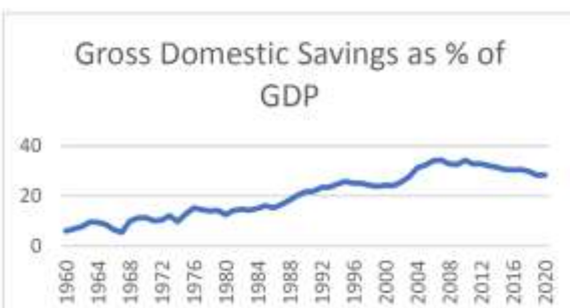

Fig. (1). Changes in Domestic Savings as % of GDP.

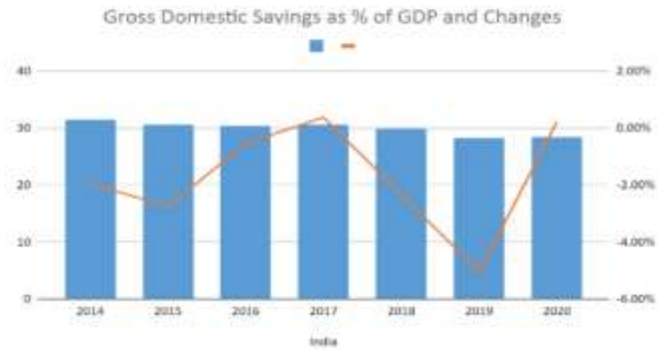

Fig. (2). Domestic Savings as a % of GDP Source: World Bank.

Gross Domestic Savings a % of GDP has varied between 5.47% and 34.38% since 1960. A decreasing trend has been observed since 2010. Between 2014 and 2020, except for 2017, when these was a marginal increase, the overall trend shows a decrease in the percentage. Year 2019 has witnessed nearly 5% decrease. As per the world Bank's data, India stands in 46th position with 28.3% in Domestic Savings. Ireland, Iran, China, South Korea, Maldives and Indonesia are ahead of us.

The present study of household savings and investments for the period between 2014-2020 has revealed that the average Investment in in net financial assets stood at 39.4 percent while in physical assets 59.1 percent and a marginal investment was made in gold and silver, 1.5%.

CHANGES IN HOUSEHOLD SAVINGS

Pattern of household savings in India has been peculiar with substantial investment in physical assets, mainly real estate and gold. Less inclination towards savings in financial assets is a result of many factors including occupation, consistency of income, availability of investment vehicles and the safety features, reliance on unorganized sector for debt etc. make India's household investment patter different from other countries. (RBI, 2017)[9] Total household savings have increased from 11.23 to 19.83 percent during 1960-73 and 1992-95. The period earmarked increase in household savings in financial assets and retrenched savings, sin physical assets. (Loyza.N & Shankar, 200)[10] Savings rate in India has touched 15 years low in 2019, negatively impacted the investment and capital formation. It has been moving upward and at an inconsistent rate. Foundations for phenomenal growth in household savings was laid with nationalization and establishing rural banks. Increasing GDP, liberalization of economy in 1992 have given more opportunities for savings and investment. Allowing the private players into banking and insurance and foreign investment in the sectors has helped penetration into the market deeper. Several other changes including bancassurance, private mutual funds have

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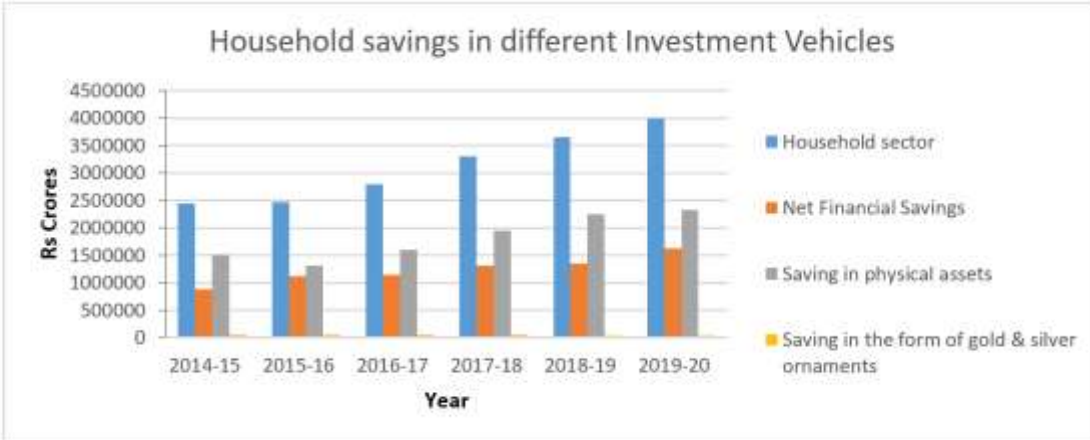

Fig. (3). Household Savings in different Investment Vehicles.

