INTRODUCTION
CHAPTER 1

Introduction

1.1 Introduction to Savings and Investment

Investment culture is a prerequisite and financial planning is a challenge for most people in the country when resources are limited and needs are endless. As with most challenges, achieving financial security is very much a matter of understanding concepts, organizing information and developing a workable process. Hence, financial planning, investment and saving should be a series of steps that help us reach our financial goals in the future with ease.

Savings and investment among the masses emerge as a result of the cultural background. It is a normal human tendency to spend the earnings, but the need of protecting or safeguarding future needs forces humans to save for the future and this culture of saving and directing the savings to profitable investments are influenced by the extent and level of financial planning carried out.

Investment culture necessarily would mean different attitudes, perceptions and willingness expressed by individuals/institutions in directing their savings in various financial instruments/securities. A study of the savings and investment pattern, their perceptions and preferences, thus, assumes a larger significance in the formulation of policies for the development and regulation of the securities market in general and the protection and promotion of investors’ interest in particular.

The Indian Securities market has made substantial progress since independence, wherein the progress has been impressive. The structure and functioning of the Indian securities market has transformed significantly, especially
after the introduction of the Industrial policy 1992. Along with the development and expansion of the structure of the Indian Securities market, there have also been several problems that have emerged and the seriousness of the problems have also magnified manifold.

The growth of the Indian securities market was at a tremendous pace. Since the mid 70’s and late 70’s the growth was on a rising trend, but it was evidently noted that the increase was not large by volume of transactions. The primary reason was the partial or complete standout by investors at large due to the lack of awareness among the larger population. This was coupled with poor investor climate, lack of confidence among the existing investors due to inefficiency and poor institutional infrastructure.

It is important for the authorities to understand that investment in a country is not primarily controlled by the quantum of capital that is mobilized, but on the sentiments and the level of knowledge among the investors. By understanding the investors’ perception, their preferences and their immediate and future concerns about the capital market the much needed stability can be instilled in the market. This was earlier evidenced by the immediate withdrawal by the investors from the market resulting in its collapse in the 1990s. Though a recovery was made by way of huge technological and technical strides, the market had not completely recovered.

It is said that “After the exuberance of the stock market in the mid-1990s and its decline thereafter, a large number of individual investors took flight to safety in bank deposits, safe retirement instruments and insurance. It remains to be seen when and how fast such savers return to the capital market so that it performs its intermediary function efficiently” (Mohan, 2004). For the investors to return to the capital market and also for the stock market to perform its intermediary function
efficiently, it is important to interpret the trends and also the growth of the capital market.

The statistical Table 1.1 shows that the public equity issues by the government, public limited companies have declined from 1.1 per cent of GDP during 1992-'97 to 0.01 per cent during 2002-'03.

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s</td>
<td>0.2</td>
</tr>
<tr>
<td>1990s</td>
<td>0.7</td>
</tr>
<tr>
<td>1992-93 to 1996-97</td>
<td>1.1</td>
</tr>
<tr>
<td>1997-98 to 2001-02</td>
<td>0.1</td>
</tr>
<tr>
<td>2002-03</td>
<td>0.01</td>
</tr>
</tbody>
</table>


The Indian Household survey has provided a realistic picture of the phenomenal decline in the capital market’s role in the raising of capital and the consequent fall in the expectations of the corporate in the capital market for raising capital. The Reserve Bank of India (RBI) in its official data has shown that the household financial savings going into the private sector shares and bonds, either directly or through mutual funds has continually gone down since the mid 1990s, instead of showing a rise as expected in the liberalization era. The Annual Report of the RBI 1999-2000 and 2012-'13 shows that the investors’ gross financial savings invested directly in shares were at 7.5 -8.5 per cent during the boom period, whereas, it slumped to 0.6 -0.4 per cent in the year 2010-11 and 2012-13 (RBI, 2003-'04).

The households’ indirect investment in private corporate like the Unit Trust of India and other Mutual Funds has also shown a decline during the same period. The percentage of financial savings fell from 8.6 per cent in 1992-'93 to 0.6 per cent in
1997-‘98; it declined to the negative 1.1 per cent in 2010-‘11 and 2011-‘12 and rose during 2012-‘13 to 2.5 per cent.

