Awareness of Savings and Investment Options in Z Category Cities of India : A Study with Reference to Vellore City

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Abstract

Domestic savings of a nation determine the strength of an economy. Over a decade, savings behaviour of individuals in small cities and towns has influenced the gross domestic savings of nations across the globe. This changing savings pattern has an influence on the investment patterns as well. Hence, to understand this, a study was conducted in a Z category city - Vellore , Tamil Nadu. The study aimed to understand the drift in savings and investment patterns, awareness about the modern means of savings and investment options, and how effective is the role of investment advisors in instrument selection. The data were collected through a structured questionnaire that was administered to the residents of Vellore city. The results were tested with statistical tools like analysis of variance (ANOVA) and chi-square. The results revealed that individuals of the city were quite aware of the difference between savings and investments, irrespective of their demographic aspects. However, proper guidance is needed, for which investment advisors need to take measures. In addition, similar studies need to be conducted at several places across India, and effective measures, such as implementation of Pradhan Mantri Jan Dhan Yojana and such others need to be promoted to improve the general public's financial inclusion process in the Indian money market.

Keywords: gross domestic product, gross domestic savings, savings, investment, Z category city

JEL Classification: G11, H24, H31

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From time immemorial, Indians are known for their savings behaviour. When we look at India's gross domestic savings of 30.3% of the gross domestic product in 2012 (The World Bank, 2014,) as compared to 22.8% in 1990 (Reserve Bank of India, 2012), the participation of households in savings activity over decades can be understood. However, there were rapid fluctuations in GDS during the 2000-01 to 2010-11 period, that is, from 23.8% in 2000-01 to 34% in 2010-11 (Economic Survey (2012-13), Statistical appendix, n.d. ; Ministry of Finance, 2013).

According to the National Accounting System (OECD, n.d.), savings is defined as that part of disposable income that is not spent on final consumption of goods and services. So, savings are used to fulfill the economic necessities in future time periods or to keep up the standard of living during times of retirement or insufficiency or in economic slowdown periods. Savings depend on factors such as income levels and consumption pattern of individuals. Savings need to increase based on the factors such as average life expectancy of the country, age at which retirement is opted, lifestyle of an individual, physical and mental health condition, and so forth. In India, the minimum life expectancy at birth has increased over decades - from 42.445 years in 1960 to 65.478 years in

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2011 (The World Bank, n.d.). It has been reported that in India, by 2016, the life expectancy of males will go up to 68.8 years, and for females, it will be 71.1 years, respectively. Since savings lead to investment activity over a period of time, tending to economic growth at the micro and macro levels, and hence, it becomes a necessity for an individual to save in huge sums and invest the same appropriately.

There are different means of savings or savings schemes offered by institutions in the organized sector across India, examples of such are post office and banking financial institutions. Amongst the different existing schemes : public provident fund, term deposit, fixed deposit, National Savings Certificate, National Savings Scheme, and Kisan Vikas Patra of the post office are considered as the most viable, easy to access & operate, and reliable means of savings. The money saved needs to generate some returns, which can be possible only through investing such savings (Narayan & Narayan, 2006 ; Nurkse, 1954). However, the word investment is used differently in different contexts. Economics considers investment as related to savings, while finance considers it as purchase of an asset or an item with the hope that it will generate income or it will appreciate in the future and be sold at a higher price (Investopedia, 2014). So, it can be understood that the more are the savings, the more are the investments in the long run (Narayan & Narayan, 2006).

In this regard, Papapetrou (2006) also pointed out that Feldstein and Horioka (1980) in their studies across 16 OECD countries found evidence to support a positive relationship between savings and investment ratios on GDP, and they identified that excess savings invested domestically led to low capital investment abroad. A number of studies have come up in support of Feldstein-Horioka's study that showed a relationship between savings and investments over a period of time (Abbott & De Vita, 2003 ; Coakley et al., 1996 ; Coakley, Fuertes, & Spagnolo, 2004 ; Coiteux and Olivier, 2000 ; Feldstein, 1983 ; Feldstein & Bacchetta, 1991 ; Ho, 2002 ; Özmen & Parmaksiz, 2003) and proved with the help of statistical tests that there does exist a relationship between the two.

To establish a relationship between savings and investment activities which contribute to the life satisfaction levels of individuals, it is necessary to understand individuals' savings pattern or style across different variables starting from age, income levels, consumption patterns, motive and literacy, that is, both financial and general. However, the variables are related to life satisfaction, which is dependent upon financial satisfaction of the individuals (Sahi, 2013). As suggested by Diener (1984), life satisfaction is one of the important measures for subjective well being of individuals. On the other hand, financial satisfaction arises out of financial behaviour of individuals which includes cash, credit, and savings management by him or her (Xiao, Tang, & Shim, 2009).

From the above literature, it can be understood that savings and investment activities depend on a number of factors such as demographic, behavioural, and financial, especially with respect to the changing economic conditions of individuals.