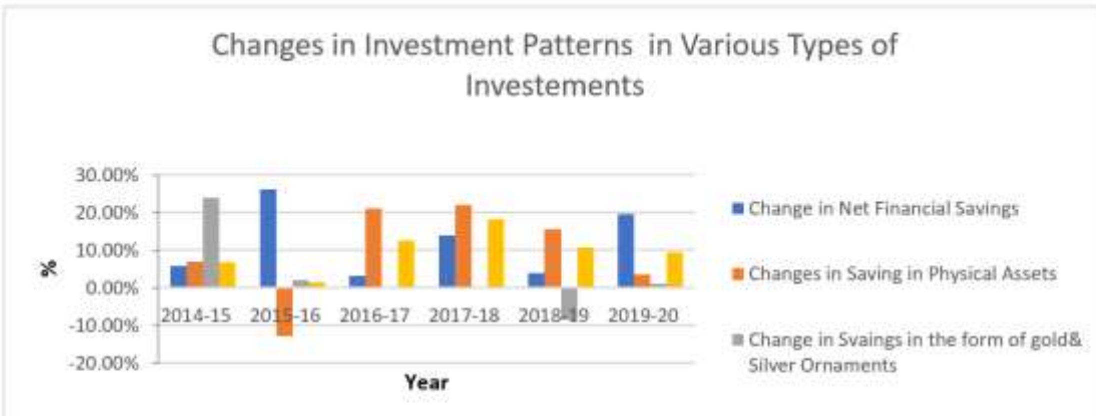

Fig. (4). Changes in Pattern of Investment in Various types of Assets.

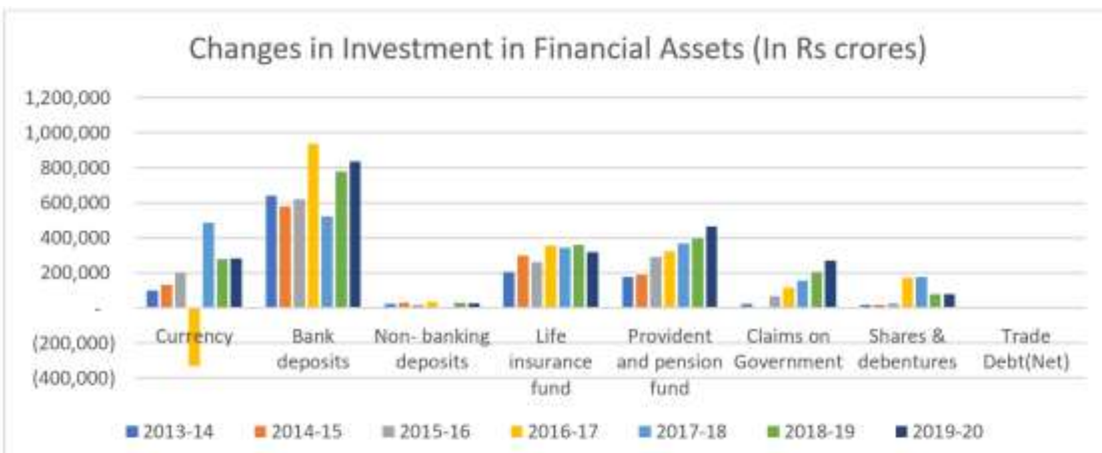

Fig. (5). Changes in investment in Financial Assets.

positively contributed to the growth of household savings. (Martin, 2000)[11].

Changes in household savings and investments increased at an average of 9.86 percent per year. Investment in financial assets have shown an average growth of 12.07 percent, physical assets 9.33 percent and gold and silver only by 3.13 percent. The data reveals that investment in physical assets form the bulk of household savings but the growth in financial assets is greater than physical assets. Negative growth rates are found in physical assets during the years 2015-16 and, in gold. and silver during 2018-19.

