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A STUDY ON THE SAVING AND INVESTMENT HABIT OF SMALL AND RETAIL INVESTORS

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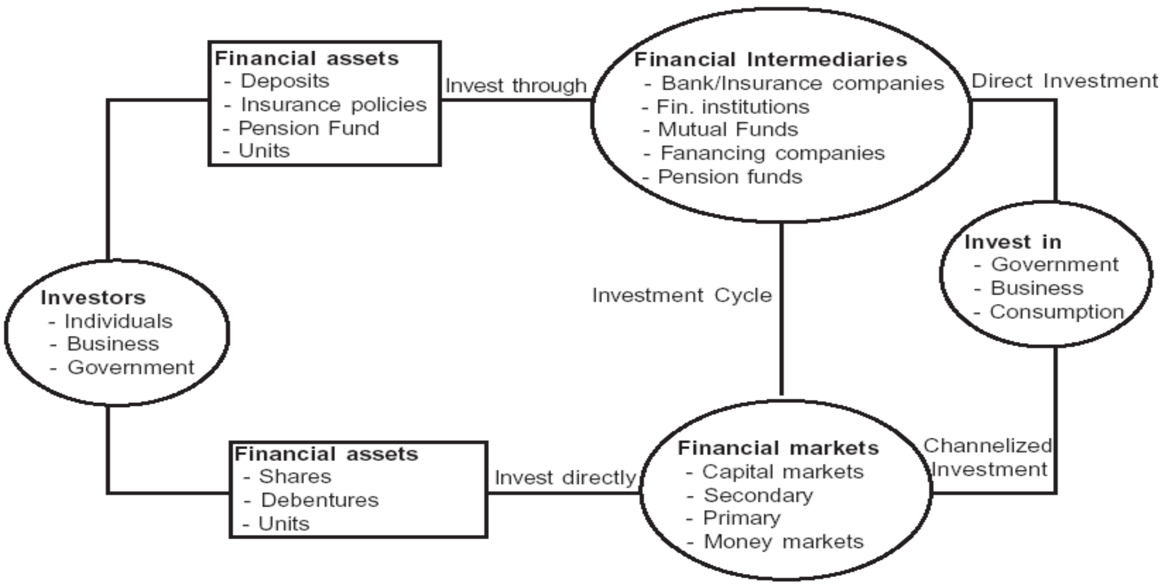
Economy of any country consists of numerous entities, which are vital for smooth functioning of the economy. Each of these entities has a specific role to play. Broadly, there are three entities in the economy viz., household, corporate (private and public sector) and Government. All the sectors, at some point of time, are either with surplus funds or have deficit. Surplus entities play an important role by supplying funds to the deficit entities. Businesses borrow funds for capital expenditure whereas Government borrows for public spending and other vital purposes. The way in which various sectors supply funds to the capital markets are like - wise linked. It is a known fact that most of the funds that are supplied to the market come from individuals or the retail sector since corporate entities usually plough back their earnings.

One of the basic preconditions for the growth of an economy is the growth in capital formation. Capital formation implies diversion of productive capacity of the economy to the making of capital goods that increases future productive capacity. The process of capital formation thus involves three distinct yet interdependent activities, viz., savings, finance and investment. As the size of national income increases with increase in productive capacity, the volume of savings also generally increase. It is a well-known fact that private and government savings are limited in scope. In such a case the individual savings becomes important. These individual savings are influenced by a multitude of social, psychological and political factors. The economic factors, specifically the level and distribution of income, fiscal, specifically the level and distribution of income, fiscal, monetary and economic policies are also important, as they drive the main factors.

Out of three activities that are important for capital formation, finance forms a vital activity of routing the savings to investments so that capital formation takes place, thus leading to economic growth. This routing brings financial intermediation into picture. They facilitate flow of funds from surplus to deficit sectors. They are financial units and their main function is to manage the financial assets of other economic units. They borrow funds through issue of financial asset securities and re-lend the funds it raises. Most accepted financial intermediaries that are operating in our country are Banks, Investment companies, Insurance companies, Development Financial Institutions (DFIs), Non-Banking Finance Companies (NBFCs), Mutual Funds (MFs), Pension funds and some quasi government agencies.

The investment in any of the financial claim is governed by certain considerations. It ranges from return, safety, and liquidity to maturity. Different class of investors has different profile, which makes the intermediaries to design specific instruments for these classes. Good economic growth, liberalization of the financial markets, entry of foreign players into investment related sectors has resulted in the increase of investment avenues.

