Chapter II

Theoretical Analysis and Review of Prior Studies
CHAPTER II
THEORETICAL ANALYSIS AND REVIEW OF PRIOR STUDIES

PART - I THEORETICAL ANALYSIS

2.1 INTRODUCTION

Investment is an activity that is engaged in people who have savings. But all savings are not investments. Investment is different from savings. It means different things to different people. One person may purchase gold in large quantity for the purpose of price appreciation and consider it as his investment. Another person may take an insurance policy to avail so many benefits it offers in future. That is, his investment, yet another person may lend some amount to somebody with an intention to get interest at a future date and may consider the same as his investment. In all these cases, one thing is common that the amount is invested with the aim of achieving some additional income or growth in value. Hence, it involves the commitment of resources that have been saved in the hope that some benefit will accrue in future.

A major purpose of investment is to get a return or income on the funds invested. On a bond an investor expects to receive interest. On a stock, dividends may be anticipated. The investor may expect capital gains from some investments and rental income from house property.

Donald E. Fisher defines “an investment as a commitment of funds made in the expectations of some positive rate of returns. If the investment is properly undertaken the return will commensurate with the risk the investor assumes.” F. Amling defines, the term investment means, “the purchase by an individual of a financial or real asset that produces a return proportion to the risk assumed over some future investment period.” Return is an important factor, which determines investment decision. In fact investments are made with the main objective of deriving a return. The return is of two types namely, yield and capital appreciation. The interest, dividends, rent, pension benefits received from the investment is known as yield. Where as the difference between the sale price and the purchase price is called capital appreciation.
In simple words, investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. These assets may range from safe investments to risky investments. Investment is a commitment of a person’s funds to derive future income in the form of interest, dividends, rent, pension benefits or the appreciation of the value of their principal capital.

2.2 FINANCIAL SAVING OF THE HOUSEHOLD SECTOR

Financial savings (net) of the household sector for 2006-07 at 11.6 percent of GDP at current market prices and same as the for 2005-06. Household financial savings underwent some changes in the preference pattern vis-à-vis 2005-06. Saving in the form of Currency, Deposits, Investment in Shares and Debentures and Contractual Savings (Life Insurance, Provident and Pension funds) as percent of GDP, increased in 2006-07, while savings in the form of claims on Government decreased. Financial liabilities registered an increase due to higher loans and advances.

TABLE-2.1 FINANCIAL SAVING OF THE HOUSEHOLD SECTOR (Rs. CRORE)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Items</th>
<th>2004-05P</th>
<th>2005-06P</th>
<th>2006-07#</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial Assets (Gross)</td>
<td>434317</td>
<td>595235</td>
<td>758751</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(13.9)[100]</td>
<td>(16.7)[100]</td>
<td>(18.4)[100]</td>
</tr>
<tr>
<td>1.</td>
<td>Currency</td>
<td>36977</td>
<td>51954</td>
<td>65427</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.2)[8.5]</td>
<td>(1.5)[8.7]</td>
<td>(1.6)[8.6]</td>
</tr>
<tr>
<td>2.</td>
<td>Deposits</td>
<td>161416</td>
<td>280602</td>
<td>422737</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(5.2)[37.2]</td>
<td>(7.9)[47.1]</td>
<td>(10.2)[55.7]</td>
</tr>
<tr>
<td>3.</td>
<td>Shares and Debentures</td>
<td>4967</td>
<td>29268</td>
<td>47918</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.2)[1.1]</td>
<td>(0.8)[4.9]</td>
<td>(1.2)[6.3]</td>
</tr>
<tr>
<td>4.</td>
<td>Claims on Governments</td>
<td>106420</td>
<td>87168</td>
<td>39197</td>
</tr>
<tr>
<td></td>
<td>(a) Investment in Govt. Securities</td>
<td>21313</td>
<td>14390</td>
<td>1654</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3.4)[24.5]</td>
<td>(2.4)[14.6]</td>
<td>(1.0)[5.2]</td>
</tr>
<tr>
<td></td>
<td>(b) Investment in Small Savings</td>
<td>85106</td>
<td>72778</td>
<td>37544</td>
</tr>
<tr>
<td>5.</td>
<td>Insurance Funds</td>
<td>67986</td>
<td>83540</td>
<td>113900</td>
</tr>
<tr>
<td></td>
<td>(a) Life Insurance funds</td>
<td>65577</td>
<td>80020</td>
<td>110964</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.2)[15.7]</td>
<td>(2.3)[14.0]</td>
<td>(2.8)[15.0]</td>
</tr>
<tr>
<td></td>
<td>(b) Postal Insurance</td>
<td>1414</td>
<td>1962</td>
<td>1237</td>
</tr>
<tr>
<td></td>
<td></td>
<td>995</td>
<td>1559</td>
<td>1699</td>
</tr>
<tr>
<td></td>
<td>(c) State Insurance</td>
<td>56552</td>
<td>62704</td>
<td>69571</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.8)[13.0]</td>
<td>(1.8)[10.5]</td>
<td>(1.7)[9.2]</td>
</tr>
</tbody>
</table>

Source: RBI Annual Report 2006-07 P-Provisional; # -Preliminary Estimates
Figures in () indicates as percent of GDP at current market prices and [ ] indicates as percent of financial assets (gross)

2.3 EVOLUTION OF SAVINGS IN INDIA

India is one of the high saving economies of the world. The rate of Gross Domestic Savings (GDS) has recorded a steady increase since the 1950s. The savings rate has increased from an average of around 10 percent in the 1950s to over 23 percent in the 1990s. It crossed 25 percent in the mid 1990s and reached its highest level of 29.1 percent in 2004-05 (As per Chart – A).

A large part of the overall improvement in domestic savings has emanated from higher household savings. The rate of household savings – comprising financial and physical savings- increased from around 7 percent in the 1950s to over 18 percent in the 1990s. In 2004-05, it stood at 22.0 percent. Since the 1950s, the household sector has remained the predominant source of the GDS and it contributed around 76 percent of total domestic savings in 2004-05 (as per chart B). Over time, although (as per Chart B) both financial and physical savings have recorded an increase, the composition of household savings has seen a shift in favour of financial savings reflecting the spread of banking and financial services across the country. The share of household savings in physical assets- comprising investment in “Construction”, “Machinery and equipments” and change in stocks-in the total household savings declined from more than 70 percent in 1950s to 53 percent in 2004-05. The share of household financial savings – comprising Currency, Deposits, Shares and Debentures, Government Securities, Life Insurance Funds and Provident and Pension Funds – in the total household savings increased from 25 percent in the 1950s to around 47 percent in 2004-05. The rate of financial saving increased from less than 2 percent in the 1950s to 10.3 percent in 2004-05.

Since 2000-01, the household sector has shown some preference for savings in the form of physical assets, which could be attributed partly to the soft interest rate regime in recent years as well as investments in housing. Within financial assets, preference has shifted from savings in the form of shares and debentures and deposits to claims on government and contractual savings. Contractual Savings-Comprising saving in Life Insurance Funds and Provident and Pension funds– amounted to 3.8 percent of GDP during 2000-01 to 2004-05. Demographic variables like life expectancy, literacy rate and

---

2 RBI Annual Report 2005-06 Page No.30
dependency ratios have emerged as key determinants of savings in addition to traditional variables like real interest rate, growth, per capital income, spread of banking facility and rate of inflation.

The rate of savings of the private corporate sector increased from one percent in 1950s to 1.8 percent in 1980s and 3.7 percent in 1990s. By 2004-05, it improved to 4 percent. The rate of savings of the public sector has witnessed mixed trends. It recorded an increasing trend till the 1970s but started declining thereafter and turned negative between 1998-99 and 2002-03 owing to sharp deterioration in the savings of the Government Administration. From 2003-03 onwards, Public savings have turned positive again, mainly reflecting fiscal consolidation. In 2004-05, Public savings rate was 2.2 percent, still less than a half of the peak of almost 5 percent touched in 1976-77.
2.4 INDIANS ARE SAVING MORE - IS A FACT OF LIFE

The Quick Estimates of National Account for 2003-04 released in early Feb. gives the “feel good” sentiment for the simple reason that Indian households have saved 28.1% of their Gross Domestic product. That is, out of every Rs.100 earned, they are saving Rs.28.10 into the piggy bank. At the time of Dr. Rajendra Prasad assuming charge as the first President of the Republic of India -way back in 1950, Indians were saving Rs.6.20 out of every Rs.100 earned. That was the time, the national savings itself was low at 8.9 percent of GDP. During 1970-71, when the late Prime Minister Indira Gandhi was described as “Durga” at the height of Bangladesh liberation war, Indians were saving just Rs.10.10 out of every Rs.100 earned. When late Narasimha Rao took charge as Prime Minister of India, they were saving Rs. 19.30 out of every Rs.100.

This rise has been consistent and impressive from 26.1% of GDP in 2002-03 impressive from 28.1% India, definitely, is in a big league, though it may not be in the class of china where the savings as a percentage of GDP is a whopping 40 percent. Others at the big table include Malaysia, Thailand and South Korea where the savings is pegged at 35 percent. By the by, what are the contours of this Indian savings which is Rs. 7,76,420 crore?. Out of this, almost three-fourths (74%) came from the households, the balance coming from corporate and governments.

A quick perusal of the Central Statistical Organization (CSO) data reveals that households park their savings in financial assets such as Banks deposits, investments in shares and debentures, mutual funds, investments in small savings schemes like postal savings, public provident fund (PPF) and insurance products. And another sizeable chunk going into physical assets such as residential properties, personal vehicles, mobile, etc. However, the household interest in the stock markets is puny for a long time due to anomalies that had rocked the capital markets. The search for risk free instruments ultimately convinced households to go in for low interest but secured bank and postal savings schemes.

Any classical economist will say that savings is equal to investment. That is S=I. Therefore, higher level of savings invariably gets translated into investments leading to higher GDP, better standard of living and in turn higher savings again. It is pertinent to

---

3 A Bajai Capital "Investors India" March, 2005 Page No. 16.
note the inflow of foreign institutional investors (FII) inflow into India at this juncture. The FII inflow is nothing but the pool of savings by foreigners coming into India to take advantage of the growing economy.

