CHAPTER – II

INVESTORS’ PERCEPTION TOWARDS INSTITUTIONAL INVESTMENT:
A THEORETICAL FRAMEWORK

Savings play a vital role in building up of a welfare state. Savings are required for capital formation for building irrigation projects, railways, roads and other social commitments. It is one of the primary duties of the welfare state to mobilize savings and utilize them towards the well-being of the people. For this purpose, suitable legislative measures are also required. Savings legislation serves two purposes one is to protect the investors and assure safety and liquidity for their funds and the other is to regulate and control institutions for promotion and mobilization of savings. The savings and investment process is a *sinequanon* for assuring the economic development of the country. Against this background, the present chapter focuses its attention on the theoretical framework of savings and investment in terms of various forms, trends, etc. This chapter is divided into five sections. Section-I presents an overview of savings while section-II portrays an overview of investment. Section-III discusses the framework of investment avenues with special reference to financial assets whereas section-IV traces investors’ perceptions relating to investment avenues. Section-V portrays the approaches that have been suitably designed for the purpose of this study.
Section – I

Savings: An overview

Generally, the term savings signifies the excess of current income over current consumption. The Central Statistical Organization has defined savings as “the excess of current income over current expenditure and is the balancing item on the income and outlay accounts of producing enterprises and households, government administration and final consumers”\(^1\). Savings also mean “earned surplus or change in earned net worth during a given period”\(^2\). Savings necessitate refraining from spending one’s income on consumption. As a result, savings stand for a portion of income saved which is available for expenditure-consumption or investment.

Sources of savings

The following are the three broad sectors in India, which contribute towards gross domestic savings:

a. Public sector

This sector comprises government and semi government enterprises and departments, both departmental and non-departmental. The net savings of this sector are estimated from the results published/presented in their annual reports. The savings of this sector are the excess of current receipts over current expenditures.

b. Private sector

This sector includes only private business organizations, like companies, financial institutions, non-financial institutions and cooperative institutions. The net savings of the private financial institutions are broadly taken as the increase in
statutory and other reserves. The savings of this sector are obtained from the profit and loss accounts and the balance sheets of the respective units.

c. Household sector

The savings of household sector are measured in terms of, (i) the total of financial savings and (ii) the savings in the form of physical assets. The financial savings involve possession of currency, net deposits, investment in shares and debentures, net claims on government in the form of central and state government securities and small savings, net increase in the claims of life insurance and provident funds. Physical assets include construction, machinery, equipment and stocks held by individuals, firms and other institutions constituting the household sector.

These three broad sectors contribute their own share to the gross domestic savings in the country. The information relating to the share of these sectors in gross domestic savings during the protected regime and the open regime is presented in Table 2.1.

Table 2.1
Trends and pattern in savings
(As percent of GDP)

<table>
<thead>
<tr>
<th>Gross domestic savings</th>
<th>Protected Regime</th>
<th>Open Regime</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Household sector</td>
<td>6.2</td>
<td>19.3</td>
</tr>
<tr>
<td>2. Private Sector</td>
<td>0.9</td>
<td>2.7</td>
</tr>
<tr>
<td>3. Public sector</td>
<td>1.8</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Total (1+2+3)</strong></td>
<td><strong>8.9</strong></td>
<td><strong>23.1</strong></td>
</tr>
</tbody>
</table>

Source: Compiled from Economic Survey of India 2002-03, Table 1.5 page no. s-8.
The main observations of Table 2.1 are outlined below:

- The share of savings of the public sector in the gross domestic savings as a percentage of GDP has been declining over the years.

- Contribution of private sector is increasing. Yet, it is not satisfactory when compared with the private sector of developed countries.
The household sector contributes a major share in gross domestic savings in India. The percentage share of this sector is increasing over the years.

