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A Study of The Understanding About The Savings and Investment With Reference to The Common Man in India

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Abstract:

Investment is a type of activity that is engaged in by the people who have to do savings i.e. investments are made from their savings, or in other words it is the people invest their savings. A variety of different investment options are available that are bank deposits, Gold, Real estate, postal services, mutual funds & so on much more. Investors always invest their money with the different types of purposes and objectives such as profit, security, appreciation, income stability. In this research paper attempt has been taken to study the factors which influence saving and investment along with the factors which affect as well by conducting the survey through questionnaire in Ghaziabad city of India. Actually, the present study identifies about the preferred investment avenues among individual investors using their own self-assessment test. The basic objective of the study is to analyze whether the common men have proper understanding about savings and investment.

Keywords: *Savings, Investment, Understanding, Mutual fund, Financial, Literacy, Capability, Behavior*

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I. INTRODUCTION

The words "saving" and "investing" are sometimes used interchangeably by common men, and sometimes individuals assume purchase of insurance policies as investment but when it comes right down to it, one should be engaged in both, separately, to secure financial future. Money is saved for purchases and emergencies. Saving money typically means it is available as and when it is needed and it has a low risk of losing value. It is important to track savings, putting a deadline, or timeline, and a value to life goals. Life goals help in determining how much money is needed, how much to save monthly over what period, and then it enables a person to take money out from corpus otherwise one has to pay a fee or interest for making the required amount available by way of borrowings.

When it comes to investing, it is important to invest wisely. Investments always give better returns if they are made at the possible earliest. Understanding different investment vehicles, what they are for, and how to use them is imperative to being successful. Investing is sensible only when life goals are clearly known in terms of short term, medium term and long term. The marking of life goals makes it possible to allocate savings to investible avenues in a weighted proportion of required corpus in future for each life goal. Each investment product has unique features of risk and return. In case of Mutual Funds, the India's capital market regulator SEBI calls upon all MFI to mandatorily make public announcements about mutual funds that they are subject to market risk. However, the buyers of MF are rarely found to have sincere about what short of market risks are attached to MF at the time of putting money therein. This is either because of ignorance or lack of awareness and hence the real returns deviate from expected return in many cases or the major portion of principal investments are not recoverable. Similarly, in case of Insurance markets, the policy buyers do not plan well to buy the right product as per need and affordability and later, they turn victim of misselling, lose significant amount of premiums paid, their policies go lapsed, or they compromise with reduced amount of surrendered value. In other cases, having blind trusts in agents' words or due to not paying personal attention at the time of filling proposal forms, a wrong entered information weaken the chances for insured ones to get maturity benefits and claims. Also, people intend to invest money in gold with objective to secure the financial future or to fight against the effect of future inflation, but it is seen that several savers tend to buy only gold ornaments which they either mortgage in future needs or sell it. In both the cases their investment in gold turn risky as the earlier one is availed at high interest cost and in later case, the value so realized by the buyers is provided at a discounted rate. Hence, the real return from investment in gold is not achieved in an effective manner. As against this, the buyers may have better returns from investing in gold if they buy gold ETF than physical gold but lack of awareness does not help to change the behavior. In case of other products too, the behavior of investors is seen vague which is highly risky and therefore, the subject is of utmost importance for study.

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II. INVESTMENT CULTURE IN INDIA

India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers of the world over the next 10-15 years. Given the growth trajectory, it is important that the people covered by financial inclusion are aware of the complexities of financial products. Being aware about investing helps investors to fully appreciate opportunities and associated risks, take informed decisions, understand the intricacies of financial markets and participate actively in the economic growth of the country by converting savings into investments.

Investment culture among the people of a country is an essential prerequisite for capital formation and the faster growth of an economy. Investment culture refers to the attitudes, perceptions, and willingness of individuals, and institutions in placing their savings in various financial assets, more popularly known as investments. A study on the investment behavior and preferences thus assumes a greater significance in the formulation of policies for the development and regulation of savings in general and protection and promotion of small and house-hold investors in particular.