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CHANGES IN FINANCIAL ASSETS

Table 1. Proportion of Changes in Financial Assets.

Savings/Investments in	Proportions of Changes in Financial Assets
Currency	9.6%
Bank deposits	39.5%
Non- banking deposits	1.3%
Life insurance fund	17.9%
Provident and pension fund	18.8%
Claims on Government	7.5%
Shares & debentures	5.1%
Trade Debt (Net)	0.2%

The table **1** shows average proportions of the changes in financial assets during the period of study reveals that bank deposits are predominant followed by provident and pension funds and life insurance. Currency and claims on government also changed significantly during the period. Negative growth or decrease in currency and non-banking deposits were also witnessed during the period.

The table **2** shows the changes in term deposit accounts of commercial banks during the period reveals that the deposits have been growing at an average of 4.8 per cent and with a CAGR of 23.8 per cent over the period of 7 years. In Rupee terms, the average annual growth rate was found to be 7.1 percent. From Table **3**, we can notice that the interest rates on savings as well as deposits accounts have decreased during the period. This could be one of the reasons for decline in the share of household savings in bank deposits.

CHANGES IN THE TERM DEPOSITS OF BANKS

Table 2. Changes in Bank Deposits, Source: RBI Documents.

	Change in Term Deposit (Number of Accounts)	Change in Term Deposit Accounts of Commercial (In INR Crores)
2014	11.3%	14.8%
2015	8.2%	11.2%
2016	9.9%	6.3%
2017	7.1%	3.7%
2018	-6.5%	4.8%
2019	1.3%	0.8%
2020	1.9%	8.3%
Average	4.8%	**7.1%**

INTEREST RATES ON TERM DEPOSITS

Fig. (**6** and **7**) below show that bulk of the term deposits are for 1 to 3 years' maturity, followed by deposits with 3 years, 5 years and from 6 months to 1 year. nearly 3/4ths of the deposits are of medium term in nature. There is a significant difference in the deposit patterns in terms of amount in various terms.

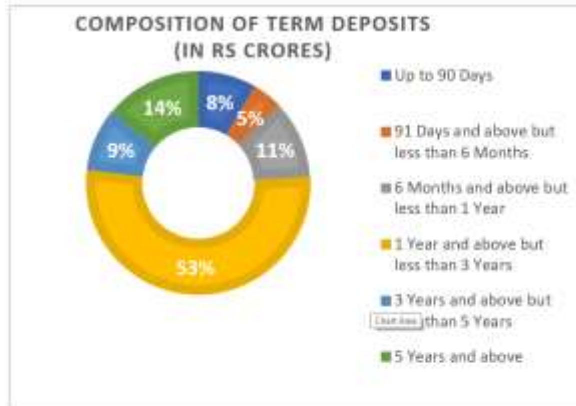

Fig. (6). Composition of Term Deposits of Commercial Banks in Amount Rs Crores.

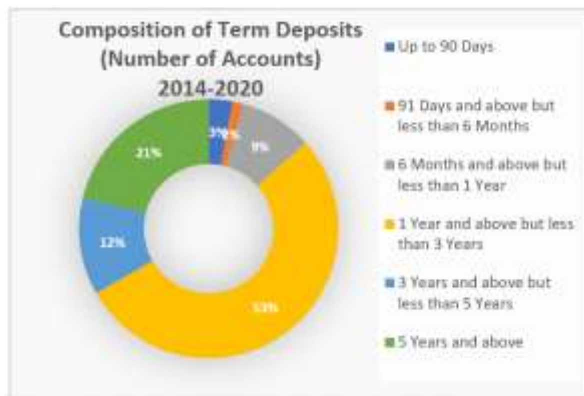

Fig. (7). Composition of Term Deposits of Commercial Banks in Numbers.

NATIONAL PENSION SCHEMES

Assets under management by National Pension Schemes shown in Table **3**, reveals an 8-fold increase with major contributions by the State and Central Governments Sectors. These assets have grown at an average as well as a CAGR of 43 percent during the period of study.

Table 3. Interest Rates on Bank Deposits, Source: RBI Documents.