In view of this significant contribution of household sector, a need is felt to further examine the trends in savings of household sector. The information relating to trends in the rate of savings of household sector is presented in Table 2.2

**Table 2.2**

The rate of savings of household sector

<table>
<thead>
<tr>
<th>Regimes</th>
<th>Year</th>
<th>Savings</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>The protected regime</td>
<td>1950-51</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1960-61</td>
<td>7.3</td>
<td>17.74</td>
</tr>
<tr>
<td></td>
<td>1970-71</td>
<td>10.1</td>
<td>38.36</td>
</tr>
<tr>
<td></td>
<td>1980-81</td>
<td>13.8</td>
<td>36.63</td>
</tr>
<tr>
<td></td>
<td>1990-91</td>
<td>19.3</td>
<td>39.86</td>
</tr>
<tr>
<td>The open regime</td>
<td>1991-92</td>
<td>17.0</td>
<td>-11.92</td>
</tr>
<tr>
<td></td>
<td>1994-95</td>
<td>18.4</td>
<td>8.24</td>
</tr>
<tr>
<td></td>
<td>1997-98</td>
<td>17.6</td>
<td>-4.35</td>
</tr>
<tr>
<td></td>
<td>2000-01</td>
<td>21.6</td>
<td>22.73</td>
</tr>
</tbody>
</table>

Source: Compiled from Economic Survey of India 2002-03 Table 1.5 page no. s-8.

From Table 2.2, it is clear that the percentage share of household savings in gross domestic savings has been continuously increasing throughout the protected regime. However, in the initial phase of the open regime, this rate had declined, whereas it further increased in the later period.
Section – II

Investment: An overview

The term investment may be defined as “a commitment of funds made in the expectation of some positive rate of return. If the investment is positively undertaken, the return will be commensurate with the risk the investor assumes”.4

Thus, the activity of investment involves the judicious and proper employment of funds with the aim of achieving additional income or growth in values. Investment also involves the commitment of resources, which have been saved in the hope that some benefits will accrue in future. The essential quality of an investment is that it involves waiting for a reward3.

Investing entails a continuous flow of decisions that cannot be avoided. All investment choices are made at different points of time and in contemplation of an
uncertain future. Investors will reappraise from time to time and review their various investment commitments in the light of new information and changed expectations. The investors reinforce their bargaining position by analyzing the investment opportunities offered to them by institutions which are always borrowers of funds. Investors choose investment avenues considering their needs for investing their savings.

The investors would like to know the investment avenues so that they can use their discretion and invest in those avenues, which will give them security and stable return. The ultimate aim of the investors is to find a variety of investment avenues that meet their preference for risk and expected return. The investment avenues have a wide range of risk from risk-free to highly speculative avenues. From this broad spectrum, the investors will have to select these avenues that maximize their utility.

Need for investment

Investment is both important and useful in the context of present-day conditions. The following factors have made investment decisions increasingly important for the investors.

a. Longer life expectancy

Investment decisions have become significant as the investors expect longer life. It is natural that an individual can work hard and earn as much as possible in the middle age and save adequately. Savings from the current earning must be invested in such a way that the principal and return will be adequate for supporting his family and himself in the older age. So increase in working individuals, proper planning for life
expectancy and longevity have ensured the need for a balanced investment by the investors.

b. Increasing rates of taxation

Taxation is one of the crucial factors of investment, which introduces an element of compulsion in an individual savings. There are various forms of savings outlets in the form of investment. Either the principal is eligible for tax benefits or the return is tax-free. The examples include post office savings/certificates, life insurance policies, interest on securities, etc, under the provisions of the IT Act of 1961. This will help the investors in bringing down their tax liability.

c. Interest rates

The rate of interest is also a factor influencing investment decision. Interest rates may vary (a) between one investment and another, (b) between risky and safe investment and (c) due to different benefit schemes offered by the institutions. The investors decide whether they are getting an acceptable return commensurate with the risks that are taken. Stability of interest is as important as receiving a high rate of interest.

d. Inflation

In the years of rising prices, the investors will search an avenue, which gives them a high rate of return in the form of interest or capital appreciation to cover any decrease due to inflation besides, high rate of return. It should not unduly increase their taxation burden. Otherwise, the benefit derived will be compensated by an increase in taxation.
e. Income

Another factor is the general increase in employment opportunities every year. More incomes and more avenues for investment have led to the ability and willingness of working individuals to save and invest their funds.

f. Investment channels

The growth and development of the country leading to greater economic activity has led to the introduction of a broad array of investment avenues. The investors in their choice of avenues will have to try and achieve a proper mix between high rate of return and stability of return.