It is very clear from the literature review that many studies have been undertaken exclusively to study the perception, preferences, and behavior of the small and household investors, a very crucial area in the formulation of policies and procedures for the orderly growth and development of savings market in any nation. It has become all the more important to study and analyze the investors 'awareness, perceptions, and preferences, behavior of various investment avenues available to them in the market.

III. INVESTMENT VS. SPECULATION

Identifying speculation can be best done by distinguishing it from investment. According to Ben Graham in Intelligent Investor, the prototypical defensive investor is "one interested chiefly in safety plus freedom from bother." He admits, however, that "some speculation is necessary and unavoidable, for in many common-stock situations, there are substantial possibilities of both profit and loss, and the risks therein must be assumed by someone." Many long-term investors, even those who buy and hold for decades may be classified as speculators, accepting only the rare few who are primarily motivated by income or safety of principal and not eventually selling at a profit.

The developing countries in world, like India face as seen the enormous task of finding sufficient capital to utilize in their development efforts. Most of countries find it difficult at stage to get out of the vicious circle of poverty that is prevailing of low income, low saving, low investment, low employment etc. and the list goes on. With high capital output ratio, that is observed India needs very high rates of investments that would take and make leap forward in her efforts continues of attaining high levels of growth.

The major features that is seen in an investment are safety of principal amount, liquidity, income and its stability, appreciation and lastly easy transferability. A different variety of investment avenues in abundance and types are available such as shares, bank, companies, gold and silver, real estate, life insurance, postal savings. All the investors invest who wish to invest, invest their surplus money in the above mentioned avenues that are available based on their risk taking attitude and capacity bearing.

IV. INVESTORS FINANCIAL LITERACY VS. FINANCIAL CAPABILITY

Financial Capability has been defined by the Center for Financial Inclusion (CFI) as the combination of knowledge, skills, attitudes and behaviors a person needs to make sound financial decisions that support well-being. Financial capability contrasts with financial literacy and education, which are concerned with knowledge, skills, information. Financial capability includes financial literacy plus attitudes and behavior. Financial capability aims for behavioral change and not just imparting knowledge. It helps people solve specific problems rather than to acquire broad skills. A part of the capability mandate is also to protect consumers. One of the criticisms of financial literacy is that many initiatives lack practical relevance. Those imparting the knowledge often have poor financial capabilities. Financial capability addresses the knowing-doing gap, assuming that the 'knowing' is in place.

According to World Bank, Financial capability encompasses the knowledge, attitudes, skills, and behaviors of individuals with regard to managing their financial resources and understanding, selecting, and making use of financial services that fit their needs. Given its multidimensional nature, it is difficult to measure financial capability with a single indicator, and financial capability surveys usually measure the broad concepts which are as follows;

Financial Capability Concepts

Knowledge	Skills	Attitudes	Behaviours
▪ Knowledge of Financial Concepts (inflation, compound interest etc.) ▪ Awareness of Financial Products and services ▪ Practical Know-how (how to make payments, how to open a bank account etc.	▪ Numeracy Skills ▪ Literacy Skills	▪ Reasons for or not for saving, borrowing, investing etc. ▪ Attitudes towards the future ▪ Confidence in own plans for old age ▪ Proclivity towards budgeting, saving and lending etc.	▪ Money management (managing day to day finances) ▪ Long term Planning (Preparing for emergencies and retirement) ▪ Financial decision making(ability to choose appropriate financial products) ▪ Seeking Financial Advice

Figure 1 - Financial Capability Concepts

Source: World Bank, "Financial capability surveys around the world"

V. INDIA FINANCIAL LITERACY PLUS FINANCIAL INCLUSION = FINANCIAL CAPABILITY

Financial capability – or the lack of it - has a profound effect on a person's overall well-being. In India, far too many are struggling to manage money well, with far-reaching consequences for individuals, families and society/economy. The consequences of low financial capability can be very serious. In recent years, easy credit, low incomes, and poor money management, among other factors, contributed to financial problems among low- and moderate-income families.