Considering both direct and indirect forms of investment by households in corporate shares and debentures, we find from RBI data that 17 per cent of households’ gross financial savings went into the private corporate share and bonds in 1992-‘93 but this came down to just 2.5 per cent by 1998-‘99. Thereafter, it spurted temporarily to 7.6 per cent in 1999-2000 and then slipped to 1.4 per cent in 2003-‘04.

RBI data on household gross financial savings show that both direct and indirect forms of investment in corporate shares and debentures was 17 per cent in 1992-‘93 but it declined to 2.5 per cent by 1998-‘99, 0.2 in 2010-‘11 and (-) 0.5 per cent in 2011-‘12. However, a slight recovery was noticed in the year 2012-‘13 (3.1 per cent).

The household investors’ disenchantment with the corporate stocks and bonds was also indicated by the drying up of the new issues market. Public and right issues of shares and bonds fell persistently from the peak of Rs. 27632 crores during 1994-‘95 to as low as Rs. 4570 crores during 1997-‘98 and remained relatively low around this level over the next 15 to 16 years with the figures at Rs. 4450 crores in 2012-13 (RBI, 2003-’04).

The lion’s share of investment in India accounts for the household investors who actively participate in various investment avenues. Out of the 85-90 percent of the savings of the investors that is channelized through the investors account is about 22.5 per cent of GDP (Survey, 2013)
In the light of the facts mentioned above, the researcher aims to have an insight into the operations of the capital market making a review of the same and studying the investment and saving habits of the class of stock investors who are active in the market. The study would aim to analyze the investors’ perception, attitudes and preferences towards different forms of investments. The study would also aim at identifying the gaps in the past research through the reviews which would provide the necessary direction leading to the present research work undertaken by the researcher.

1.2 Background of the Research Problem

The study has been conducted with the objective of investigating the savings and investment pattern of stock investors in the state of Kerala. The population represents the stock investors in Kerala, who are the regular investors having valid depository accounts in the Indian Stock Market. Though savings lead to investment and a wide variety of investment avenues are available depending on the risk taking capacity it is necessary to understand the savings and investment pattern, among the investor classes in Kerala.

1.3 Statement of the Problem

Investment culture among the people of a country is an essential prerequisite for capital formation and faster growth of an economy since the aggregate of savings is the source of investment in the economy. Every individual has a unique portfolio of spending and saving their income and the investment culture is influenced by the investors’ attitude, perception and willingness to place their savings in various financial assets most popularly known as securities. The capital formation happens in the economy as a result of investments in the capital market. The study on the savings
and investment pattern of stock investors assumes greater significance in the formulation of polices for the development and regulation of securities market in general and protection and promotion of savings in the economy.

The Indian capital market has grown big in the 1990s but the amount of capital raised in the form of equity, preference shares and debentures by the corporate sector has not been large. The growing trend among the public is seen since 1975 but not very significant, for the lack of awareness among the small and household investors, poor investment climate and loss of confidence in existing investment avenues. It is very important that the regulatory authorities understand the investment pattern of the investors, which are largely influenced by their perceptions, preferences and their concerns about the financial markets, and specifically on the stock market.

There has been a substantial decline in the investments in comparison to GDP. Public equity issues by non government public companies declined from 1.4 per cent of GDP during 1992-'97 to 0.1 per cent in 1998-'02 and further to 0.01 per cent during 2002-'03.

It was observed 7.5 to 8.5 per cent of the household gross financial savings each year was invested directly in shares and debentures of private corporate bodies. This percentage declined to 1.6 per cent in 1997-'98 and 1.5 per cent in 1998-'99. It temporarily rose to 3.4 per cent during the Information Technology boom year 1999-2000, but gradually slipped to 0.7 per cent. The household investors account for the great bulk (85-90 per cent) of India’s domestic savings, which is 23-24 per cent of the GDP (Pre-Budget Economic Survey, GOI).

The problem gets manifested in an erratic market, discouraging or even driving away the genuine investors from the market (5900 investors spread over 90
cities and town in 24 states). 50 per cent of respondents showed worry about the volatility and manipulations, and majority of the retail investors do not regard mutual fund equity schemes as a superior investment alternative to direct holding of equity shares (L.C., 2004).

Every financial system has an indispensable role in the economic development of a nation, and the effect of financial system on savings and investment is quite important. The choice of alternative forms of investments are dependent on a variety of factors, and it may differ from person to person, depending on their approach accessibility to information and purpose, though safety, liquidity and return is a major decision making factor.

