

The changing face of savings & investments in India

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A SURVEY by Market Xcel has found that investors in small towns in India are more open to modern avenues of savings and investments. To take just one case, Amit Nandwani, a shopkeeper in Agra, invests around Rs 6,000 every month in Systematic Investment Plans (SIPs). However, his friends, all of whom are self-employed, choose to rely on traditional avenues of savings and investments such as post office small savings schemes, National Savings Certificates and insurance policies.

Rise of unconventional modes

According to the Association of Mutual Funds in India (AMFI), between September 2011 and March 2012 the proportion of assets contributed by tier-I, II and III cities and smaller towns in assets under management (AUM) of the Indian mutual funds industry increased 3.63 per cent to 28.88 per cent. In absolute terms, these regions contributed Rs 7,500 crore more to the industry's AUM. On the Bombay Stock Exchange the share of investors from cities such as Rajkot, Ahmedabad, Bangalore, Indore, Jaipur, Patna and Ludhiana has grown more than threefold, although on a smaller base.

Till recently, investors in emerging cities such as Agra, Vizag, Gauhati and Rajkot were focused on conventional modes of investing.

The Market Xcel Data Matrix survey found that unconventional modes are picking up fast. Although traditional life insurance and bank fixed deposits remain popular, 64% of the 3,000 respondents in 24 towns across India said they intend to invest in stocks and shares, 37% would like to invest in infrastructure bonds.

The mutual fund bug has also caught on to these towns and cities. About 40% of the equity-based mutual fund applications are from the non-metros. Interestingly, top five brokers in the country have over one-half of their clients outside the six metros, and Purulia, West Bengal and Hamirpur, Himachal Pradesh have more demat accounts than does Gurgaon, Haryana. The main reason for this shift from fixed income avenues and small saving instruments took place because the fallen returns look too low to take care of retirement needs. 55% of survey

participants in north India said they intend to invest in stocks and debentures with 45% saying would like to invest in infrastructure bonds.

Tenure of investments

Though, Indians have strong desire to try out different investment options, the current level of investment is little. North Indians invest more in long-term options. Overall investors in such cities like to make small investments of less than Rs 50,000 in a year (66% of the survey participants). 37% spent more than Rs 100,000. In the north 46% of people invested less than Rs 50,000 in long-term options during the past one year.

Reasons for saving

"Family" is the key to making investment decisions among these investors. The amount invested is generally the surplus out of meeting family expenses and commitments. The study reflects there are multiple reasons that lead to savings decisions; be it arranging for inflation in future, to maintain standard of living post retirement, tax saving, protection for the self and family by buying insurance products, good rate of returns and safety of money or stability of returns.

Role of spouse in decision making

In north India 93% of the audience uses its own knowledge for decision making on financial investments. The spouse's opinion has a vital role in decision making. The same trend was observed across India.

Even amid the worsening economic scenario during 2011-2012, Indian investors from smaller cities showed confidence in investing. Small town investors understand the significance of making investments as much as large town dwellers. The definition of savings and investments seems identical and led by factors that revolve around secure future, way to fight inflation, insurance and maintaining a particular level of lifestyle. Clearly there is a huge scope for financial companies and advisors in these emerging towns.

The author is research head at Market Xcel Data Matrix. The views expressed in this article are his own