Figure 1.1
Financial System in India



Source: Mutual funds in India Emerging issues, Nalini Prava Tripathy, Excel Books, 2007, p.3

Financial institutions are the tools to mobilize savings and encourage investments by directing them to the productive channels and occupy a key position in the modern global economy. Financial institutions are of two types in general, namely Depository Institutions (e.g., Banks) and Non-Depository Institutions (e.g., Insurance Companies) and both serve financial markets. After banking, insurance is the most important segment of the financial sector, capable of providing huge amounts of funds for the economic development of the country. Insurance industry is an integral part of the financial system. Insurance companies play a significant role as financial intermediaries by providing liquidity and credit to the financial system. In turn, this helps in lowering the cost of capital and providing risk free opportunities to all the financial participants in the market.

Objectives of the Study:

The basic objective of the study is to examine the savings and investment related alternatives and decisions of small investors in the tri cities of Warangal, Hanamkonda and Kazipet of Telangana State. However, the sub objectives of the present study are as follows:

1. To understand the investment objectives of the small investors,
2. To study the various factors that influence the savings and investment related decisions of the small investors,
3. To understand the most preferred savings and investment alternatives by the small investors,

Research Methodology and Database

The study is predominantly based on both primary data. However, the related secondary data is also used wherever required.

Primary data is collected by administering a structured questionnaire to randomly selected policy holders and agents in Warangal division of LIC of India based on convenience sampling consisting of 240 respondents.

The secondary sources of data include the Government publications, Magazines/Journals pertaining to the related topic of the research, the search engines and the related websites.

Tools of Analysis:

The data collected is analysed through tables. For better understanding of the same ratios & percentages, simple averages are used.

Scope of the Study:

The present study is confined to the tri cities of Warangal, Hanamkonda and Kazipet for collecting the responses to understand the savings and investment habits of the small and retail investors.

Limitations of the Study:

The proposed study is restricted to the following limitations:

1. The proposed study is confined to the small and retail investors,

2. The study is confined to the geographical limits of Warangal Hanamkonda and Kazipet tri cities of Telangana State,
3. The size of the sample respondents is 240 only, hence the conclusions arrived at may tend to be arguably tentative,
4. The primary data collected from the respondents may be biased and hence the conclusions arrived at may not be applied universally.

Savings and Investment habit of small and retail investors

The relationship between saving, investment and economic growth has surprised economists in India over a period of time. Generally, in case of retail investors a portion of income is saved and put into investment. India Investment accounted for 34.3 % of its Nominal GDP in March 2021. India accounts for one of the leading countries in terms of savings and investment in terms of its GDP. However, proper channel of those savings into productive investment alternatives is also very important for the growth and development of economy.

Table 1

Age-Wise Classification of the Respondents

Age Group	No. of Respondents	Percentage
25 to 40 years	128	53
40 to 50 years	66	28
50 to 60 years	38	16
Above 60 years	08	03
Total	**240**	**100**

Source: Primary Data (Compiled from Tabulated Responses)

Age plays a vital role in making decisions and quality thereof. Investment habits of the people across the age groups will not be the same. Table 1 shows the age profile of the respondents. From the table it is observed that the maximum number of respondents belonged to the age group of 25-40 (53 per cent), followed by 40-50 (28 per cent) age category. The tendency to invest more is generally high in the age group of 25-40 as it is regarded as the risk taking and risk bearing age group in the human life cycle.

Ability to take informed decisions would largely depend on the education level. Investment decisions would undoubtedly be affected by the investor's ability to scan around and find the right opportunity. Table 2 presents the details relating to the educational qualifications of the investors. Of the total respondents 40 percent possess Graduate degree followed by Post - graduates (27 per cent) and 16 percent of the respondents are having professional qualification such as Chartered Accountants (C.A.s), Doctors, Company Secretary (C.S), and L.L.B's. A majority of the respondents are capable of understanding the return, risk and safety aspects of the various savings and investment alternatives.

Table 2
Educational Qualification of the Respondents

Educational Qualification	No. of Respondents	Percentage
Intermediate	42	18
Graduation	96	40
Post Graduation	64	27
Professional Course	38	16
Total	**240**	**100**

Source: Primary Data (Compiled from Tabulated Responses)

Not all individuals would possess same acumen to determine the portfolio of investment. People in different professions / occupations are endowed with different sets of skills for making decisions. The particulars relating to the profession of the respondents are presented in Table 3. An analysis of the table clearly indicates that out of 240 respondents as many as 110 (46 per cent) belong to the business community followed by Government service (19 percent), professional (17 per cent) and private service and self-employed (9 per cent each). As business community respondents are very calculated in taking risk with the given amount of assured return the high proportion justifies the need for the present study.