Unless savings are not properly channelized there won’t be any sustainable investment and corresponding growth in the economy. Whether in stock, gold or land, irrespective of that there exist some relationship between savings and investment though considerable variations are expected within a class as well as between the classes of investors.

In the light of the facts mentioned above an attempt has been made to study the saving and investment pattern of investors, to understand the flow of savings into the economy, to assess the gap that exists in mobilising the savings of the public and to assess their perception and awareness level in investment and stock market.

The study is thus intended to focus on the savings and investment pattern of different class of stock investors coming from different sectors of engagement in the State of Kerala.
1.4 Scope and Significance of the Study

India has shown tremendous increase in domestic savings over the last decades. The domestic savings have increased from 989 crores in 1950-'51 to 27.65 lakh crore in 2011-'13 (Review, 2011). Though many factors have contributed to this increase in the disposable income of the individuals as well as the existence of wide variety of avenues of savings with varied rate of risk and return, and the incidences of transforming the savings into different forms of investments depending on the wide variety of reasons and perceptions, are prominent among them. The purpose of the study is to find out why different class of people route the savings to different avenues of investment and to see whether any distinctive pattern is prevailing among any specified group and its influence in capital formation.

Studies carried out earlier have focussed on perceptions, preferences and behaviour of small and household investors, macro-level aspects like ownership pattern in the capital market, occupation wise break up of paid up value of shareholding of individuals, and geographical distribution of share ownership in India. There are only a few studies covering the issue of investor perception and behaviour at the micro/regional level. Especially with the declining trend shown by the investors towards the primary market and withdrawals from capital market, diversion of household savings into safer investment avenues like bank deposits, real estate and unproductive assets like gold and silver, it becomes all the more important to study and analyse the investment pattern of the investors in general which would help policy makers in evolving suitable strategies to get small and household investors. The geographical coverage of the study will be the revenue districts of Kerala and the period of coverage would be 2005-12.
1.5 Preference of the Study

The savings are very important for every member in the society, which is a safeguard for their future. Similarly, investment is essential for the economy. Hence the financial system in the economy aims to mobilize the savings of the public to channelize the savings to proper investment or business activities.

Based on the investment aptitude of every investor, which is determined by their risk taking capacity, every investor would choose their investment avenue from the available avenues of investment so as to maximize their returns from investments. Hence the study would aim to understand the savings and investment pattern of stock investors and to understand the role played by the investors in the capital formation of the economy.

1.6 Objectives of the Study:

1. To study the savings and investment habits of different class of stock investors in Kerala
2. To Study the determinants of investment decisions among the investor class.
3. To study the trends in capital market and understand the awareness and preferences towards various investments.
4. To examine the assessment, perception and evaluation of risk associated with investments.
5. To make suggestion based on the study, to bring about better programmes and awareness in education of investors.
1.7 Hypothesis

1. To check the dependency of age on awareness level of investors
2. To scrutinize the dependency of gender on awareness level of investors
3. To observe the dependency of occupation on awareness level of investors
4. To measure the dependency of education on awareness level of investors.
5. To check the dependency of social class on awareness level of investors.
6. To examine the relationship between awareness level and preferences made towards investments by the investors
7. To observe the relationship between investors experience and reaction towards risk in investing
8. To measure the relationship between the willingness and unwillingness of investors to take risk in making investment decisions.

1.8 Methodology

The research work titled “Savings and Investment Pattern of Stock Investors in Kerala State” is confined to the stock investors having registered depository accounts from the state of Kerala.

1.8.1 Research Design:

The study is a descriptive study about the savings and investment pattern of stock investors’ in Kerala with emphasis laid on their perception, awareness, and risk assessment about investment avenues available for investment.

1.8.2 Source of Data

Primary data relating to investment behaviour will be collected from respondents. Secondary data would also be used wherever necessary to assess the
volume of savings and investments. A detailed interview schedule which is duly pre-tested by means of pilot study would be designed keeping in view the objectives of the study. The relevant secondary data would be gathered from the regulatory authorities like SEBI, RBI and Economic Survey, and by reviewing previous research works, journals, articles and magazines.

1.8.3 Population and Sample

The population of the study comprises of investors who have valid depository accounts, covering across 21 revenue districts of the State of Kerala, in an administered population of 10032 stock investors.

In order to circumscribe the universe of the study, the coverage area is divided into strata on the basis of geographical factors. The administrative set up in the State of Kerala has divided the state into 14 districts. Based on the geographical, historical and cultural similarities the state is again divided into Malabar (North Kerala), Kochi (Central Kerala) and Travancore (South Kerala) regions.