The savings of individuals flow into the financial markets through the financial investment. While making such investment the investors consider the following aspects:

a. Return

The return on investment may be in the form of yield or capital appreciation. The dividend or the interest received from the investment is the yield. The difference between the sale price and the purchase price is the capital appreciation.

b. Risk and return

Risk is inherent in any investment while return is not so. Risk and return are inseparable. The risk can be reduced but not avoided at all by diversifying the investment. Therefore, investors always try to minimize the risk by diversifying their investment in order to earn sufficiently, as the unexpected market conditions will recur from time to time. The nature of risk depends on the institutions introducing the investment avenues. Thus, each investor tries to maximize his welfare by choosing the
optimum combination of risk and expected return in accordance with his preference and capacity while considering the objectives of investment.

c. Safety

All investors should be ensured of safety of their principal. It means the safety of an investment implies the certainty of return of capital without loss of money or time.

d. Liquidity/marketability

An investment is highly marketable or liquid, if (a) it can be transacted quickly, (b) the transaction cost is low and (c) the price change between two successive transactions is negligible. The liquidity of a market may be judged in terms of its depth, breadth and resilience.

e. Time

Time offers different courses of action. The period depends on the attitude of the investors, who follow a 'buy and hold' policy. As time moves on, investors reevaluate the expected return and risk for each investment.

f. Investment climate

The investment market should have a favourable environment to be able to function effectively. A favourable environment is based on the basic considerations, which foster growth and bring opportunities for investment by the investors. These basic considerations include:

- legal safeguards
- a stable currency
- existence of institutions to encourage savings
In addition, the investors are expected to possess certain qualities required for being successful investors. These qualities are: (a) contrary thinking, (b) patience, (c) composure, (d) flexibility and openness and (e) decisiveness. If the investors possess these qualities, they would rather be successful investors. The most successful investors tend to be those who are willing to make bold positions consistent with their convictions.

**Trends and pattern in investment**

The investment may be in financial assets and/or physical assets. The information relating to the conceptual aspects of these assets are presented in Table 2.3

<table>
<thead>
<tr>
<th>S1 no</th>
<th>Features</th>
<th>Financial assets</th>
<th>Physical assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Return on investment</td>
<td>Both periodical returns and capital appreciation.</td>
<td>Capital appreciation</td>
</tr>
<tr>
<td>2</td>
<td>Maturity Period</td>
<td>All assets have either short term or long-term maturity period.</td>
<td>These assets do not have any fixed maturity period.</td>
</tr>
<tr>
<td>3</td>
<td>Risk</td>
<td>Some are riskier while others are risk less or risk-free.</td>
<td>Risk is inherent. But, the amount involved is not known</td>
</tr>
<tr>
<td>4</td>
<td>Liquidity</td>
<td>Few are liquid and marketable while others are not.</td>
<td>These are less liquid and not marketable easily.</td>
</tr>
<tr>
<td>5</td>
<td>Types of investors</td>
<td>All types of investors can invest including low income groups (i.e. small or rich ones)</td>
<td>All types of investors cannot afford to invest</td>
</tr>
</tbody>
</table>

The information relating to the trends and pattern in household investment during the protected and the open regimes is presented in Table 2.4.
Table 2.4
Trends and pattern in household investment

<table>
<thead>
<tr>
<th>Household investment</th>
<th>The protected regime</th>
<th>The open regime</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1990</td>
<td>1992</td>
</tr>
<tr>
<td>1990</td>
<td>1990</td>
<td>1996</td>
</tr>
</tbody>
</table>