Table 3
Occupation/Profession – Wise Classification of the Respondents

Occupation	No. of Respondents	Percentage
Government Service	46	19
Private Service	22	09
Self employed	22	09
Professional	40	17
Business	110	46
Total	**240**	**100**

Source: Primary Data (Compiled from Tabulated Responses)

Investment made in any avenue is a function of savings. Savings itself is influenced by income levels. Hence, an understanding of the income levels of the respondents become necessary. The particulars relating to the same are presented in Table 4. The table gives the break-up of the income of the respondents. The highest proportion of respondents are having an annual income of Rs 2 to 4 Lakhs (33 percent) followed by Rs. 4 – 6 Lakhs (26 percent) , Rs. 6

– 8 Lakhs (21 percent), less than Rs.2 Lakhs (17 percent) and More than Rs.8 Lakhs (3 percent).

Table 4
Annual Income of the Respondents

Annual Income (in Rs.)	No. of Respondents	Percentage
Less than 2 Lakhs	40	17
2 – 4 Lakhs	80	33
4 – 6 Lakhs	62	26
6 – 8 Lakhs	50	21
More than 8 Lakhs	08	03
Total	**240**	**100**

Source: Primary Data (Compiled from Tabulated Responses)

Savings are an integral part of any household system. Table 5 reveals the savings habits of the respondents and it is observed that the majority of the respondents have savings of 20 to 30 percent (48 percent) of their income followed by above 30 percent (39 percent) the least percent of savings are found in the range of 5 to 9 percent indicating only 3 percent of the respondents under study.

Table 5
Classification of the Gross Savings per Month of the respondents

Percentage of Savings	No. of Respondents	Percentage
1 to 4 percent	12	05
5 to 9 percent	06	03
10 to 20 percent	14	06
20 to 30 percent	114	48
Above 30 percent	94	39
Total	**240**	**100**

Source: Primary Data (Compiled from Tabulated Responses)

Table 6 reveals the savings habits of the respondents based on their annual income. It is interesting that all the respondents in the range of 1 to 4 percent of savings habits are from less than Rs.2 lakhs income group and the savings habits of all the respondents with more than Rs.8 lakhs income is either 20 percent or more. In the income groups of Rs.2-4 lakhs and Rs.4-6 lakhs majority of savings are in the range of 20-30 percent whereas in the income group of Rs.6-8 lakhs majority of savings preferred are above 30 percent.

Table 6

Classification of the Income and Gross Savings Habits of the respondents

Savings / Income (in Rs.)	**1 to 4%**	**5 to 9%**	**10 to 20%**	**20 to 30 %**	**Above 30%**	**Total**
Less than 2 Lakhs	12 (05)	02 (01)	04 (02)	10 (04)	08 (03)	36 (15)
2 to 4 Lakhs	Nil (00)	04 (02)	08 (03)	52 (22)	20 (8)	84 (35)
4 to 6 Lakhs	Nil (00)	Nil (00)	02 (01)	36 (15)	24 (10)	62 (26)
6 to 8 Lakhs	Nil (00)	Nil (00)	Nil (00)	12 (05)	38 (16)	50 (21)
More than 8 Lakhs	Nil (00)	Nil (00)	Nil (00)	04 (02)	04 (02)	08 (03)
Total	**12 (05)**	**06 (03)**	**14 (06)**	**114 (48)**	**94 (39)**	**240 (100)**

Source: Primary Data (Compiled from Tabulated Responses)
Note: Figures in parenthesis indicate the percentage value.

An attempt was made to find the first preference among the various investments options the respondents prefer to invest their money. Table 7 gives an indication about the various options in which the respondents prefer to invest. The details are shown in Table 7. It can be understood from the table that the majority of the respondents (36%) prefer to save or invest in Insurance. 16% of the respondents preferred bank deposits and only 6% of the respondents preferred shares as their first investment alternative. This clearly indicates that majority of investors are preferring safety over returns and are willing to take minimum risk. Tax saving option is another prominent reason to invest in insurance plans.