The primary data collection for study was made by adopting convenience sampling technique as the most of the depository account holders registered were not residing in their registered address, making it difficult to carry out the multi stage sampling technique. But efforts were made to ensure that respondents belonging to all the revenue districts were included. In the first stage, respondents belonging to the three regions, namely Malabar (North Kerala), Kochi (Central Kerala) and Travancore (South Kerala) were selected.
Table 1.2
Distribution of Sample Respondents

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alapuzha</td>
<td>42</td>
<td>6</td>
</tr>
<tr>
<td>Iddukki</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Kasargod</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td>Kottayam</td>
<td>96</td>
<td>14</td>
</tr>
<tr>
<td>Malapuram</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Pathnamthitta</td>
<td>31</td>
<td>5</td>
</tr>
<tr>
<td>Thrissur</td>
<td>112</td>
<td>16</td>
</tr>
<tr>
<td>Ernakulam</td>
<td>132</td>
<td>19</td>
</tr>
<tr>
<td>Kannur</td>
<td>28</td>
<td>4</td>
</tr>
<tr>
<td>Kollam</td>
<td>43</td>
<td>6</td>
</tr>
<tr>
<td>Kozhikode</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>Palakkad</td>
<td>32</td>
<td>5</td>
</tr>
<tr>
<td>Thiruvanathapuram</td>
<td>88</td>
<td>13</td>
</tr>
<tr>
<td>Wayanad</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>687</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Field survey*

1.7.3 Tools of Analysis

Statistical Techniques such as, Correlation Coefficient, Coefficient of Determination, Chi-square analysis, Coefficient of Variation, etc are used for analysing and interpreting the data.

1.8.4 Operational Definition

**Stock Investors**: The group of stock investors are individual investors who have depository accounts. The term stock investor and investor would be used interchangeably. All stock investors are primarily considered as average individual investors, who have other investments in portfolios other than stocks and shares.
Size of Household: The size of a household is to be taken as the number of adults in the household and it determines the consumption requirements of that household and the savings available for investment.

1.9 Scope and Limitations of the Study

The present study aims at analysing the investment behaviour of individual investors holding valid depository accounts, randomly selected from an administered group of stock investors belonging to the revenue divisions of Kerala State. The Study is thus limited with focus on the perceptions, preferences and behaviour of stock investors in Kerala covering the period of 2005-'12

The following are the limitation of the study

1. The enumeration of primary data, particularly with sampling approach has its own limitations and this study is no exception.
2. Though efforts have been made to motivate and convince the respondents about the overall objectives of the study at the time of primary data collection; the chances of hiding confidential and private information at the time of collecting responses are not overruled.
3. The constraints of time and money have limited this study to a modest sample. An extensive study would be more comprehensive.
4. The information gathered from the respondents were in effect the outcomes drawn from the framework and recollection of their memory, incidences of deviation from the real situations to some extent is expected.

However, reasonable efforts have been made by the researcher to convince the respondents about the gravity of the academic exercise. They were assured that individual opinions will not be mentioned anywhere and that the information gathered will be used only for the purpose of the research.
1.10 Chapter Layout

In order to have a clear dissemination of the information, the report is divided into six chapters.

**Chapter 1:** Introduction: This includes introduction to savings and investment, statement of the research problem, scope and significance of the study, objectives, methodology and limitations of the study.

**Chapter 2:** Review of Literature: This includes the review of important studies pertaining to the field of study and the comparison with other relevant studies towards building more insights and to justify the research problem proposed in the first chapter.

**Chapter 3:** Indian Capital Market Scenario: This includes the role played by and the significance of the capital market in the financial system. An effort has been made to review the secondary sources to bring out the extent of mobilization of savings and investment made in the capital market.

**Chapter 4:** Profile of Investors in Kerala: This consists of two parts, where, the first part deals with the general profile of investors in Kerala and the second part is about the economic profile of investors, including the demographic matters.

**Chapter 5:** Data Analysis and Interpretations: The deliberations relating to the investors’ perceptions and behaviour, and factors influencing the same are analysed and presented in this chapter.

**Chapter 6:** The last and final chapter presents the summary of findings and conclusions emerging from the research study.
References


   http://indiabudget.nic.in/statdata.asp?pageid=1