1. **Financial assets**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>7.44</td>
<td>8.18</td>
<td>5.69</td>
<td>7.37</td>
<td>7.65</td>
<td>3.88</td>
</tr>
<tr>
<td>Net deposits</td>
<td>5.72</td>
<td>15.02</td>
<td>10.18</td>
<td>13.11</td>
<td>16.14</td>
<td>19.10</td>
</tr>
<tr>
<td>Shares and debentures</td>
<td>2.04</td>
<td>2.23</td>
<td>7.65</td>
<td>14.35</td>
<td>4.20</td>
<td>1.66</td>
</tr>
<tr>
<td>Net claim on government</td>
<td>-0.26</td>
<td>2.90</td>
<td>6.64</td>
<td>3.97</td>
<td>4.32</td>
<td>7.67</td>
</tr>
<tr>
<td>Life insurance funds</td>
<td>4.08</td>
<td>4.32</td>
<td>4.86</td>
<td>5.98</td>
<td>6.26</td>
<td>7.63</td>
</tr>
<tr>
<td>Provident and pension funds</td>
<td>10.57</td>
<td>10.68</td>
<td>10.15</td>
<td>11.30</td>
<td>10.34</td>
<td>12.56</td>
</tr>
</tbody>
</table>

2. **Physical assets**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>70.41</td>
<td>56.66</td>
<td>54.83</td>
<td>43.92</td>
<td>51.09</td>
<td>47.50</td>
</tr>
</tbody>
</table>

Total = (1 +2) 100 100 100 100 100 100


**Graph 2.3**

Trends and pattern in household investment

Table 2.4 reveals that the household investments are more in physical assets during the protected regime whereas the amount of investment in financial assets has
been increasing during the open regime. In view of increasing share of financial assets, it is felt necessary to examine the composition of investment of household sector in financial assets. This information for the year 2000-01 is presented in Table 2.5.

Table 2.5
Household savings in financial assets

<table>
<thead>
<tr>
<th>Sl. no.</th>
<th>Form of assets</th>
<th>% Share in gross financial assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CURRENCY</td>
<td>6.37</td>
</tr>
<tr>
<td>2</td>
<td>DEPOSITS</td>
<td>44.27</td>
</tr>
<tr>
<td></td>
<td>Deposits with banks</td>
<td>38.78</td>
</tr>
<tr>
<td></td>
<td>Deposits with non-banking companies</td>
<td>3.39</td>
</tr>
<tr>
<td></td>
<td>Deposits with Co-operative banks and societies</td>
<td>2.48</td>
</tr>
<tr>
<td></td>
<td>Trade debt net</td>
<td>-0.38</td>
</tr>
<tr>
<td>3</td>
<td>SHARES AND DEBENTURES</td>
<td>2.73</td>
</tr>
<tr>
<td></td>
<td>Private corporate business</td>
<td>1.34</td>
</tr>
<tr>
<td></td>
<td>Co-operative banks and societies</td>
<td>0.05</td>
</tr>
<tr>
<td></td>
<td>Units of Unit Trust of India</td>
<td>-0.50</td>
</tr>
<tr>
<td></td>
<td>Bonds of public sector undertakings</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>Mutual funds other than UTI</td>
<td>1.79</td>
</tr>
<tr>
<td>4</td>
<td>CLAIMS ON GOVERNMENT</td>
<td>13.13</td>
</tr>
<tr>
<td></td>
<td>Investment in government securities</td>
<td>1.57</td>
</tr>
<tr>
<td></td>
<td>Investment in small savings etc</td>
<td>11.56</td>
</tr>
<tr>
<td>5</td>
<td>INSURANCE FUNDS</td>
<td>12.85</td>
</tr>
<tr>
<td></td>
<td>Life insurance funds</td>
<td>12.15</td>
</tr>
<tr>
<td></td>
<td>Postal insurance</td>
<td>0.22</td>
</tr>
<tr>
<td></td>
<td>State insurance</td>
<td>0.47</td>
</tr>
<tr>
<td>6</td>
<td>PROVIDENT AND PENSION FUNDS</td>
<td>20.65</td>
</tr>
<tr>
<td></td>
<td>Gross financial assets</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: National Income Statistic, Center for Monitoring Indian Economy January 2003, page 239
Table 2.5 reveals that the investment of household is the highest in the form of bank deposits (44.27%) followed by provident and pension funds (20.65%), claims on government (13.13%), insurance funds (12.85%), currency (6.37%) and shares and debentures (2.73). Thus, the household investors have given a top priority to the safety of their principal though the returns on deposits and provident and pension funds are low.