Table 7

Various types of Investments in which the Respondents have invested as their first preference

Type of Investment	**No. of Respondents**	**Percentage**
Bank Deposits	38	16
Government Bonds	18	08
Equity (shares)	14	06
Property/Real Estate	22	09
Mutual Funds	28	12
Precious Metals	32	13
Insurance	88	36
Total	**240**	**100**

Source: Primary Data (Compiled from Tabulated Responses)

Table 8

Classification of the Recommendations followed by the respondents while investing in the Stock Market

Recommendation Followed	**No. of Respondents**	**Percentage**
Expert opinion	48	20
Self Analysis	85	35
Friends & Relatives	65	27
T.V. / News Papers	42	18
Total	**240**	**100**

Source: Primary Data (Compiled from Tabulated Responses)

As indicated in the Table 8, 35 percent of respondents make self analysis while making investment decisions whereas 27 percent depend on the suggestions of friends & relatives; 20 percent rely on expert opinion and 18 percent prefer the TV/Newspaper advertisements.

Table 9

Investment objectives of the respondents

Investment Objective	No. of Respondents	Percentage
Capital protection with minimum returns	38	16
Capital Appreciation with risk taking ability	57	24
Tax Saving	68	28
Children future obligations	52	22
Retirement corpus	20	08
Others	05	02
Total	**240**	**100**

Source: Primary Data (Compiled from Tabulated Responses)

An attempt was made to understand the saving and investment objective of the respondents under study. The details of the various objectives as stated by the respondents are shown in Table 9. It can be seen that majority (28%) of the respondents prefer the saving and investment objective as tax saving option. Around 24% of the respondents prefer capital appreciation with risk taking ability, 22% of the respondents opined that they prefer to save for meeting the future obligations related to their children. Only 8% of the respondents opined that they are planned for their retirement corpus.

Table 10

Details of the Time Horizon of Investment by the Respondents

Time Horizon	No. of Respondents	Percentage
Less than 6 months	08	03
6 months to 1 year	54	23
1 year to 3 years	166	69
More than 3 years	12	05
Total	**240**	**100**

Source: Primary Data (Compiled from Tabulated Responses)

It is generally considered that any form investment should be for a longer duration to get the desired/maximum return. Table 10 indicates the time horizon of the respondents' investments. It can be seen that 166 respondents (69 percent) out of the total of 240 respondents have a time horizon of 1 year to 3 years followed by 23 percent of the respondents having a time horizon of 6 months to 1 year. Only 5 percent of the respondents have a time horizon of more than 3 years and 3 percent of the respondents have it as less than 6 months.

The expected return on investment by and large is determined by the risk associated with the investment avenue. The universal dictum of science of finance has been: "higher the risk, higher will be the return". The expected return of the respondents is illustrated in Table 11. An analysis of the table reveals that the majority of the respondents (61 percent) prefer a return in between 15-20 percent. 28 percent of the respondents prefer a return between 10-15 percent whereas only 08 percent said their expected return is more than 20%. Interestingly there are only 03% of respondents with expected return of less than 10 percent; this may be due to the reason that the government bonds/deposits which have zero risk also guarantee more than or equal to such return.

Table 11

Classification of the Expected Return (per annum) of the Respondents

Expected Return / Income	**< 10 %**	**10 -15 %**	**15 – 20 %**	**> 20 %**	**Total**
< 2 Lakhs	06 (03)	16 (07)	18 (08)	00	40 (18)
2 – 4 Lakhs	02 (01)	28 (12)	50 (21)	00	80 (33)
4 – 6 Lakhs	Nil (00)	20 (08)	38 (16)	04 (02)	62 (26)
6 – 8 Lakhs	Nil (00)	02 (01)	36 (15)	12 (05)	50 (20)
8 – 10 Lakhs	Nil (00)	Nil (00)	05 (03)	03 (01)	08 (03)
Total	**08 (03)**	**66 (28)**	**147 (61)**	**19 (08)**	**240 (100)**

Source: Primary Data (Compiled from Tabulated Responses)

Major Findings and conclusions:

The following are the major findings and conclusion of the study:

1. Majority of the respondents of the study preferred tax saving as the first preference for the investment option. In view of this they preferred Insurance as their first investment alternative.
2. Majority of the respondents preferred an expected return of 15-20% per annum.
3. Majority of the respondents make self-analysis while taking the investment decisions.
4. It is observed that majority of the respondents have an investment horizon of 1-3 years.
5. It is observed that the majority of respondent investors are risk averse and preferred shares and mutual funds as their last preference of investment alternative.

6. The investors shall understand that the insurance is a protection related product and shall be preferred only as protection to the family in case of any mishap. It shall not be considered as investment related option as it may not generate good returns in the long run.
7. Mutual funds offer more flexibility in investment to the retail investors. They are the appropriate vehicle to achieve many financial goals in one's life time if invested in a disciplined way over long term.

References:

- RBI Annual Reports.
- IRDA Annual Reports.
- Literature related to Mutual Funds published by SEBI and AMFI.