	Savings#	Term Deposits		
		1-3 Years	3-5 Years	Above 5 Years
2013-14	4.00	8.75-9.25	8.75-9.10	8.50-9.10
2014-15	4.00	8.50-8.75	8.50-8.75	8.25-8.50
2015-16	4.00	7.25-7.50	7.00-7.50	7.00-7.30
2016-17	4.00	6.75-7.00	6.50-6.90	6.50-6.75
2017-18	3.75	6.40-6.75	6.25-6.70	6.25-6.75
2018-19	3.75	6.25-7.25	6.25-7.25	6.25-7.25
2019-20	3.25	5.00-6.20	5.70-6.40	5.70-6.40

Fig. (8). Assets Under Management by National Pension Schemes.

Table 4. Assets Under Management by various Pension Schemes Source: National Pension in rupees crores.

	2014-15	2015-2016	2016-17	2017-18	2018-19	2019-20
Central Government	36,736.80	48,135.03	67,040.20	84,954.39	109,009.55	138,046.28
State Government	36,243.85	57,498.27	84,917.29	115,679.08	158,491.37	211,022.52
Corporate Sector	5,674.76	9,290.05	14,953.22	21,378.09	30,874.79	41,231.12
Unorganized Sector	593.99	1,272.88	3,123.13	5,743.64	9,568.50	12,924.30
NPS Swavalamban	1,605.72	2,107.55	2,639.21	3,005.82	3,409.23	3,728.40
Total	**80,855.12**	**118,303.78**	**172,673.05**	**230,761.02**	**311,353.44**	**406,952.62**

The data on new life insurance business showed an average annual growth rate of 13.87 percent during the period with a noticeable decrease in 2014-15. However, the rate of change is not uniform and remarkable increases in the new policies were found during 2015-16 and 2016-17.

INVESTMENT IN INSURANCE POLICIES

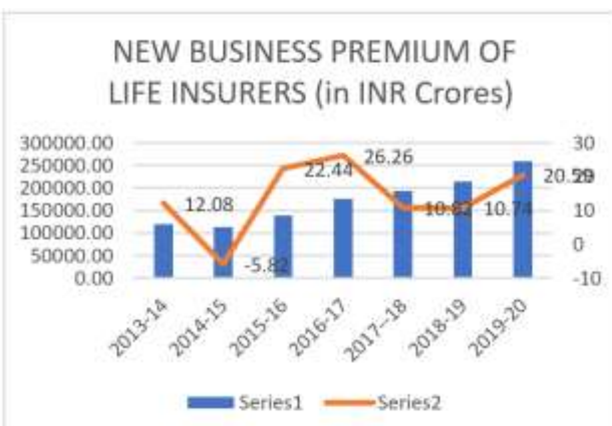

Fig. (9). New Business Premium of Life Insurers.

Table 5. New Business Premium of Life Insurers: Source IR-DAI

	In Rupees Crores	% Change from Previous Year
2014-15	113329.52	-5.82%
2015-16	138765.99	22.44%
2016-17	175202.68	26.26%
2017-18	194153.90	10.82%
2018-19	215003.04	10.74%
2019-20	259262.38	20.59%
	Average	13.87%

Fig. (10). Assets under Management of LIfe Insurers.

Table **6** shows number of new policies issued by the LIC and other private insurers shows that the average annual growth rate in the new policies issued by private insurance companies is higher than LIC. There was a decline in the number of new policies during 2014-15 as compared to the previous

Table 6. New Policies Issued by LIC and Private Insurer.

	LIC		Private Sector	
Year	**Number in Millions**	**% Change**	**Number in Millions**	**% Change**
2014-15	20.17	-41.55	5.74	-9.79
2015-16	20.55	1.86	6.19	7.92
2016-17	20.13	2.02	6.32	2.13
2017-18	21.34	5.99	6.86	8.47
2018-19	21.40	0.31	7.24	5.61
2019-20	21.90	2.30	6.95	(4.05)
Average		**2.50**		**4.02**

Table 7. Investment in Mutual Funds; Source: AMFI (In Rupees Crores).