**Section –III**

**A Framework of Investment Avenues with Special Reference to Financial Assets**

In view of the significance of the financial assets as well as the focus of this study being the inquiry into investors’ perceptions regarding financial assets, a detailed discussion on various avenues of financial assets is discussed in this section.
The avenues can be broadly classified as (i) fixed return investment avenues and (ii) variable return investment avenues. The classification of investment in financial assets is portrayed in Chart 2.1

**Chart 2.1**

**Classification of investment in financial assets**

- **Fixed return investment avenues**
  - 1. Bank deposits
  - 2. Government securities
  - 3. Small saving schemes
  - 4. Public sector bonds
  - 5. Debentures
  - 6. Company deposits
  - 7. Preference shares

- **Variable return investment avenues**
  - 1. Life insurance policies
  - 2. Mutual funds
  - 3. Equity shares

**A) Fixed return investment avenues**

The fixed return investment avenues provide a stable rate of interest and dividends to the investors. Their level of current income is fixed for a stipulated period of time, usually the life of the issue. These can be used conservatively by the investors who primarily seek high current income to supplement their income from other sources. They can also be used for trading purpose by the investors who actively seek capital gains. Short-term fixed return investment avenues normally mature within
a year while long-term avenues mature after a year. The forms of fixed return investment avenues are briefly discussed hereunder:

1) Bank deposits

   It is one of the simplest forms of investment avenues. There are various kinds of bank accounts: current account, savings account and fixed deposit account. While a deposit in a current account does not earn any interest, deposits in other kinds of bank accounts earn interest. Deposits in scheduled banks are safe because of the regulations of the Reserve Bank of India and the guarantee provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC) up to Rs 1,00,000. Bank deposits enjoy exceptionally high liquidity. They can be withdrawn prematurely by incurring a small penalty. Loans can be raised against bank deposits.

2) Government securities

   Debt securities issued by the central government, state government and quasi-government agencies are referred to as government securities or gilt-edged securities. Three types of instruments are issued. They are i) an investment that resembles a company debenture, ii) a promissory note and iii) a bearer security.

   An investment that resembles a company debenture carries the name of the holder(s) and is registered with the public debt office (PDO). The public debt office pays interest to the holders registered with it on the specified date of payment, whereas a promissory note issued to the original holder contains a promise by the president of India to pay as per a given schedule. The seller can transfer it to a buyer by an endorsement that is entitled to receive interest and other payments. A bearer
security is that security the interest and other payments of which are made to the holder of the security. Even though these securities carry some tax advantages, they have traditionally not appealed to individual investors because of low rates of interest and long maturities. Moreover, market for these instruments is relatively illiquid.

3) Small savings schemes

The small savings schemes presently in operation have significant relevance, especially for salaried people and other fixed income investors. These schemes are offered by post offices. The various schemes include savings bank account, monthly income scheme, 5-year recurring deposit, time deposits, kisan vikas patra, national savings certificates, etc.

4) Public sector bonds

Public sector undertakings (PSUs) issue debentures known as PSU bonds. There are two broad varieties of PSU bonds: 10.5% tax-free bonds and 12% taxable bonds. The interest on tax-free bonds is fully tax-exempt; whereas the interest on taxable bonds is exempt subject to the provisions of the Income Tax Act of 1961. While PSUs are free to set the interest rates on the taxable bonds, they cannot offer more than a certain interest rate on tax-free bonds, which is fixed by the Ministry of Finance. A PSU can issue tax-free bonds only with the prior approval of the Ministry of Finance.
5) Debentures

A debenture is a document, which either acknowledges or creates a debt. Debentures hold an important position in the overall capital structure of the most companies. These represent borrowed funds.