2.4 CHANGING PATTERN OF INDIAN HOUSEHOLDS SAVINGS:

Bank deposits, the old warrior in terms of favorite parking space for retail investors, are still holding the fort and they are holding it quite commendably. According to RBI data, at the end of 2005-06, the total saving deposits with banks stood at Rs.5,75,130 crore which was an improvement of over Rs. One lakh crore over the previous year’s figure of Rs.4,58,618 crore. As a result, the share of Bank Deposits in total financial assets of the system has shot up to 46 percent as against 36 percent in the previous year. With interest rates on Bank deposits once again on a rise, a substantial chunk of Bank depositors are trying to avail the best return possibilities in the shortest possible time frame. As a result, the cumulative term deposit in the time frame of one to two years has shot up to a whopping Rs.2,49,091 crore.

Traditional schemes like PPF, Life Insurance funds; Post Office Savings Schemes, etc. are the prime categories. The share of PPF in total financial assets has dropped from 12 percent to 9 percent and those of Government and Life Insurance funds have also depleted from 16 percent and 24.42 percent to 14 percent each. PPF is believed to be increasingly becoming unpopular because of two key reasons:

a) Interest rate on have down to nearly 8 percent from 12 percent and
b) Their 7 years inherent lock in mechanism does not suit the taste of new class of investors who are ready to take some risks.

Take the case of Mutual Funds. No doubt, till 2004-05, the mobilization of Mutual Fund companies was simply refusing to pick up. During the start period, the total mobilization of Indian Mutual Fund industry was a paltry Rs.2,788 crore. But since the, it has shown what could be simply called “an explosive growth pattern”. In the previous financial year (2005-06), the total annual mobilization was commendable Rs.50,673 crore. In the present fiscal (2006-07), Mutual fund industry managed to touch previous year’s figure during its first quarter itself. It is an amazing growth of 264.7 percent in

---

*A Bajai Capital "Investors India" November, 2006 Page No. 15.*
precise number terms. The staggering growth pattern of Mutual funds in the last couple of years clearly reflect the fact that household savers in India have started showing preference for products offered by AMCs and this trend is not demographic specific.

RBI figures also speak about the growing propensity of retail investors to taste the financial waters of the stock market. As again Rs.8,113 crore which went from Indian households into shares and debentures in 2004-05, the number multiplied by a little less than four times the following year. In fiscal 2005-06, the estimated investment made in shares by retail investors has been pegged at a whopping Rs.29, 452 crore.

2.6 THE HOUSEHOLD SECTOR SUPER SAVERS, NOT STAR - SHOPPERS

Table 1 is an extract of some of the areas into which hold house savings have been channeled over the past 11 years – from 1993-94 to 2003-04. The majority of the savings flowed into Bank deposits. Claims on government

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Gross Domestic Savings Household sector (2+3)</td>
<td>671692</td>
<td>574681</td>
<td>513110</td>
<td>452268</td>
<td>404401</td>
<td>326802</td>
<td>268437</td>
<td>232914</td>
<td>215588</td>
<td>199358</td>
<td>158310</td>
</tr>
<tr>
<td>2.</td>
<td>Net financial savings</td>
<td>314261</td>
<td>254439</td>
<td>253964</td>
<td>216774</td>
<td>205743</td>
<td>180346</td>
<td>146777</td>
<td>141128</td>
<td>105166</td>
<td>120733</td>
<td>94738</td>
</tr>
<tr>
<td>3.</td>
<td>Physical Assets</td>
<td>357431</td>
<td>320242</td>
<td>259146</td>
<td>235494</td>
<td>198658</td>
<td>146456</td>
<td>121660</td>
<td>91786</td>
<td>110422</td>
<td>78625</td>
<td>63572</td>
</tr>
<tr>
<td>4.</td>
<td>Gross Bank Deposits</td>
<td>169540</td>
<td>122304</td>
<td>102737</td>
<td>80880</td>
<td>72831</td>
<td>69800</td>
<td>64925</td>
<td>40709</td>
<td>32718</td>
<td>51400</td>
<td>30548</td>
</tr>
<tr>
<td>5.</td>
<td>Gross claims on Govt.</td>
<td>74001</td>
<td>62650</td>
<td>51940</td>
<td>39007</td>
<td>28986</td>
<td>28220</td>
<td>22162</td>
<td>11786</td>
<td>9588</td>
<td>13186</td>
<td>6908</td>
</tr>
<tr>
<td>6.</td>
<td>Investment in small savings</td>
<td>57269</td>
<td>47986</td>
<td>35100</td>
<td>34815</td>
<td>26789</td>
<td>26861</td>
<td>19368</td>
<td>141128</td>
<td>9149</td>
<td>13104</td>
<td>6451</td>
</tr>
<tr>
<td>7.</td>
<td>Shares &amp; Debentures</td>
<td>5699</td>
<td>5504</td>
<td>7777</td>
<td>10214</td>
<td>18118</td>
<td>6993</td>
<td>5060</td>
<td>10407</td>
<td>9101</td>
<td>17381</td>
<td>14772</td>
</tr>
<tr>
<td>8.</td>
<td>Life insurance funds</td>
<td>40834</td>
<td>40205</td>
<td>45546</td>
<td>32114</td>
<td>26894</td>
<td>21936</td>
<td>18194</td>
<td>15102</td>
<td>12934</td>
<td>10439</td>
<td>8784</td>
</tr>
<tr>
<td>9.</td>
<td>PF &amp; pension funds</td>
<td>50439</td>
<td>47932</td>
<td>46597</td>
<td>47872</td>
<td>53907</td>
<td>46424</td>
<td>32267</td>
<td>30389</td>
<td>22344</td>
<td>21414</td>
<td>18323</td>
</tr>
<tr>
<td>10.</td>
<td>Net domestic savings Household sector</td>
<td>579917</td>
<td>492164</td>
<td>436288</td>
<td>386187</td>
<td>342587</td>
<td>269551</td>
<td>216090</td>
<td>185362</td>
<td>173659</td>
<td>165425</td>
<td>129369</td>
</tr>
</tbody>
</table>

Source: Extract from Database on Indian Economy- Domestic Savings, published by RBI

[Published in Business line on 12.9.05]

5 Published in Business Line on 12.9.2005
(Comprising government securities and savings), Insurance and provident & pension fund in that order. The combined savings in these four channels alone account for about 85% or more of the total financial savings of the household section, in the five year period from 1999-00 to 2003-04. Bank deposits seem to be the preferred choice, consistently, despite the drastic reduction in interest rates from 12% for three years terms in April 1997 to 5.75% in January 2005 that is halving in this period. Safety, liquidity (including availability of loan against deposits), tax concessions (that increases the effective rate of interest) and, more important, absence of other investment avenues are the reasons for the rise.

The household has placed in banks Rs.169,540 crore from a paltry Rs.30,548 crore in the beginning of the last decade. In the last five years alone, bank deposits have risen at a rate of 10% in the choice of household financial savings.

Investment in Government securities and small savings has increased a substantial 500 basis points, from 12.3% in 1999-00 to 17.7% in 2003-04 (this figure is 24% for 2004-05 according to the RBI's latest Annual Report). In nominal terms, from 1993-94 to 2003-04, these savings registered a whopping 12 times increase. Though most of these savings lack liquidity, as they are long-term investment, and offer the highest safety to the depositor (government guaranteed) with tax incentives. All in all it is a decent return.

Life insurance and provident/pension fund investment have also seemed to rise. Life insurance funds growth could be for two reasons.

(i) Increased realizations about the need to insure.

(ii) The increased competition from private players in the last decade.

Investment in capital market suffered the same fate as risky company deposits. Barring the first two years (1993-94 and 1994-95) and the dotcom boom year 1999-00 (where investment peaked to Rs.18,118 crore), the savings has come down to a third in the decade to Rs. 5,699 crore in 2003-04. These include investment through mutual funds. The risk-adverse households have kept away from this avenue.

After the crisis in UTI, the country's single largest mutual fund, the investors remained net sellers only.
It is worth mentioning here that the entire corporate revenue contribution to the nation's income is 14% and a large portion of the balance income comes from non-corporate sector comprising of manufacturing, trading and services by proprietary and partnership firms, which are in reality the wealth creators and outright savers as mentioned above, in addition to individuals in the hold housesector.

2.7 FINANCIAL SAVING OF THE HOUSEHOLD SECTOR (GROSS):

6 The household remains the super saver, if its investments in gold are counted. About 85% of our national savings comes from households only. As per Table 2.3

2.8 EQUITY MAY BE HOT BUT INVESTORS PREFER THE STODGY OLD FD.

7 Indian house holds still favour the warm and fuzzy familiarity of their age-old investment avenues – Bank Deposits, Government Securities, small savings schemes and Life Insurance. At least, that’s what the figures for the financial year 2003-04, released recently by the central statistical organization, seem to suggest.

i) Bank Deposits: Time planning for long-term goals like retirement simply meant putting your money in risk-free high – return debt instruments and putting your feet up. Today, interest rates are falling and tax breaks have been scaled back. But these facts seem lost on households. The largest portion of gross household savings continues to be invested in secured assets such as bank deposit. In the year 2003 -04 allocations to bank deposits have been the maximum growth, inching up to 42% of total house hold savings.

ii) Small savings: Government securities and small savings are the second most popular, accounting for about 18% of house holds savings in 2003-04. Over the years, allocation to these avenues has been steadily rising despite the fact that tax breaks on them have been whittled down considerably. Liberalizing the cap on the amount invested for tax benefits could see a further rise in investment in these avenues during the coming years. Between small savings and government securities, it is the former that hogs the bulk of claims on government, small savings accounted for 77.4% of claims on government in 2003 –04. However between 1998-99 and 2000-01, the allocation of government securities rose, while allocations to small savings fell. And between 2000-01 and 2001-02, the