	2014	2015	2016	2017	2018	2019	2020
Liquid Fund/Money Market Fund/ Floater Fund	15611.4	16719	23864.8	31635.9	42471.6	78588.1	99106.8
Gilt Fund/ Gilt Fund with 10 year constant duration	2492.26	5024.29	6192.49	5357.23	3957.44	3036.82	4490.19
Remaining Income/ Debt Oriented Schemes	190770	209185	230727	291863	323043	338182	296304
Growth/ Equity Oriented Schemes	168250	297126	327740	460751	640867	781812	538301
Hybrid Schemes	14914.3	22614	33447.4	74436.5	153008	166314	220441
Solution Oriented Schemes	4447.63	3439.72	3145	2962.95	2798.05	2661.19	15664.4
Index Funds	1102.89	1656.12	1853.33	4351.89	4945.95	9440.19	5003.09
Gold ETF	2582.86	1962.07	1586.45	1401.34	1112.27	1480.88	20667.5

year for both and the growth declined for private insurers during 2019-20.

Fig. (**10**) shows that Life fund dominates assets under management of Insurers with an average weight of 66.83 percent followed by Pension & Group Fund with 19.87 percent. Assets under ULIP funds reflects low penetration into the market which has an average of 13.30 percent. Changes in Assets Under Management have shown an average growth of 12.92 percent for Life Fund, 18.00 percent for Pension and General Annuity and 2.43 percent for ULIP Funds. Overall Trend shows a decline in the rate of increase Y-O-Y Basis. Fig. (**11**) below shows overall decline in the assets under management in relative terms during the period and ULIP funds showed volatile and declined sharply in 2020.

MUTUAL FUNDS

Mutual funds as an alternative investment channel for individuals and households shown more than three-fold increase during the period. Table below shows the data on various types of mutual funds over the period. Growth or equity-oriented schemes are most popular among the mutual funds with 51.26 percent, followed by Income/Debt oriented schemes that occupied 31.22 percent of total. Hybrid and liquid or money market mutual funds have low presence in the mutual funds market.

Growth or Equity Oriented Schemes were most popular among the mutual funds attracted 51.26 percent of investment in mutual funds, followed by Income or Debt Oriented Schemes with 31.22 percent. Hybrid Schemes, Liquid, Money Market or Floater funds are more preferred than rest of other funds. Index, Gold Exchange Traded Funds and Gilt Funds are among the least popular mutual funds.

Table 8. Average Composition of Various Types of Mutual Funds.

Average Composition of Various Types of Mutual Funds	
Liquid Fund/Money Market Fund/ Floater Fund	4.80%
Gilt Fund/ Glit Fund with 10-year constant duration	0.51%
Remaining Income/ Debt Oriented Schemes	31.22%
Growth/ Equity Oriented Schemes	51.26%
Hybrid Schemes	10.65%
Solution Oriented Schemes	0.62%
Index Funds	0.45%
Gold ETF	0.50%

Fig. (11). Changes in Assets Under Management of Life Insurers; Source IRDAI.

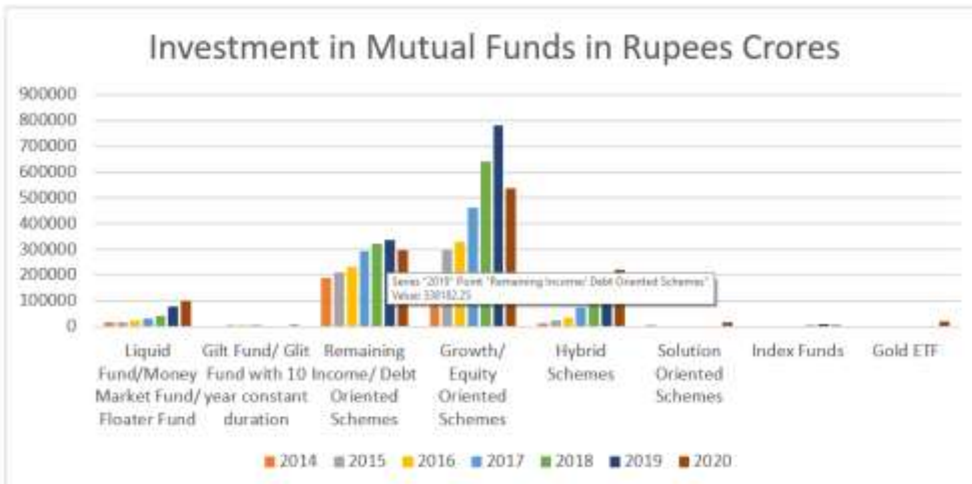

Fig. (12). Investment in Mutual Funds.