6) Company deposits

Many companies solicit fixed deposits from the public. Fixed deposits mobilized by manufacturing companies are regulated by the Company Law Board and fixed deposits mobilized by finance companies by the RBI. Fixed deposits represent unsecured loans taken by borrowing companies. They have to be necessarily credit-rated.

7) Preference shares

Preference share represents a hybrid security that partakes some characteristics of equity shares and some attributes of debentures. They carry a fixed rate of dividend, which is payable only out of distributable profits. In addition, dividend skipped in one year has to be paid subsequently before equity dividend can be paid. These shares have priority over the equity shares in respect of repayment of principal amount at the time of winding up of a company.

B) Variable return investment avenues

The variable return investment avenues are those avenues on which the earnings vary from time to time. Normally, the investors expect higher returns due to
comparatively higher degree of risk. The ultimate objective of the investors is to derive a variety of investment avenues that meet their preferences for risk and expected return. The variable return investment avenues are briefly discussed below:

1) Life insurance policies

The investment in life insurance policies not only generates income to the policy holders but it also protects the risk of life insured. These life insurance policies have become attractive these days due to such benefits as protection and security for the family, regular savings and investment, bonus, tax benefits, housing finance and annuities for regular income during retirement.

There are a number of life insurance plans available to the individuals such as whole life policies, endowment policies, money back policies, children's policies, etc.

2) Mutual funds

Mutual funds are the financial intermediaries, which pool the savings of numerous individuals and invest this money in a diversified portfolio of securities, including equity, debentures, bonds and other instruments, thus spreading the risk. These funds are run by government trusts, banks and private financial institutions.

They include equity funds, bond funds, balanced funds, tax exempt funds, etc. The investment in various mutual funds can be a good investment avenue as the units are of low face value. Even a poor can offer to invest in mutual fund schemes.
3) Equity shares

These are also called ordinary shares, the owners of which are entitled to vote the company’s resolutions and share the company's prosperity by receiving dividends. If the company loses or owes money the equity shareholders' liability is limited to the investment they have made. Further, the equity shareholders carry the right to the residue of a company's assets after it has paid all its dues to outsiders including creditors at the time of liquidation.

The preceding discussion reveals that there are various investment avenues available to the investors. Some of them are less risky with low return whereas others are riskier with high returns. Therefore, the investors have to make a judicious investment decision to invest in any one of the investment avenues depending upon their incomes, savings and motives. The investors perceive a number of aspects while selecting and investing their money. These perceptions of investors are discussed in the next section.

Section – IV

Investors’ perceptions

Perception can be defined as a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment. Accordingly, individual investors organize the information relating to various avenues of investment and interpret these avenues, select the competing ones and finalize their investment. The individuals understand the situation in and around the investment climate and take a decision suitably, if they believe that the proposed avenues in the
investment environment offer promising returns. The following are the perceptions of investors identified for the purpose of this study which are portrayed in Chart 2.2

**Chart 2.2**

**Classification of Investors' Perceptions**

**Financial perceptions**

1. Reasonableness of amount of investment
2. Regular and steady income
3. Chance of capital appreciation
4. Possibility of tax benefits
5. Minimum transaction costs
6. Provision of premature withdrawal facility
7. Liquidity of investment

**Non-financial perceptions**

1. Low intensity of risk
2. Easy accessibility to avenues
3. Benefit of statutory protection to investment
4. Flexibility in timings of investment
5. Moderate length of investment
6. Accessibility to sources of information
7. Appropriate service delivery
8. Collateral quality of investment

The investors hold different impressions about the factors enlisted above. The impact of the intensity of these perceptions varies from one category of investors to others. These perceptions have a direct bearing on the investment decisions of the individual investors.

**Financial perceptions**

1. **Reasonableness of amount of investment**

It refers to the amount of investment that an investor affords to invest in different avenues. Whether the investors perceive the amount of investment required to be
made under each avenue reasonable is the underlying message of this perception. If the investors find the amount reasonable, they tend to invest more in such avenues and vice versa. Thus, the affordability of amount of investment is a decision variable.