---

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financial Saving</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(Gross)</td>
<td>(12.8)</td>
<td>(10.5)</td>
<td>(11.6)</td>
<td>(11.3)</td>
<td>(11.9)</td>
<td>(12.3)</td>
<td>(11.9)</td>
<td>(12.7)</td>
<td>(13.6)</td>
<td>(13.8)</td>
<td>(13.9)</td>
<td>(16.7)</td>
<td>(18.4)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Deposits</td>
<td>42.6</td>
<td>45.5</td>
<td>42.5</td>
<td>48.1</td>
<td>46.6</td>
<td>38.8</td>
<td>37.5</td>
<td>41.0</td>
<td>39.4</td>
<td>41.5</td>
<td>38.3</td>
<td>37.2</td>
<td>47.1</td>
<td>55.7</td>
</tr>
<tr>
<td>a)</td>
<td>with banks</td>
<td>27.9</td>
<td>35.3</td>
<td>26.3</td>
<td>25.7</td>
<td>37.8</td>
<td>33.7</td>
<td>30.5</td>
<td>32.5</td>
<td>35.3</td>
<td>36.3</td>
<td>37.4</td>
<td>36.5</td>
<td>46.2</td>
<td>55.6</td>
</tr>
<tr>
<td>b)</td>
<td>with non-banking</td>
<td>10.6</td>
<td>7.9</td>
<td>10.6</td>
<td>16.4</td>
<td>3.9</td>
<td>3.8</td>
<td>2.9</td>
<td>2.6</td>
<td>1.6</td>
<td>1.0</td>
<td>0.8</td>
<td>1.0</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>c)</td>
<td>with co-op banks</td>
<td>5.2</td>
<td>3.0</td>
<td>5.8</td>
<td>5.4</td>
<td>5.3</td>
<td>4.6</td>
<td>4.2</td>
<td>5.6</td>
<td>3.6</td>
<td>3.7</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>d)</td>
<td>trade debt (net)</td>
<td>-1.1</td>
<td>-0.8</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-0.4</td>
<td>-0.3</td>
<td>-0.8</td>
<td>0.1</td>
<td>-2.1</td>
<td>-0.1</td>
<td>-0.0</td>
<td>-0.0</td>
<td>-0.0</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Shares and debt</td>
<td>13.5</td>
<td>11.9</td>
<td>7.3</td>
<td>6.6</td>
<td>2.9</td>
<td>3.4</td>
<td>7.1</td>
<td>4.1</td>
<td>2.7</td>
<td>1.6</td>
<td>0.1</td>
<td>1.1</td>
<td>4.9</td>
<td>6.3</td>
</tr>
<tr>
<td></td>
<td>(Debentures</td>
<td>(1.7)</td>
<td>(1.7)</td>
<td>(0.8)</td>
<td>(0.8)</td>
<td>(0.3)</td>
<td>(0.4)</td>
<td>(0.9)</td>
<td>(0.5)</td>
<td>(0.3)</td>
<td>(0.2)</td>
<td>(0.0)</td>
<td>(0.2)</td>
<td>(0.8)</td>
<td>(1.2)</td>
</tr>
<tr>
<td>a)</td>
<td>Private corporate</td>
<td>7.5</td>
<td>8.0</td>
<td>6.6</td>
<td>3.6</td>
<td>1.3</td>
<td>1.5</td>
<td>3.4</td>
<td>3.1</td>
<td>1.5</td>
<td>0.8</td>
<td>1.1</td>
<td>1.4</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td>business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b)</td>
<td>Co-op Bank</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>c)</td>
<td>Units of UTI</td>
<td>4.3</td>
<td>2.7</td>
<td>0.2</td>
<td>2.4</td>
<td>0.3</td>
<td>0.9</td>
<td>0.8</td>
<td>-0.4</td>
<td>-0.6</td>
<td>-0.5</td>
<td>-2.3</td>
<td>-0.7</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>d)</td>
<td>Bonds</td>
<td>0.5</td>
<td>0.5</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>e)</td>
<td>Mutual funds</td>
<td>1.2</td>
<td>1.1</td>
<td>0.3</td>
<td>0.3</td>
<td>1.1</td>
<td>0.8</td>
<td>2.9</td>
<td>1.3</td>
<td>1.8</td>
<td>1.3</td>
<td>1.2</td>
<td>0.4</td>
<td>3.6</td>
<td>4.8</td>
</tr>
<tr>
<td>4</td>
<td>Claims on Govt.</td>
<td>6.3</td>
<td>9.1</td>
<td>7.7</td>
<td>7.4</td>
<td>12.9</td>
<td>13.6</td>
<td>12.1</td>
<td>15.7</td>
<td>17.9</td>
<td>18.6</td>
<td>23.0</td>
<td>24.5</td>
<td>14.6</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>(Securities</td>
<td>(0.8)</td>
<td>(1.3)</td>
<td>(0.8)</td>
<td>(0.9)</td>
<td>(1.5)</td>
<td>(1.6)</td>
<td>(1.5)</td>
<td>(1.9)</td>
<td>(2.3)</td>
<td>(2.5)</td>
<td>(3.2)</td>
<td>(3.4)</td>
<td>(2.4)</td>
<td>(1.0)</td>
</tr>
<tr>
<td>a)</td>
<td>investment in Govt</td>
<td>0.4</td>
<td>0.1</td>
<td>0.4</td>
<td>0.4</td>
<td>1.6</td>
<td>0.7</td>
<td>0.9</td>
<td>1.7</td>
<td>5.8</td>
<td>4.3</td>
<td>7.5</td>
<td>4.9</td>
<td>2.4</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b)</td>
<td>investment in</td>
<td>5.9</td>
<td>9.0</td>
<td>7.4</td>
<td>7.0</td>
<td>11.3</td>
<td>13.0</td>
<td>11.2</td>
<td>14.0</td>
<td>12.12</td>
<td>14.3</td>
<td>15.5</td>
<td>16.6</td>
<td>15.5</td>
<td>4.9</td>
</tr>
<tr>
<td></td>
<td>small savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Insurance funds</td>
<td>8.7</td>
<td>7.8</td>
<td>11.2</td>
<td>10.2</td>
<td>11.3</td>
<td>11.3</td>
<td>12.0</td>
<td>13.6</td>
<td>14.2</td>
<td>15.5</td>
<td>13.7</td>
<td>15.7</td>
<td>14.0</td>
<td>15.0</td>
</tr>
<tr>
<td></td>
<td>(Life ins. funds</td>
<td>(1.1)</td>
<td>(1.1)</td>
<td>(1.2)</td>
<td>(1.2)</td>
<td>(1.3)</td>
<td>(1.3)</td>
<td>(1.5)</td>
<td>(1.6)</td>
<td>(1.8)</td>
<td>(2.1)</td>
<td>(1.9)</td>
<td>(2.2)</td>
<td>(2.3)</td>
<td>(2.8)</td>
</tr>
<tr>
<td>a)</td>
<td>Postal insurance</td>
<td>8.0</td>
<td>7.2</td>
<td>10.4</td>
<td>9.5</td>
<td>10.6</td>
<td>10.6</td>
<td>11.3</td>
<td>12.9</td>
<td>13.5</td>
<td>14.8</td>
<td>13.0</td>
<td>15.1</td>
<td>13.4</td>
<td>14.6</td>
</tr>
<tr>
<td>b)</td>
<td>State insurance</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>c)</td>
<td>Pension funds</td>
<td>16.7</td>
<td>14.7</td>
<td>18.0</td>
<td>19.2</td>
<td>18.8</td>
<td>22.4</td>
<td>22.5</td>
<td>19.3</td>
<td>16.1</td>
<td>14.3</td>
<td>13.6</td>
<td>13.0</td>
<td>10.5</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>(Provincial)</td>
<td>(2.1)</td>
<td>(2.1)</td>
<td>(1.9)</td>
<td>(2.2)</td>
<td>(2.1)</td>
<td>(2.7)</td>
<td>(2.8)</td>
<td>(2.3)</td>
<td>(2.0)</td>
<td>(2.0)</td>
<td>(1.9)</td>
<td>(1.8)</td>
<td>(1.8)</td>
<td>(1.7)</td>
</tr>
</tbody>
</table>

Source: RBI Annual Report 2003-04 and Business line dated 12.9.05.
allocation to government securities zoomed from 10% to 32%, while allocations of small savings fell from 89% to 68%. This sudden spurt in investment in government securities during 2001 can be attributed to the introduction of the 5 years relief bonds, which offered 9% a year and were tax exempt. This incentive spurred investors to move away from small savings into government securities. Over the years allocations to government securities and small savings has been rising in absolute terms – house holds allocations to small savings more than doubled between 1998-99 and 2003-04 and allocations to government securities quadrupled.

iii) **Insurance and Pension Funds**: Life insurance and Provident and Pension funds bring up the rear; these investment avenues accounted for a little over 12% each of total house hold savings in 2003-04. In absolute terms allocations to both these avenues have been on the rise. For instance, overall allocation to life insurance rose to 117% between 1998-99 and 2003-04. For provident and Pension funds this figure was 8%.

iv) **Shares and Debentures**: The big Bull Run, which began late last fiscal, has left households cold, their allocation to the markets (Shares and Debentures) dipped for the four consecutive years. At 1.4% of total gross household savings, it is the lowest in over a decade, falling steadily from 3.4% of total house hold savings in 1998-99. The stubborn refusal of household savings to enter the equity market can be seen from the fact that the overall equity allocation dipped even though total household savings were up a staggering 267% over a decade (1993-2004).

v) **Mutual Funds**: The household savings gravitating towards mutual funds is not saying much. That is because, as the survey shows, the total pool of retail equity investors seems to be shrinking. Old habits die hard – the stubborn adherence to risk free savings is proof. That’s a pity because the asset classes they won’t embrace are the ones that hold out the promise of high returns – now and in the future.