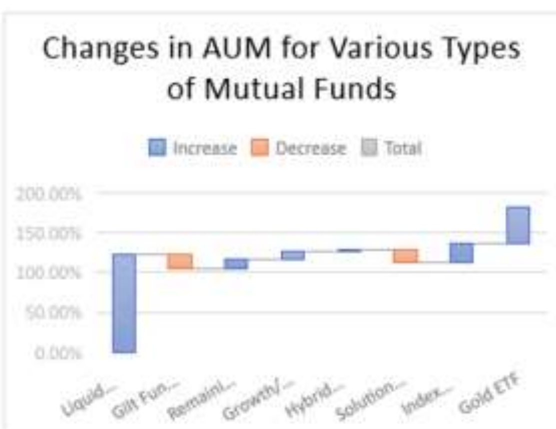

Fig. (13). Changes in Assets Under Management of Various Types of Mutual Funds.

Overall positive growth rates were found with Liquid Fund, Remaining Income, Growth or Equity, Index and Gold ETF funds while Gilt and Solution Oriented Schemes have shown an overall decrease. Highest growth was witnessed during 2016-17. Assets Under Mutual funds have grown at an average of 18.90 percent. 2016-17 marked with highest growth while a decline in growth continued thereafter. There is decrease assets by 6.45 percent during 2019-20. Hybrid schemes and Liquid/Money Market/Floater funds followed the Solution Oriented Schemes. Surge in Gold ETF during 2019-20 is made up the average and does not show any consistency. Debt Oriented schemes shown lowest growth rate during the period.

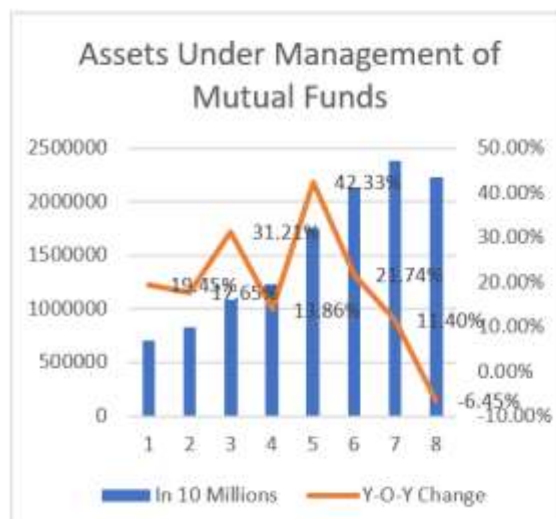

Fig. (14). Assets Under Management of Mutual Funds.

RECENT DEVELOPMENTS

- During the pandemic, household surveys report that income and savings have decreased between 30 and 80 percent across globe and in most countries, between 20 percent and 60 percent of the wagers reported fear of job losses. The panic among the households would have impacted in consumption and increased savings. Amount in bank deposits have continued to rise but the share of household savings has declined.

- Households tended towards more currency holding than depositing or investments in speculation about the restrictions and lock-downs.
- Concerns about the health and life threatening effects of the pandemic promoted urge for life and medical insurance.
- Investment in equity declined and have sharply increased during 2020-21.
- Investment in gold has witnessed a sharp rise during pandemic.
- India stood the second largest investor in Crypto Currency according to Global Crypto Adoption Index 2021.Investment in Crypto currencies has been increasing.
- Consumption exceeds earnings in youth, who constitute 70 percent of workforce.

SUMMARY FINDINGS:

- Domestic Savings as proportion of GDP have been declining on account of reduced household savings.
- Investments in Physical Assets are predominant hovering around 60% followed by financial investments with 39%. Investment in Financial Assets growing at 11.8%.
- Bank Deposits lead the investment in financial assets, followed by Provident Fund and Life Insurance.
- There is an overall increase in Life Insurance at a lower rate compared to earlier period. Life Fund is most sought among life insurance products. ULIPs still least popular. Pension Funds are growing at faster rate.
- Investments in Mutual Funds are rising with a reduced growth rate. Growth/Equity Funds are most popular followed by Other Income oriented/Debt Security Funds.

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