2. Regular and steady income

The underlying message of this perception is whether the investors perceive the receipt of return from each avenue regular or not. The investors should find that each avenue provides the returns regularly as expected by them. If the investors find the regular and steady return sufficient/enough, they prefer to invest more in such an avenue and vice versa.

3. Chance of capital appreciation

This perception deals with whether the investors perceive the capital appreciation in the given investment avenues under consideration. The investors tend to expect that the underlying avenue provides capital appreciation in future. The investors tend to invest more if such investment avenues can fetch capital appreciation and vice versa.

4. Possibility of tax benefits

The investors expect tax benefits from a given investment avenue. If the investors find the tax benefits attractive, they prefer to invest more in such avenue and vice versa.

5. Minimum transaction costs

The transaction costs are the expenses such as brokerage, commission, service charges, consultancy fees, etc. to be borne by the investors in respect of the
institutional investments. The underlying message of this perception is whether the investors perceive the transaction costs affordable to them are a decision criterion. If the investors find the transaction costs minimum, they tend to park more money in such avenue and vice versa.

6. Provision of premature withdrawal facility

The underlying message of this perception is whether the investors perceive the chance of premature withdrawal from each avenue. The likelihood of premature withdrawal facility influences their investment decision positively and vice versa.

7. Liquidity of investment

Liquidity is the quality of the investment that can be converted into cash within a short notice and without much loss. An investment which enjoys a high liquidity would appear attractive and vice versa.

Non-financial perceptions

1. Low intensity of risk

Risk means the possibility of loss inherent in any investments. However, the risk relatively differs among investments. Some investments are more risky whereas the others are less risky. The primary purpose of investment is to minimize the element of risk. The investors must find the intensity of risk inherent in the underlying avenue is minimum and bearable. The investors tend to invest more funds, if they find the intensity of risk low and vice versa.
2 Easy accessibility to avenues

The investment avenues must be easily accessible to all categories of investors. This possibility of easy accessibility of the underlying avenue has its own bearing on the investors. If the investors find investment avenues easily accessible to them, they prefer to invest relatively more in such avenues and vice versa.

3 Benefit of statutory protection

The investors wish their interest to be protected statutorily. Whether the investors perceive the protection to their investment under the appropriate laws of the land is the underlying message of this perception. The investors invest more in those investment avenues, which are statutorily protected and vice versa.

4 Flexibility in the timings of investment

The flexibility in the timings of investment means that the investors should have an opportunity of investing as and when they have resources to do so. Hence, the investors prefer the flexibility in the timings of investment. As a result, they park more money in those avenues which offer flexibility in the timings of investment and vice versa.

5 Moderate length of investment:

While investing, the investors consider the length of investment i.e. the period for which their funds get locked in the avenues. Moderate length of investment has its own bearing on investment decision. If the length of investment is moderate the investors prefer to invest in those avenues and vice versa.
6 Accessibility to sources of information

The investors would require information regarding the availability of avenues in the financial markets. Whether the investors perceive the easy accessibility to sources of information of each avenue is the underlying message of this perception. If the investors find the sources of information easily accessible, they tend to invest more in such avenues and vice versa.

7 Appropriate service delivery

The investors expect the institutions offering investment opportunities to render better service in respect of their investment. The investors prefer to invest more money in those institutional avenues which render appropriate service.

8 Collateral quality of investment:

Collateral quality of an investment refers to its ability to be accepted as security for seeking further financial accommodation. If the investors find the collateral quality of investment, they tend to invest more in such an avenue and vice versa.

These perceptions significantly influence the investment decisions. Therefore, a great deal of attention should be given to the investors’ perceptions. The launching of any new avenues would be successful, if the investors’ expectations are fulfilled.
Section-V

Approaches to the study of investors’ perception

Various approaches to the study of investors’ perception towards institutional investment are outlined in chart 2.3

Chart 2.3

For each approach, suitable measures (ratios) have been constructed. They are discussed in the respective core chapters.

Against this theoretical background, the socio-economic profile of the individual investors and its implication on investment behaviour is discussed in the next chapter.
REFERENCES