### 2.9 SAVINGS AND CAPITAL FORMATION

Household savings play an important role in domestic capital formation. Only a small part of the household savings in India is channelised to the capital market. Attracting more households to the capital market requires efficient intermediation. The

---

8 RBI Annual report 2003-04.
mutual funds have emerged as one of the important class of financial intermediaries which cater to the needs of retail investors. As a traditional investment vehicle, the mutual funds pool resources from the household and allocate them to various investment opportunities. According to CSO, Domestic savings and Investments rates reached record highs during 2005-06. Gross Domestic savings rose to 32.4 percent of GDP in 2005-06 from 31.1 percent in 2004-05, 24.2 percent in 2002-03, 23.5 percent in 2001-02. The increase during the year was driven by higher private corporate and household savings. Reflecting the improvement in corporate profitability the private corporate saving rate doubled between 2002-03 and 2005-06. Savings of the household sector recovered in 2005-06 but remained below the level attained in 2003-04.

**TABLE 2.4**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Household sector</td>
<td>10.8</td>
<td>10.9</td>
<td>12.4</td>
<td>12.4</td>
<td>11.4</td>
<td>10.7</td>
</tr>
<tr>
<td>2</td>
<td>Public Sector</td>
<td>6.9</td>
<td>6.9</td>
<td>6.1</td>
<td>6.3</td>
<td>7.1</td>
<td>7.4</td>
</tr>
<tr>
<td>3</td>
<td>Private Corporate Sector</td>
<td>5.7</td>
<td>5.4</td>
<td>5.9</td>
<td>6.9</td>
<td>9.9</td>
<td>12.9</td>
</tr>
<tr>
<td></td>
<td>Valuables +</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
<td>0.9</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>Gross Domestic Capital formation</td>
<td>24.3</td>
<td>22.9</td>
<td>25.2</td>
<td>28.0</td>
<td>31.5</td>
<td>33.8</td>
</tr>
</tbody>
</table>

Source: Central Statistical Organisation  # Quick Estimates

**2.10 PERSONAL TAX PLANNING IN INDIA**

**a) Introduction**

Tax planning is an arrangement of one’s tax affairs in such a way that without violating any legal provision, full advantage is taken of all exemptions, deductions, concessions, rebates, allowances and other relief’s or benefits permitted under the Income Tax Act so that the burden of taxation on the assessee is eliminated or reduced. In simple words, tax planning involves controlling the flow of resources so as to meet expenses, make requisite investment, avail of all tax- saving avenues and let only the remaining
flow to the government. The law expects us to be able to use the provisions of the Income Tax act judiciously with no intention to evade taxes.

Tax can be saved by tax evasion, avoidance of tax, legally and illegally. Evasion implies saving in tax by concealment (not reporting incomes at all) or furnishing inaccurate particulars of income and expenses (showing lesser income than what has been earned, claiming bogus losses, inflating expenses, etc. to bring down the quantum of incomes). Evasion is both illegal and a crime against the society and is punishable with penalty and prosecution besides payment of penal interest for not paying taxes correctly.

Tax planning is essential in the system which has tax rates in slabs and provides opportunities to save tax through incentives in the nature of exemptions, deductions and rebates. All of us know that tax planning can be extremely beneficial. Where income levels exceed certain limits, tax planning will help reduce taxes, but it may not be possible to completely avoid paying them.

The basic requirement, that has to be kept in view in planning for taxes are:

(a) These should be aimed at conservation of resources by reducing the taxes to the minimum and generating enough surpluses out of profits.

(b) The planning should be done within the frame work of law.

(c) The working should be so arranged as to enable the taxpayer to take full advantages of all benefits resulting in tax saving under Income tax Law.

(d) Tax planning should ultimately lead to healthy growth of the tax unit.

(e) The planning should be done in such a way that it leads to economic stability of the tax units and finally of the nation as a whole.

(f) It should be done in such a manner that it does not lead to litigation and whatever is planned should have legal support.

(g) The scheme(s) formulated should be simple, easy to understand and administer.

The income of the government through all sources is known as public revenue. Public income has been defined by Dalton in a narrow sense that it includes income from taxes, prices of goods and services supplied by public enterprises, revenue from administrative activities such as fees, fines etc. There are two sources of public revenue via tax revenue and non-tax revenue. The revenue obtained through various taxes is
known as tax revenue. The revenue obtained through various taxes is known as tax revenue. Taxes are imposed by the government on the people and it is compulsory on the part of the citizens to pay taxes, without expecting a return.

Prof. Seligman defines a tax as a “Compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefits conferred”.

A tax is a compulsory contribution imposed by the government. The taxpayer has to pay the taxes in the interest of social welfare. A tax has relation with the services rendered. A tax is a legal collection, imposed upon an individual. Thus taxes form an important source of public revenue and affect consumption, production and distribution. They bring about equality in income distribution and help to increase savings in a developing economy.

Taxes have been classified in the direct and indirect tax on the basis of the nature of impact and incidence. A tax which is paid by a person on whom it is imposed is a direct tax. The burden of a direct tax cannot be shifted to others. Dalton defines a direct tax as one “which is really paid by a person on whom it is legally imposed. If the burden of the tax can be shifted to others, it is an indirect tax.

(b) Post-Independence Era

In the wake of Independence and India being declared a Democratic Republic welfare State, ways and means were thought of to levy and collect additional revenue to meet the cost of government, internal security and defence and for the welfare measures aimed at the teeming millions. Wealth tax, gift tax, expenditure tax and estate duty were levied on the recommendation of Prof. Kaldor. In the early sixties a humble citizen was required to pay tax on his income, the maximum rate being 97.5%, tax on wealth, the rate being 2-3%, tax on expenditure, tax on gift, tax on death by way of estate duty-as direct taxes, apart from sales tax, central sales tax, excise duty, customs duty and other indirect taxes. India earned the name of a highly taxed country. Much of her funds started flowing to the Swiss banks. No wonder the menace of tax evasion and of the proliferation of black money started to rear its head, paying more than 100% by way of tax became unproductive with no incentive to work.
On Indira Gandhi’s assassination, Rajiv Gandhi took over as Prime Minister in the year 1984. It was found that the overall impact of direct and indirect taxes had been confiscatory and agonizing. To set things right and to create a climate where an honest taxpayer might dare to declare his true income, a number of remedial measures were taken. The Finance Act, 1985 substantially reduced the maximum rate of income tax and wealth tax, estate duty and interest tax were abolished and certain provisions against the concept of real income were withdrawn and long-term fiscal policy was formulated.

Prof. Madhu Dandavate, Finance Minister of India, placed the maiden budget before Parliament on 19th March 1990 and a sensible step was taken to abolish the Gold Control Act. With the advent of congress rule at the Centre under the leadership of P.V. Narasimha Rao, Dr. ManMohan Singh, a noted economist, was inducted as Union Finance Minister. He placed his maiden budget before the Parliament on 24-7-1991. He had to take very hard decisions. Wealth tax was discontinued on commercial assets after enhancing the threshold limit to Rs.15 lakhs reducing the number of tax payers falling in the net to less than 10 percent. The maximum rate of income was reduced to 40% in 1994. It has now been reduced to 30%. Gift tax has been abolished.

c) Modern System of Indian Taxation

After Independence, the Income Tax Act in its present form was passed in 1961. For the purpose of taxation, the total income of an individual’s income has been divided under following 5 heads

a) Income under the head salaries,
b) Income under the head House property,
c) Income under the head Business or profession,
d) Income under the head Capital gains,
e) Income under the head Other Sources.

A number of deductions are allowed from the gross total income computed on the basis of individual income accruing under the five heads. The deductions allowed are usually in line with the fiscal policy of the government. For example, when the government wanted to promote investment in the housing sector, annual exemption up to Rs.1.5 lakhs was allowed on interest repayment for home loans. It is probably fair to say
that the increase in the importance of taxation coincided with the enlarged role of the
government, a phenomenon that came to the force in the twentieth century, especially
after the Great Depression of the 1930's. Governments across the globe had to
enormously increase their spending to create employment and catalyze economic
activities that would help out their citizens suffering in depressed economies. So,
governments were setting up banks, industries, schools, universities, hospitals and in
many cases, handling out old age and unemployment doles. In the decades since then,
governments may not have been as active in all the areas but they continue to spend large
amounts of money raised primarily as taxes from individuals and companies. This then,
begs an important question. If taxes are for our collective good, why do most of us hate
them so much? Two reasons immediately come to the mind.

i) At a subconscious level, we probably see it as diminution of our freedom- the
   freedom to do what we please with our hard-earned money.

ii) The language of taxation is understood mostly by experts and intimidates laypersons,
    who see it as a complicated subject.

d) Finance Bill 2007

As per finance bill 2007, a person whose total income in India during financial
year amounts to less than Rs. 1,11,000 is not required to pay any tax. Hence, such persons
may not file their income tax returns. However, there is an exception to this. When a person
fulfills any one of the economic indicators as per section 139 (1) of IT Act, he / she is
compulsorily required to fill the IT returns. The economic indicators are as follows:

(i) Occupation of an immovable property of specified dimensions.

(ii) Owner or lessee of a motor vehicle (excluding two wheelers)

(iii) A person who has incurred an expenditure of Rs.50, 000/- or more towards
     consumption of electricity.

(iv) Foreign Travel during the year

(v) Holding a credit card

(vi) Member of a club where entrance fee charged is Rs.25, 000/- (or) more
The best international practice relating to taxation of financial savings is the "Exempt - Exempt - Taxed" (EET) method. A large number of countries have adopted this method and many others are moving towards it. Under this method, contributions to specified savings is exempt from tax (E), the accumulation is also exempt (E), but the withdrawal / benefits from the savings are taxed (T). The EET method eliminates / reduces the bias inherent against savings under the Income – Tax Act.

The existing provisions of the Income tax Act do not accord a homogeneous treatment to the taxation of financial savings. There is considerable variation in the taxation of the contributions made to savings schemes, the tax levied on the accumulations and tax treatment at the final stage of withdrawal. This lack the savings plans are exempted from tax at all the three stages; others are subject to tax on either the accumulations (or) payments received at the terminal stage.

Tax reforms remained the key focus area of the union budget 2005-06. On direct taxes there has been a significant simplification of the personal tax regime. The various tax exemptions under different slabs have been replaced by a single deduction under a slab of Rs.1,00,000, which would help the individuals by bringing down the total tax impact on them.