The interaction between financial literacy and financial inclusion is central to the idea of financial capability. Financial knowledge and skills (from economic socialization and financial education), generates improved financial literacy. It is widely accepted that, accessible, affordable, financially attractive, easy to use, secure, and reliable financial products lead to financial inclusion.

Together financial literacy and financial inclusion build financial capability in low-income households. Increases in financial capability lead to greater financial well-being, and more opportunities for financial development. Financial well-being and opportunity for financial development generate more financial literacy and financial inclusion.

Financial capability is different from financial literacy. Education/Literacy is still an important strategy, but a more comprehensive approach, including a well-being or wellness focus that does not judge the choices people makes, but helps them in the context of the services and products available to them would be a better idea.

VI. STATEMENT OF THE PROBLEM

As stated above, the small and household investors constitute a vital segment of the Indian money market and greater understanding of the investor's preferences, and the behavior of these investors is very vital in the policy formulation on development and regulation of these savings market to ensure the promotion and protection of interests of small and household investors. The present research work, thus attempts to study the understanding and awareness of the common man about saving and investment.

VII. OBJECTIVE

1. To analyze the investors behavior in various investment avenues
2. To analyze the investors level of satisfaction towards savings schemes.
3. To assess the relationship between the investment behavior and preference of savings schemes.

VIII. RESEARCH DESIGN

The present study is mainly based on the primary data collected from 100 individuals located at different place in the targeted city and is behavioral in nature. However, the secondary data is also made use of, at places of the study wherever it became necessary. The primary data is collected through a structured schedule. The schedule is designed keeping in view the objectives of present research work and is pre-tested by means of pilot study. The relevant secondary data is gathered from the reports, books, journals, periodicals, dailies, and magazines, and websites. The data and the information collected with the help of a schedule are processed and analyzed using excel software.

IX. ANALYSIS

In order to know the savings and investment behavior, several rounds of discussion were held with subject experts, investors and common men in the field. The following findings on this basis could be drawn:

Investors Classification		Percentage
Sex	Women	28
	Men	72
Employment	Employees in Organized Sector	24
	Workers in Unorganized Sector	36
	Self Employed	18
	Unemployed	22
Age Group	18-40	46
	41-59	43
	Senior Citizens (60+ years)	11
Others	Those who did not experience fraud in last 10 years	31
	Online Fraud Victims	36
	Who had ever turned victims of ponzi schemes	33

Figure 2- Profile of the Respondents

Investors Classification	%
Respondents who do not save	21.75%
Respondents who save but do not invest	26.25%
Respondents who invest regularly	8.5%
Respondents who invest unsystematically	25.5%
Respondents who have no understanding about savings and investments	18%

Figure 3- Measured Response of Investors

Deposits & Investments Products	% invested in Yr. 2018
Deposit in Bank Savings Account	52.30%
Life Insurance	9.60%
Mutual Funds/SIP	7.80%
Deposit in Bank Current Account	7.70%
Deposit in Bank (Fixed/Recurring)	6.40%
Precious Metals (Gold, Silver, Diamond etc.)	5.05%
Deposits in PPF	4.00%
Pension Schemes	3.10%
Post Office Savings Schemes – NSS, KVP etc.	1.30%
Deposits in Provident Fund	1.10%
Real Estate	0.70%
Equity/Stock/Shares	0.60%
Debentures/Bonds	0.25%
Commodities – Futures	0.10%
Derivatives – Equity/Currency	0.00%
Ponzi schemes	0.00%

Figure 4- Investors Choice of Avenues

About Self-Assessment of Financial Knowledge: 18% of the respondents had confidence on their financial knowledge, whereas 34% of the respondents felt that their knowledge is about average. 16% of women, 21% of men and 32% senior investors were confident about their financial knowledge. About Response to the specific Knowledge-based questions: 51% of the respondents correctly answered questions related to Interest on loan. 41% and 32% of the respondents correctly answered questions on Simple interest and Compound Interest respectively. A 14 % correctly responded to risk and return and inflation definitions, whereas, awareness about the definition of diversification was insignificantly low. When measured investor's preference to deposits and investments, findings were that their preferred choices and trust are high in banks, followed by insurance and mutual funds and post office scheme. The respondent workers of unorganized sector reported that their savings are not enough to invest. Direct investment in the capital market was very minimal and awareness of respondents was not enough about Debentures/Bonds, Commodities – Futures, Derivatives – Equity/Currency etc.