Tax slabs for income tax have been increased with minimum taxable income to be Rs. 110,000. Threshold limit for women is higher at Rs1.45 lakhs and for senior citizen Rs.1.95 lakhs. Rebate u/s 88 is removed and replaced by a single deduction up to Rs.100, 000/- u/s 80C. One of the major revamp in the tax structure has been the removal of standard Deduction along with omission of section 80 L and section 88. Tax treatment to interest paid on housing loan (Sec.24), medical insurance premium (Sec. 80D), deduction on interest towards loan taken for education (Sec.80E), expenses on medical treatment for self or dependent, deduction to person with disability (Section 80 u) and expenditure on disabled dependant (section 80 DDD) has remained unchanged.

The aim of the Government, by reforming the tax structure, is to divert savings into markets which would not only add depth to the market but aid in linking small savings rate to the market – driver rates subset quietly. At the same time, investors will have flexibility to invest in various products under the Rs. One lakh deduction slab.
Under this new section 80C, an individual will be allowed a deduction from income of an amount not exceeding Rs. One lakh with respect to sums paid or deposited in the previous year, out of income chargeable to tax, in certain specified schemes. The new ingredient of the provision is that the taxpayer can invest the entire sum of Rs. 100,000/- in the ratio which he desires. For example, if an individual is interested to make payment of Rs. One lakh only for life insurance premium, he can do so and avail full deduction to that extent. Likewise if an individual opts to make repayment of his housing loan of Rs. One lakh and wishes to make no other investments then he can do so and avail deduction on housing loan repayment.

The following are the list of items, which are eligible for tax deduction of Rs. One lakh under section 80C.

1. Payment for life insurance premium,
2. Payment for Deferred Annuity plan
3. Deferred Annuity Payable by Government
4. Contribution to PPF
5. Contribution to recognized PF set up by central Government
6. Contribution to recognized PF
7. Contribution to recognized super annuation fund
8. Subscription to any security or deposit notified by government
9. Subscriptions to savings certificates
10. Subscriptions to unit linked Insurance plans
11. Contribution for unit linked Insurance plan of LIC Mutual fund
12. Payment for Annuity plan of LIC or any other insurer
13. Subscriptions to units of notified mutual funds
14. Contribution to notified pension fund of mutual fund
15. Pension fund set up by National Housing Bank
16. Subscription to deposit scheme of public sector company engaged in providing long term finance for house
17. Tuition fees for two children in India
18. Payment for installment for self financing of a residential property of loan
19. Subscription to equity or debenture as approved for infrastructure.
20. Subscription to any units of mutual fund as approved by the central Board of direct taxes.

2.11 PERSONAL INVESTMENTS AND TAX PLANNING

Tax benefits and tax effects are important considerations for an investor. An investor is surrounded by many factors in his consideration of making investments. He is interested in liquidity of his assets, he is also interested in minimum risk and maximum return. These factors can be achieved only by taking a look at the various taxes that the investor is concerned with. Taxes have the effect of reducing income and principal amount. The major taxes that affect the investors in India are the Personal Income Tax, the Corporate Income Tax, the Asset Tax, Capital Gains Tax, Gift tax and Wealth tax.

An investor is also taxed on property, profits and gains of business and profession. The investor should be careful about analyzing the Capital Gains Tax because this is the tax charged on selling property (including shares and units). An investor must also have an idea of the agricultural income in India. Section 10 of the Income tax Act exempts income, which is received from agriculture.

Proper tax planning will help improve the efficiency of your investments. Tax saving instrument not only take care of outflow of income in the form of income tax but also can be utilized for financial planning of an individual. Making the right choice of investment that suits one’s requirements is called investment planning. Tax Planning is an important part of investment planning. While selecting an investment option, care has to be taken that investment should not result in increase in the taxable income.

Two things affect return on any instrument. One is inflation and the others is tax. Return on any instrument should be taken into account after assuming the effect on these two factors. What comes, as net result is real return which is important for taking any investment related decision? The golden rule for this purpose is that an individual’s total income should be properly structured in such a manner that after claiming all available deductions and benefits, his tax liability stands reduced to the maximum possible extent. This may sound too simple and commonplace but it contains the essence of tax planning.
2.12 TAX SAVING INVESTMENTS IN INDIA

There is a staggering diversity of investment opportunities available to the Indian investor. Investment is the employment of funds with the aim of achieving additional income (or) growth in value. The essential quality of an investment is that it involves “waiting” for a reward. It involves the commitment of resources which have been saved or put away from current consumption in the hope that some benefits will accrue in future. There are two types of income; one is earned from an asset while the investor holds it, say, interest or dividend. The other is the gains or losses arising due to the transfer of the investment or asset. Usually an individual is invested in different investment schemes like.

1) BANK DEPOSITS

Most of us have to deal with banks on a day-to-day basis for our requirements. Banks undoubtedly are the facilitators of saving and investments, There are various kinds of accounts and deposit that we can maintain in a bank. Salaries people can have a recurring deposit, which may not be high on return but is safe and leads to a disciplined savings habits. A fixed deposit account is money that is parked with the bank for a fixed tenure. This can range from 7 days to 3 years or in rare cases, even more. This amount earns an interest, which can be withdrawn if needed, on a quarterly, half-yearly or annual basis. At present the interest rates range from 3.5% to 10 % p.a. Now, most banks have introduced “twin” or flexi accounts, which can be used as a combination of a normal savings bank account and a fixed deposit. Bank Deposits, among other options for households, are still very much preferred.

Tax Treatment

Term deposits in a scheduled bank with a minimum period of 5 years notified under the Bank Term Deposit Scheme, 2006, not only give fixed and assured return but also a tax advantage u/s 80C. Further, the exemption limit for tax deduction on interest from banks and post-offices has been increased to Rs.10,000 per year, but remains unchanged at Rs.5,000 for company deposits but Tax is Deducted at Source at a limit of Rs.10,000 on interest from Bank Fixed Deposits and Post Office instruments.
2) **EMPLOYEE’S PROVIDENT FUND**

Employee’s Provident Fund may be of the following types.

(a) **Statutory Provident Fund.** It is set up under the provision of the PF Act, 1925. This fund is maintained by the Central and State government, Local authorities, Railways, Universities and Recognized Educational Institutions.

(b) **Recognized Provident Fund**

It is set up under the provision of the Employees PF and miscellaneous provision Act 1952. Any establishment employing 20 or more persons is covered by the PF Act, 1952. Under this provision, the employer is also contributing equal amount contributed by the employee. But, the employee’s contribution is usually not more than 12% of salary. Here, Salary means Basic + DA + Dearness pay.

(c) **Unrecognized Provident Fund**

If a PF is not recognized by the commissioner of income tax, it is known as unrecognized PF.

PF scheme is a retirement benefits schemes. Under this scheme, a stipulated sum is deducted from the salary of the employee as his contribution towards the fund. Generally the employer also contributes simultaneously the same amount out of his pocket to the fund. The employee’s and employer’s contributions are invested in securities. Interest earned thereon is also credited to the PF account of employees. Thus, credit balance in a PF account of an employee consists of employee’s contribution interest thereon and Employer’s contribution and interest thereon. The accumulated sum paid to the employee at the time of his retirement or resignation is fully exempted from the tax u/s 80C.

(d) **Public Provident Fund (PPF)**

PPF is an attractive option due to its tax concessions for a young professional and also for some one with long-term retirement planning in their minds. The PPF account can open even if a person is not a taxpayer. A PPF account can be opened with a minimum deposit of Rs.500 and a maximum of Rs.70,000 per year, in lump sum or in 12 installments with amount in multiples of Rs.5 at any post office. At present, the interest rate of a PPF amount is 8% compounded annually. This interest is tax free according to
sec.10 of the Income tax Act and investment qualifies u/s 80C up to Rs.70,000. There is no tax on income accrued. Finally, all withdrawals are tax-free. It provides a lump sum amount at maturity. The only drawback with a PPF scheme is that it has a minimum lockin period of 15 years. One can make partial withdrawals from the seventh year onwards. An amount not exceeding 50% of the amount that stands to your credit at the end of the fourth year immediately proceeding the year of withdrawal is the maximum amount that can be withdrawn. The PF schemes encourage personal savings at micro level and generate funds for investment at macro level.

3) INSURANCE PRODUCT

Life Insurance is a multipurpose medium of relatively long-term investment. It provides financial protection to one’s family in the event of premature death of policyholder. Life Insurance is a contract providing for payment of a sum of money to the person assured or, to the persons entitled to receive the same, on the happening of a certain event. The earliest type of life insurance was started by the Greeks and Romans.

The Life Insurance Corporation offers many different types of policies tailor-made to suit the varied age group in society. The money back policy, Endowment policy, Children’s Deferred Endowment Assurance Policy and the Jeevan Dhara have gained immense popularity among all classes of people.

Tax Treatment

Life Insurance Premium paid by an individual to effect or to keep in force insurance on his own life, life of the spouse (or) any child can claim a tax relief U/s 80c if the premium is paid not more than 20 percent of the sum assured. Payment is made by Government employees to the Central Government. Employees Insurance Scheme is also included for this purpose. Besides premium paid under children’s deferred endowment policy is also eligible for deduction.

4) POST OFFICE INVESTMENT SCHEMES

(a) Post Office Savings Account

A post office savings account makes more sense for putting in money compared to a savings bank account. It offers 3.5% interest per annum for individual / joint accounts. The interest earned is also completely tax-free u/s 10. This can be opened at a minimum balance of Rs.50. Further, deposits in multiples of Rs. 5 with maximum
A post office saving account is ideal for small savers.

(b) Post Office Monthly Income scheme (MIS)

The post office monthly Income scheme is another attractive option available for tax payers. Under this scheme, an individual can make the minimum investment of Rs.1000 and total deposit not exceeding Rs.3,00,000 in a single account and Rs.6,00,000 in a joint account. With 8% per annum interest and a 10% maturity bonus (Maturity period is six years), the IRR work works out to 9.6% p.a. Maturity period is 6 years, premature withdrawals is possible after 1-3 years with 2 percent discount and withdrawals after 3 years with discount of 1 percent, but, no bonus for premature withdrawals. No tax benefit.

(c) Post Office time Deposits

Any person can open an account under this scheme whether individually or jointly with another person. An account can be opened on behalf of a minor or person of unsound mind. Even more than one account can be opened without any limit.

The account under Post Office time deposits can be opened for one year, two years, three years or five years and the interest on time deposits is payable as under:

<table>
<thead>
<tr>
<th>Period of Deposit (Years)</th>
<th>Interest (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6.25%</td>
</tr>
<tr>
<td>2</td>
<td>6.50%</td>
</tr>
<tr>
<td>3</td>
<td>7.25%</td>
</tr>
<tr>
<td>5</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

Post office time Deposits offer interest rates between 6.25% and 7.5% depending upon the tenure of the deposit. Interest is paid / accrued on a quarterly basis yielding an IRR of 7.71% for a five year deposit with interest cumulative option. However, no interest is payable if deposit is withdrawn after 6 months, but before one year. But if deposits are made for two years, three years or five years and are prematurely withdrawn after one year, the interest will be paid @ 2% less than the rate applicable to the period for which the deposit has run.

d) Post office Recurring Deposit Account

The post office recurring deposit account scheme is another attractive option available to the middle class investors. Under this scheme, an individual can make the
minimum investment of Rs.10 per month, returns are Rs.728.90 on maturity period of 5 years and no maximum limit. Maturity period is 5 years, premature withdrawals up to 50 percent of the balance is permissible after 1 year. No tax benefit.

5) National Savings Certificate (NSC)

The National Savings Certificate scheme is another attractive option available to tax payers. Under this scheme, an individual can make the minimum investment of Rs.100 and no maximum limit and investments can be made in the denominations of Rs.100, Rs.500, Rs.1,000, Rs.5,000 and Rs.10,000 with 8% per annum compounded interest. Maturity period is 6 years and no premature withdrawal is allowed. This interest is taxable and investment qualifies u/s 80C up to Rs.100,000.

6) Government of India 8% Savings Bonds

The main features of these bonds are:

a) No maximum limit for investment; b) Exempt from wealth tax under the Wealth Tax Act of 1957; c) Issued at par; The bonds are issued for a minimum amount of Rs.1,000 and in multiples thereof; d) A sole holder or a sole surviving holder of bonds, being an individual, may nominate one or more persons who shall be entitled to the bonds and the payment thereon in the event of his death; e) Not transferable; f) 8 percent interest rate per annum. Interest on non-cumulative bonds payable half-yearly; g) Investment tenure of 6 years; h) Nomination facility is available and i) any interest over Rs.10,000 from such bonds would be subject to a TDS of 10%.

7) Infrastructure Bonds

Infrastructure bonds provide tax saving benefits under section 80C up to an investment of Rs. 1 lakh, subject to the bonds being held for a minimum period of three years from the date of allotment. The following are the features of infrastructure bonds:

i) Interest rate of 5.5-6 percent; ii) Tax benefit under section 80C up to Rs.1 lakh; iii) Lock in for three years iv) Safety: Purely depends on the credit rating of the bank or financial institution issuing the bond.

8) Mutual Funds

A mutual fund is a trust that pools the savings of a number of investors who share a common financial objective. The money thus collected is then invested in capital
market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized, are shared by unit holders in proportion to the number of units owned by them. The beauty is that anyone with an investible surplus of a few hundred rupees can invest and reap returns as high as those provided by the equity markets, or have a steady and comparatively secure investment as offered by debt instruments. There are several entities involved increasing and running of a mutual fund. They each have a role to play.

9) Pension Plan

Pension plans are long-term contracts that promise to offer a regular stream of income in one’s retirement years. Since employer provided pension has become rare to day, it is important that one starts retirement planning during one’s earning years by investing in a pension plan. So many pension plans are today available in the market. It is very important that one is able to select a plan that suits one’s retirement needs. In our country the government employee’s and employees of few organizations have the provision for retirement pension. However, the new government recruits will now get pension from the investment made from this own contribution to private pension funds. From the beginning of this year, the newly created pension fund regulatory and development authority (PERDA) will manage the new pension scheme for new government employees and others in the unorganized sector. Insurance companies offer pension plan that seek to create a retirement corpus through one’s periodic contribution to the scheme during one’s working years. Pension plans on the other hand helps one to build up a compulsory savings habit through a systematic investment plan. Even some insurers offer life cover and other benefits like riders on the pension plans. In participating pension plans, the investments are regulated by IRDA (Insurance Regulatory Development Authority) to minimize risks. A minimum of 20% of the investment should be in Government of India securities, another 20% in GOI – backed securities and the remaining 60% in approved bonds (mostly AAA rated) and equities (as approved by IRDA).

Tax Treatment

Pension is a periodical payment received by an employee after his retirement and is taxed as salary. U/s 17(1)(i) any pension received from a United Nations organization (UNO) is not taxable. Commuted pension is a lump sum payment in lieu of periodical
payment. Any commuted pension received by a Government employer is wholly exempt from tax u/s 10(10A)(i). Incase of a non-government employee, where the employee receives gratuity, the commuted value of one-third of the pension (in some cases one - half of the pension) is exempt from tax. If payment in commutation of pension received by the employee exceeds the afore said limits, such excess is liable to tax in the assessment year relevant to the previous year in which it is due or paid. However, the assessee can claim relict in terms of section 89 read with rule 21A.

10) Gold and Jewellery

Gold is one of the most valuable assets in any economy. It has been used in India primarily as a form of savings by the housewives. Although it is said to be appreciable many times yet in India it is more of a sense of security and a fixed asset rather than, for the use of sale or for the purchase of making profit or income on this investment. Gold to the investor in recent years has been important mainly because of rise in prices due to inflation. Gold may be invested either in the form of gold shares which are banned in India, gold coins, gold bars and gold jewellery.

Tax Treatment

Gold is treated as a capital asset and the gain/loss from its transfer is taxed under the head capital gain. The gain/loss is computed under the head business only in case of jewellers or people who trade in precious metals. Investors will also be liable to wealth tax during the period that they hold gold/silver, subject to the overall exemption limit of Rs.15 lakh.

11) Equity Shares

Dividends distributed by all domestic companies are exempt from tax. The tax on the income from sale or transfer of shares depends on whether they are a capital asset or stock (business asset). Some points that may be considered while deciding whether a person is an investor or trader are a) Intention of the person, b) The frequency of transactions during the year, c) Whether the acquisition is being made with own funds or borrowed funds. There are no definite guidelines in this regard. If the transactions are numerous and the individual has borrowed, there is a possibility of his being treated as a trader. In this case, the income will be taxed under the head business income and the
period of holding will be immaterial. However, if the person is treated as an investor, the asset will be taxed under capital gains and the period of holding will determine his tax liability. If the share is held for one year or more, it will become a long-term capital asset. In such a case, if the share is listed and sold through a stock exchange, the transaction will attract the security transaction tax. Apart from STT, the income from the transaction will be exempt. Other shares, like those of an unlisted private limited company, will attract 20 percent tax. In case the equity share is listed and held for less than 12 months, it will attract 10 percent tax or the normal rate of tax depending on whether STT has been charged on the sale or not.
A review of existing studies on investors is attempted in this chapter.

1 Shantilal Sarupria (1963) in the study captioned ‘Individual savings in an undeveloped economy – India: A case study’ had made an attempt to disprove certain widely held views about the individual’s saving behaviour in an undeveloped economy like India and suggested the ways of potential savings which could be mobilized for investment. It was regrettably contended that a large section of our population held their savings in the form of gold hoards landed property and other unproductive assets. This view was supported by the estimates of National Council of Applied Economic Research and Reserve Bank of India during the period between 1957 - 1959.

Productive assets like shares and securities, insurance premium, bank deposits and small savings were held by investors with around 25 percent of the total household savings.

Unproductive assets like gold, currency and durables (including housing) attracted the rest 75 percent of savings.

It was also in the study that the act of saving in Indian families was the duty of women, who are largely illiterate and more tradition bound than the men. The prestige was the main reason for accumulation of wealth in Indian society. The study gave an opposite view to Keynesian equation on saving and investment which stood as savings = investments (S = I).

The conclusion was that propensity to save in India was higher than in some of the advanced countries in spite of the wide difference in per capital income. In India, the very uncertain economic, political, social conditions, and monsoon dominated agriculture provide a strong incentive for large mass of the people to save. This study also confirmed the share of household sector in total national savings.

The attributes and attitudes of individual investors have been studied by 2Ronald Lease et. al. (1974). The study was based on mail questionnaire survey

---


addressed to the clients of a large national retail brokerage house in New York. The study was intended to determine the demographic characteristics, investment strategy patterns, information sources, asset holdings, market attitudes and perceptions of investors. The study also analyzed the record of portfolio positions and realized returns. In effect, the objective of the study was to find out who the individual is, how he makes his decisions, how he deals with his broker, what his portfolio consists of and how well, in fact, he has done as a portfolio manager.

The study revealed that 80 percent of the investors were male and nearly one third were in the age group of 65 and above. A majority of investors were found to be employed in professional and managerial occupations. Nearly 45 percent of investors had an annual income exceeding $25,000. The study also observed significant positive correlation between the following variables.

a) annual income and total wealth,

b) age and percentage of portfolio invested in “income” securities and

c) age and rating of dividend income as a portfolio objective.

Analyzing the investment strategies of the selected group, the study found that long term capital appreciation was the prime investment concern, with dividend and intermediate term gains running second and short term gains ranking third in the list. Roughly half of the sample respondents spent less than five hours in a month for investment analysis and the money spent on collecting information was found to be $15 a year. These figures indicated that individual investment activities lack involvement and close monitoring.

Blume (1974) studied the characteristics and trends of stock ownership in the United States. Their study found a mild relationship between dividend yields of investor portfolios and investor tax brackets. Another work by Blume and Friends (1975) concentrated on the asset structure of individual portfolios and its implications for utility functions. This paper documented the degree of diversification in individual portfolios and explained the investors’ utility function for the households who hold diversified portfolios.

---

According to their, poor diversification in portfolios was due to the heterogeneous expectations of investors. This work assumes significance in the matter of measuring the extent of diversification in portfolios of individuals.