X. FINANCIAL KNOWLEDGE

Most are not prepared to make sound financial decisions regarding saving and investments because they do not have financial knowledge in detail

XI. VALUES, ATTITUDES & PERCEPTIONS

- The behavioral precursors of saving are moderate
- Principal reasons to save are to provision for the future and retirement.
- Principal reasons to invest are for retirement and higher return.
- Numerous barriers to invest: Financial scandals & corruption

XII. TRUST

- 31% of the population has declining level of trust in financial institutions other than banks
- Trust increases with education and awareness
- Transparency, professionalism, honesty, and solvency of financial institutions to achieve better surpluses from investors
- The precursors of saving behavior are stronger than those of investment
- The reasons to save and invest seem appropriate
- There are many barriers to invest. Ponzi schemes, rising online frauds, financial scandals are the most important ones.

XIII. FINANCIAL LITERACY

1. Impact of inflation on the purchasing power of money
2. Computation of simple interest
3. Concept of compound interest
4. Benefit of the diversification

XIV. CONCLUSION

It has been noticed world over that an investor's greatest and most portent enemy is greed for higher returns. Many a times, rational thinking people tend to behave in the most irrational manner while investing their savings. A well-known investment guru has analyzed this uncanny behavior in one sentence - "Investor, protect thyself from thyself". While analyzing, the popular savings options, one should consider two key factors: Taxation and Inflation along with risk and return. Thus, a sound investment is one which gives the investor reasonable return after deducting outgo of tax as well as the invisible tax of inflation. To conclude, here is a quote from a recent survey carried out in the US among finance professionals revealing some common characteristics of successful women investors: "Ask questions; Seek help; Do your homework; and Set goals". The researcher has analyzed and found that those salaried employees consider the safety as well as good return on investment that is invested on regular basis. Respondents are not much more aware about the different investment avenues available in India and female investors have least awareness.

XV. RECOMMENDATION

In investing money, the amount of interest you want should depend on whether you want to eat well or sleep well. - J. Kenfield Morley Are you on the road to a secure future? The following points should be kept in mind while taking the decisions related to savings and investment of the savings: safety of your investment. What do you need to look for while investing to ensure that your investment is safe? The factors that you need to look for would vary with the type of investment. For example, in the case of shares, the safety may be partially gauged from quantitative data such as the past trend in the price of the stock, the financial performance of the company; it also may be supplemented with qualitative factors such as the reputation of the company. Analyzing balance sheets and project reports, however, require a great deal of expertise and time, which is usually beyond the scope of the retail investor. Therefore, the reputation of the issuer remains the only guide available. When it comes to deposits or bonds issued by public companies or financial institutions, an investor can rely on credit ratings. A Credit Rating is an evaluation of the safety of an instrument made by an agency. These agencies undertake a detailed analysis of the issuer's strengths and weaknesses. The rating is allotted based on a formula that also incorporates past performance and volatility. They have a large and expert infrastructure that allows them to make the kind of financial judgment, beyond the scope of an individual retail investor. There is evidence that combining financial education and experience with financial products matters. Programs that provide financial education and a financial product often emphasize one or the other. Evidence from programs led by financial education—but also including experience with a financial product suggests that the addition of the product may increase motivation to learn and assimilation of financial information. This type of experiential approach to teaching financial education may be more effective. Another approach is by using a stock market game in financial education with youth has better outcomes than didactic approaches.

In India, a coordinated approach to financial education which is important component of financial capability is missing. Each agency is working largely in isolation, sometimes in the same space. Sharing of resources, content and expertise that would build capacity reciprocally is missing. India needs a coordinated approach to address the twin issues of investor protection and investor awareness.

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