*Cohn (1975)* examined the issue of relative risk aversion among the investors. The study found a strong evidence in support of decreasing relative risk aversion, i.e. as wealth increases, a higher proportion of the total is committed by the individual to risky assets. The study applied both parametric and non-parametric tests for the purpose of analysis. By using Multiple Discriminate Analysis (MDA), the study concluded that the age, marital status, income and wealth indicated a difference across the different subgroups of investors. The stepwise Multiple Discriminant Analysis showed three variables namely, wealth, marital status and age of investors in the order of diminishing classificatory power.

*In their paper on “The Demand for Risky Assets”, Irwin Friend and Marshall E. Blume (1975)* used cross sectional data of household asset holdings to assess the nature of households utility function. Friend and Blume viewed the relationship between utility functions and wealth of all investors is basic to constructing an aggregate demand function for risky assets.

*There is reason to believe that market segmentation may exist, because of both legal and institutional constraints and differences in investor taste and expectations. A sample of nearly 1000 individual investors with a wide range of individual investment circumstances and styles were used by Ronald C Lease (1976) to extrapolate the observed behaviour patterns to that of a larger population. The study brought out the segmentation in investment strategies, trading patterns, portfolio composition and differences in investor attitude. The study used Multiple Discriminant Analysis to bring out the differences between different groups of investors. The study found that investors do align themselves with particular investment philosophies and different market segments. It was further observed that the alignment is systematically related to their individual
differences.*

---


circumstances. The findings of the study suggested the existence of a powerful opportunity for the purveyors of financial services to be selective and persuasive in their appeals to various classes of customers.

7 Lewellen, (1978), examined the issue whether any tax induced “clientele” effect is present in the equities market place. For this purpose, the securities-holding data for a large and diverse sample of individual share owners were used. The study focused on yields of individual securities in the portfolio of investors and concluded that tax-rate distinctions among common stock dividend yield sub-groups did not exist in the case of individual segment of the market.

8 Arnold and Moizer (1984) investigated the methods used by the U.K. investment analysis to appraise the investments in the ordinary shares of companies. The respondents in this study were the investment analysis and not the investors per se. The study opined that investment analysis is both investors in their own right and also advisers to other institutional and individual investors. Arnold and Moizer found that the principal share appraisal technique used by investment analysis was fundamental analysis. Although some of the principles of technical analysis like price-earnings ratio and dividend yield were used for appraisal, none of them mentioned that they used technical analysis. The most influential sources of information according to investment analysis perception was found to be the company’s annual profit and loss account, balance sheet and its interim results.

9 Ledereich and Siegel (1988) emphasized the role of factors like age and health, marital status, family status, objectives risk tolerance, investment preferences, liquidity, employment stability and tax rate in personal financial planning. This paper, though not an empirical one, explained the need for accountant’s involvement in personal financial planning of their clients. It provides a background of the variables to be analyzed in a research concerned with individual investors.


Warren (1990) attempted to develop lifestyle and demographic profiles of investors based on the value and types of investment holdings. The authors pointed out that in a diversified market, demographic characteristics alone may not be sufficient to serve as a basis for segmenting individual investors. This study was based on mailed questionnaires to 600 households. Only 152 usable responses were obtained. Multiple Discriminant Analysis was used to determine whether investment patterns differed according to demographic and lifestyle dimensions. The results indicated that lifestyle dimensions not only helped to differentiate between investor behaviour types (active/passive), but was also useful in differentiating between light and heavy investors in particular investments i.e. Stocks and bonds.

Pulpre Balakrishnan in his study ‘Savings Rate in Indian Economy Since 1991’ (1996) explained the latest trend in savings behaviour in India. At the national level, three institutions published the estimated figures of savings. In his view, the CSO’s estimates were most detailed and comprehensive and followed by the estimates of planning commission and RBI.

It was found that the total savings during the study were around 22 percent and household sector alone contributed 19 percent of the total savings, financial asset accounted for 15 percent and the rest 7 percent were for physical assets.

Riley Jr. and Chow (1992) used the data of the investments of a random sample of the U.S. population to derive relative risk-aversion indexes from actual asset allocations of individuals. A model of risk aversion was developed by the authors who considered the age, education, total household wealth and annual income of individuals as important variables. The analysis found that relative risk aversion decreases as one rises above the poverty level and decreases significantly for the very wealthy. It also decreases with age, but only up to a point. The model showed that after 65 years of age, risk aversion increased with age.

---

While the studies cited so far have examined the relationship between economic, behavioural and demographic variables, Nagy and Obenberger's (1994) study examines the various utility maximization and behavioural variables underlying individual investor behaviour. The authors expressed the opinion that it provides a more comprehensive understanding of the investment decision process. They examined two specific issues: first, the relative importance of decision variables in making stock purchase decision, and secondly, the existence of any homogeneous groups of variables that investors relied upon when making investment decisions. The findings of the study suggest that classical wealth-maximization criteria are important to investors, even though investors employ diverse criteria when choosing stocks. Further, there appeared to be at least seven relatively homogeneous groups of variables that influence individual investor behaviour. These seven groups were labeled by Nagy and Obenberger as “neutral-information”, “accounting-information”, “self-image/firm image coincidence”, “classic”, “social-relevance”, “advocate recommendation” and “personal-financial needs”.

Ganti Subramanyam, Swami S.B. and Chawla O.P. in their paper on ‘Disintermediation in India’s household sector financial portfolio (1994) based on their research project explored the fact that the flow of household savings into bank deposits declined markedly as more and more market instruments attracted savings. This decline posed a biggest threat to the business of banks. This study also led to an econometric investigation of household preferences of deposit form of saving vis-à-vis the forms of financial saving. They found the household sector’s saving patterns during the last two decades encouraging Gross domestic saving ratio was reported to have increased from 10.1 percent in 1951-52 to 21.2 percent in 1980-81.

Radha V. in her study titled ‘A Study of Investment behaviour of Investors of Corporate Securities’ (1995) has examined the investment plan of corporate security investors in Tamilnadu. The analysis revealed that the largest segment of the sample was

constituted by young generation investors. They were generally better educated and male investors were reported to dominate the investment scene. Salaried group investors were reported to dominate the share ownership position. Also, major part of the samples were found having savings but their capacity of saving was very limited.

While probing the pre-investment behaviour and investment objectives, it was found that investors formed certain primary objectives and gave importance to them while making investment plans. Capital appreciation was considered as the most important objective. It was seen that the investors depending upon their occupation, income and type differed in respect of pre-investment objectives. The success of the investment decision made by the investors entirely depended upon the successful performance of industry. Hence, all the information relating to industry was helpful for making investment decisions. However, employment status of investors, type of the organization in which they were employed also provided them with some additional information.

Most of the investors intended to divert a part of the savings safely in fixed income securities so that they could make use of the balance in speculative activities. Of the various means of evaluation, the contribution of magazines and journals were very important and helped the investors to grow.

David Bence, Kevin Hapeshi and Ropger Hussey in their study titled Examining Investment Information Sources for Sophisticated Investors Using Cluster Analysis (1994) focused on investment information used by financially sophisticated institutional investors and financial analysis. The main sources of information were provided by the annual reports and accounts and personal interviews with official company literature. Trade journals and Government statistics.

Chandrasekar. K and Geetha K.T in their paper entitled National Savings and Economic Growth (1996) confirmed that there was a strong association between a nation's saving rate and the rate of growth of per capital income. It was found that the gross saving rate was just 18.7 percent in 1986-87 but started increasing afterwards

---

mainly because of household savings. In 1994-95, the gross domestic saving touched an all time high level of 24.4 percent.

18 Dash R.K. and Panda J. in their paper titled 'Investors' Protection: 'An analysis' had critically examined the need for investors' protection. They found that unincorporated bodies and Nindis (Mutual benefit funds) whose deposit acceptance activities did not come under the guidelines of the Reserve Bank of India shook the investor's confidence for the past several years. They stated that the poor growth level, dearth of innovative schemes, poor marketing and unsatisfactory investor servicing etc., were the reasons of the low level of confidence. They strongly emphasized the importance of installing the confidence in the minds of the investors.

19 Srinivasan R. in his study titled "Investors Protection: A study on Legal Aspects attempted to point out lapses in the various legal provisions which were meant for safeguarding the interest of investors in Corporate Segment. He has examined the present state of capital and stock operations. It had been observed that the capital market has emerged as a major source of finance for Indian corporate sector and also served as a gateway to the investors to employ their savings.

He has indicated that despite the much expectations of investors and even with the presence of regulatory organizations like SEBI and CLB the investor's grievances and complaints thereof have increased manifold. His study was to identify the avenues available to the investing community and examine the adequacy of various protective measures in the existing statutes and conducted the survey to elicit investor's opinion.

20 A survey was conducted by Intelligent Investor, (A fortnightly magazine) about the home instincts of investors. The survey was intended to disclose the average Indian's attitude to housing, living space and real estate. 40 percent of the make category opted for 500-800 square feet spacious house for a family of 4 members. Whereas 50 percent of female respondents needed 801-1200 square feet house, 60 percent of Chennai based respondents (being the maximum) preferred even small space

(500-800 square feet) for a family of 4.34 percent of male and 28 percent of female respondents expressed their willingness to have a house of their own before marriage. But among the total respondents, 34 percent wanted to own a house after having children, 58 percent of Calcutta based respondents and 48 percent of Chennai based respondents were willing to own a house at least before retirement.

More females aspired (42 percent) to own a second house than the males (34 percent). But on an overall basis, 54 percent did not consider buying a second house. A strong exception was found among Calcutta based respondents that 96 percent of them disliked the purchase of a second house. To a question of would you invest on a house in today’s market, 64 percent of the males and 65 percent of the females had responded positively. 76 percent of Chennai based respondents preferred to invest on house property today, 84 percent of Chennai respondents had stated future gains as a reason for investing on a house property.

21 An All-India Survey, titled “Household Investors’ Problems, Needs and Attitudes’ conducted by the Society for Capital Market Research and Development revealed a fact that majority of the retail investors lost confidence in various agencies like SEBI, credit rating agencies etc., A cross section analysis showed that 79 percent of investors had low confidence or no confidence in company management, 55 percent in SEBI, 64 percent in auditors and 78 percent in share brokers.

The study noticed a significant shift of investors from equity shares towards high quality domestic financial institutions. However, bonds were still far behind shares in terms of market penetration. An important note was that a majority of retail investors were not influenced by credit ratings and also expressed their ‘no confidence’ in these agencies.

On a question about future investment strategies, 57 percent investors indicated their intention to invest in UTI units in the next 12 months. At the same time, many of the retail investors intended to reduce their holdings in equity investment. This study was the third in the series from the society and earlier surveys of such types were conducted in 1990 and 1992 respectively.

In a survey conducted by ORG-Marg, a research organization, investors' choices over the investment avenues had been elicited. The study revealed that majority of investors' favored fixed deposits in banks. Post Office savings schemes, Insurance schemes, bonds issued by government organizations, equity shares were preferred by investors in the order. Mutual fund schemes, mainly meant for small investors were the least preferred.

The survey was conducted to know the important factor, which influences one to prefer one investment avenue to another. Seven parameters namely capital appreciation, safety, liquidity, rate of return, guaranteed return, manageability and tax shelter were incorporated in the interview schedule to identify the preferences of investors. Guaranteed return coupled with capital appreciation was expected by most of the investors.

Though the survey was mainly focused on mutual fund preferences, all investment channels had been given a touch. Of the sample investors, only 67 percent stated that they knew about the mutual funds. Out of that, 11 percent were of the opinion to invest in it. A further analysis clarified that investors though very less in number in mutual funds liked Government owned mutual funds rather than private sector funds. The survey report concluded with a remark that awareness was still lacking towards mutual funds and even those who knew mutual funds had only wrong notion about it. The survey suggested to promote awareness in this field.

A survey was conducted by the Ananda Vikatan (a Tamil weekly magazine) during January 1999. Public were interviewed on the aspect of savings and their saving habits. One salaried class investor told that he was in the habit of allocating 20 percent of salary for savings every month in the form of either a fixed deposit or a recurring deposit. In addition, he would earmark a certain amount and deposit it in a bank or a non-banking finance company. In the event of his getting substantial pay arrears, he would deposit the entire amount in banks keeping in mind his children's future. He admitted that he had never fallen into debt so far due to proper savings plan.

---

22 Vanigamani-Supplement to Dinamani (Tamil Daily), 4.1.1999 p. 10.
23 Ananda Vikatan, Tamil Weekly 7.2.1999.
An investor being a housewife said that she had invested in real estate and gold and rarely did she save in non-banking finance companies. Another interviewee admitted that hers was a large family comprising four daughters and two sons and that she had to manage their education and family expenses resulting in a lack of savings. Now that her children were well-settled in life and so they could save a sizable amount.

Another investor had opined that it was easier to tame a bull in bull-fighting than to manage expenses in a family. Immediately after the pay day, he would settle the routine commitments like school fees, house rent, electricity charges, and telephone bill and keep the required amount for monthly provisions etc. Since he felt that it was not possible to resist the temptation of spending money when he had, he had made arrangements for the deduction of certain amount from salary through the company welfare society. He felt it wise to save with a lot of difficulty to add one by one of such assets like land, vehicles etc.

Another investor felt that the habit of saving should start from one’s early part of life. Later, she could not imagine to save much in view of children’s education and marriages. She also held the view that one should be prepared to sacrifice certain luxuries in life so that one could lead a happy and peaceful life in future.

Narayana D.L. in his major research work titled “Income, saving and investment of household sector in Chittoor District has attempted to review the economy of a select district. He examined the asset structure of households classifying the entire range of assets in to physical assets and financial assets. He found that the average investment in case of self-employed farmer households was Rs. 1,387 as against Rs. 473 for the self-employed group in business. At the same time, the average investment of salaried persons was Rs. 261. He also noticed that average investment in farm assets decreases with an increase in the level of education of the head of the family, where as investment in consumer durables appeared to increase. The data showed that the average investment of three or more earner households was Rs. 533 as against the investment of Rs. 339 by two earner households and a negative (disinvestment) investment of Rs. 344 by single earner households. Average investment in farm assets increased with the number of earners in the households.

The net increase in financial assets of the rural households including currency amounts was Rs. 833.58 lakhs during the reference period. Of this amount, rural households made a net investment of Rs. 355.63 lakhs in gold and silver. Hence, he found that rural households were still attaching primary importance to the precious metals. They also had bank deposits. Shares and securities amounted to Rs. 121.64 lakhs. Their chit funds amounted to Rs. 43.59 lakhs.

The survey further revealed that the most important forms of urban financial investments were bank deposits, share and securities, which accounted for about 28 percent and next in importance was currency which accounted for about 22 percent. The average net financial investment of urban households was Rs. 712 lakhs as against Rs. 402 lakhs in case of rural households.

According to his findings, the gross and net savings of rural households amounted to Rs. 2,987.5 lakhs and Rs. 1,861.1 lakhs respectively. The average net savings per rural household were Rs. 898. He viewed that the savings of rural households were not low, as they were generally believed to be. The gross and net savings of urban households amounted to Rs. 564.1 lakhs and Rs. 332.8 lakhs respectively. The average net savings per urban household were Rs. 1,105. He noticed that more than 35 percent of rural households were practicing dissaving about 65% effected positive savings. In urban areas nearly 28% were dis-saving and and the rest 72 percent had positive savings. The average saving income ratio of total rural household was 15 percent and in urban households it was 16 percent. Further, it was noticed that the average saving income ratio was 20 percent for Rs. 6,501 - 7,500 income class and decreased to 13 percent for Rs. 7,501 - 10,000 income group simple linear least square regression indicated that the marginal propensity to save for rural households was 41.8 percent and the same was 33.1 percent in case of urban households. This implied that with an increase in income the proportion of income saved by these households also increased.
Somasundaram V.K. in his major research work (1999) titled “A study on the savings and investment pattern of salaried class in Coimbatore District” has found the following:

Nearly 28 percent of families in the study area have an annual income between Rs. 1,20,000 and 1,60,000 with regard to income, sample investors are uniformly distributed except for Rs. 2,00,000 – 2,40,000 income category, where only 4 percent represented the sample. As a maximum, 38 percent of investors’ families annual expenses range from Rs. 48,000 to 60,000 only 8 percent of families spend between Rs. 60,000 and 72,000 P.A. The average annual expenses of families is Rs. 46,900 and 47 percent of families have such expenses below the average.

Among the identified 13 investment avenues, all the investors know about the bank deposits, 96 percent are aware of chit funds as a saving medium, 95 percent know about gold and silver as a saving vehicle. UTI schemes, plantation schemes are not popular, as most of the investors are not aware of them. With regard to overall awareness level 25 percent have high awareness and the rest 29 percent are with low awareness.

More than two-thirds of investors are either very much satisfied with their level of savings. High income investors are more satisfied than the low income investors. About 60 percent of investors prefer to save first and purchase necessary household items. While 56 percent of city investors aspire so. 80 percent of female investors wish to save first as against 49 percent of male investors. 40 percent of investors are able to save upto 20 percent of their annual income and 31 percent save between 21 and 40 percent.

While investing, majority investors consider the safety aspect as the most important factor. Regular return from investments was the other motive next to safety. Capital appreciation is also preferred by investors. The prominent mode of investment among all category investors is the bank deposits, as it is preferred by 82 percent followed by the provident fund schemes, which are preferred by 78 percent. 73 percent of investors invest in gold and silver. 67 percent invest in chit funds. Only 8 percent have invested in plantation schemes and 7 percent in manual funds. 95 percent investors with the income range between Rs. 40,000 – 80,000 convert only a part of their savings

25 Somasundaram V.K. “A study on the savings and Investment pattern of salaried class in Coimbatore District.”
and in case of investors with the income range between Rs. 2,00,000 to 2,40,000, 33 percent effect partial conversion.

\[26\] Vinith Kumar Nair & Nisha S in their study titled “A study on Risk Appetite of Investors in Kerala” (2003) has examined the risk appetite of investors in Kerala. The analysis revealed that the people of Kerala invest in one or more than one Investment Avenue and they are generally of moderate risk taking nature. The term risk means different to different people and the perception of different aspects of risk is dependent on age though it is not dependent on gender and occupation. It can also be concluded from the study that as people grow old, their risk perception and urge to take risk changes. The financial service companies should bring in a variation in the services/Products offered by them taking into consideration the personal variables. Age of the investors should be given utmost importance while introducing a new product, recommending an existing product and describing the benefits of the same. It has emanated out of the study that most of the people are not confident to take an investment decision on their own and they need someone to guide them. The financial service companies should train their executives in such a way that they give right advice to the investors and sell the products according to the needs of the investors because investors are customers and in today’s world the customer is not King but a God. Because, mostly financial products are sold using network marketing a disgruntled investor may affect the business of the financial service company.

\[27\] Gnana Desigan C in his study titled “Investors’ Perception Towards Equity share Investment-An Empirical Study (2003) has examined the investment pattern of the equity investors and the problems of equity share investors in primary and secondary market. The analysis revealed the attitude and perception of the investors towards equity share investment. The study reveals the demographic profile of the investors. It can be seen that most of the equity share investors use up to 10 percent of their earnings to invest in equity shares. Most of them prefer balanced risk and prefer to monitor their investment daily. It is clear that speculative value is the main factor inducing them to make investment in equity shares. The main problems faced by the equity share investors are non-receipt of share


certificate and delay in payment. Investors can be induced to invest more in equities, provided measures are taken to overcome the above said problems.

Dr. V. L. Shobhana and J. Jayalakshmi in their study titled “Investor Awareness and Preferences-A Study” (2005) has examined the level of investor awareness regarding investment options and investment risks. The analysis revealed that investment in real estate/property is preferred by majority of the respondents. The second most preferred investment is bank deposits. Awareness about investment options and risks are high among old aged, highly educated and those who are professionals by occupation. Demographic variables such as age and education do not have significant influence over investor awareness where as difference in occupational status leads to difference in the awareness level of people.