To discuss a little about how demographic variables play a role in savings leading to investment activity, it is necessary to mention about consumption as well. Consumption is a function that determines the savings function ; the consumption function has an inverse relationship with savings ratio of individuals, which means, as the rate of consumption increases, the rate of savings decline and vice-versa (Carruth & Henley, 2007). When the impact of behavioural aspects on savings and investment patterns and attitudes were studied, it was understood that women paid less attention towards investment activities than savings for nominal returns with an emphasis upon recovery of the principal amount, hence choosing government savings instruments ; while men tried to take greater risks (Brokešová, 2013 ; Graham, Myers, & Stendardi Jr., 2010 ; Sharma & Vasakarla, 2013) and interest by investing in market based instruments than organized government options or instruments.

In the studies conducted on gender vs savings and investment activity, Preda's (2005) observations revealed stunning facts that women were excluded from not only decision making, but also from participating in financial discussions during the 19th century based on a notion that they cannot understand investments. However, later studies revealed and proved that women investors have participated and excelled in investment planning and savings optimization over decades (Faff, Hallahan, & McKenzie, 2011 ; Maltby & Rutterford, 2006). The financial aspect is also an important one while assessing the investment pattern of an individual. Financial

planning of an individual depends on four aspects and is categorized as : Consumption needs (for e.g.) : amount spent for necessities and survival; protection needs (for e.g.) : retirement plans, savings, children's education needs; estate planning needs (for e.g.): investments, asset allocation ; and emergency fund (for e.g.) : risky investments or speculation activities.

Over a period of time, literature has made it clear that savings are needed for better and effective investments. To understand all these empirically, the present study was undertaken in Vellore city of Tamil Nadu. Even though the city is considered as Vellore metropolitan area with 15 urban areas including Vellore city and surrounding areas, for the study purpose, only Vellore city is considered, hereafter referred to as the city.

Vellore's metropolitan population was 4,81,966 people (Male : 2,39,735 ; Female : 2,42,231) of whom 3,81,382 were literate (Male : 2,00,068 and Female : 1,81,314) with an average literacy rate of 87.29% (Census, 2011). The city had a population of 1,85,895 people (Male : 91,464; Female : 94,431) of whom 1,45,192 were literate (Male : 75,321; Female : 69,871) with an average literacy rate of 86.67% (Male : 91.68 % and Female : 81.84%). The city was categorized under Z section by the Sixth Central Pay Commission in its 2008 directions (Government of India, 2008). As of 2014, there were 23 registered investment advisory firms and 93 registered life insurance agents (Justdial web page) in the city who were providing investment advisory services to the public.

The present study emphasizes on individuals' awareness and participation in the investment market through various instruments resulting in their contribution and participation in such. Furthermore, this study also helps to advise the registered investment advisory firms to understand the investment and savings instrument's needs of the public in Z category cities in general and Vellore in particular. This study can also help float new instruments or can help to strengthen the existing ones by the market players.

Objectives of the Study

(1) To understand whether people know the difference between savings and investment, and also to check the existing pattern of savings made by them.

(2) To assess whether age and gender play a role in the savings activity in the selected city.

(3) To evaluate whether individuals are interested in adopting new investment options such as derivative instruments or not.

(4) To assess whether individuals are making use of investment advisors or firms' help. If yes, for what type of activities ?

(5) To understand whether individuals are interested in taking advice from the professionals in future or not, and on what basis are they planning to take their advice ?

(6) To identify the scope for conducting investor awareness programmes (IAPs) for creating awareness in Z category cities like Vellore.

Hypotheses

To test the set objectives, the following hypotheses have been considered :

✴ **H1 :** Age plays a role in acquiring knowledge about difference between savings and investments in Vellore.

✴ **H2 :** Gender does play role in being a systematic saver.

✴ **H3 :** Factors like motivation, advertisements, and future projects of companies will have an impact on percentage of savings made by investors.

✱ **H4** : Investors of Vellore city prefer to be either traders or speculators or both in the secondary market investment options.

✱ **H5**: Investors are willing to pay higher rates of broking fee than the rates prevalent at present for professional advice.

✱ **H6** : Lack of awareness about investment options available in the market leads to the need for conducting IAPs.

Methodology

(1) Data Collection : To test the above hypotheses, the whole population of the city was considered and a sample of 132 respondents were selected based on convenience sampling method using postal index number (PIN) of their residential locality or work place and these respondents were administered a structured questionnaire. The time period of the study is 2013-14.

(2) Statistical Tools Applied : To understand the above set hypotheses and objectives, frequency distribution, analysis of variance (ANOVA), and chi-square tests were conducted based on the nature of the data.

Analysis and Results

The Figure 1 and Table 1 depict the present pattern and number of individuals who either had savings or investments in different options available in the market. The study reveals that life insurance is the highly opted and followed option, since it was being used by 121 respondents out of 132 from both private and government life insurance companies. Furthermore, the study points out that 94 out of 121 respondents were using government promoted life insurance company's products (LIC of India) and the remaining respondents were using private players' policies. At the same time, it is evident from the dataset that none of the individuals were holding both the policies during the study period. Hence, it is clear that the investors were risk averse and wished to avoid the
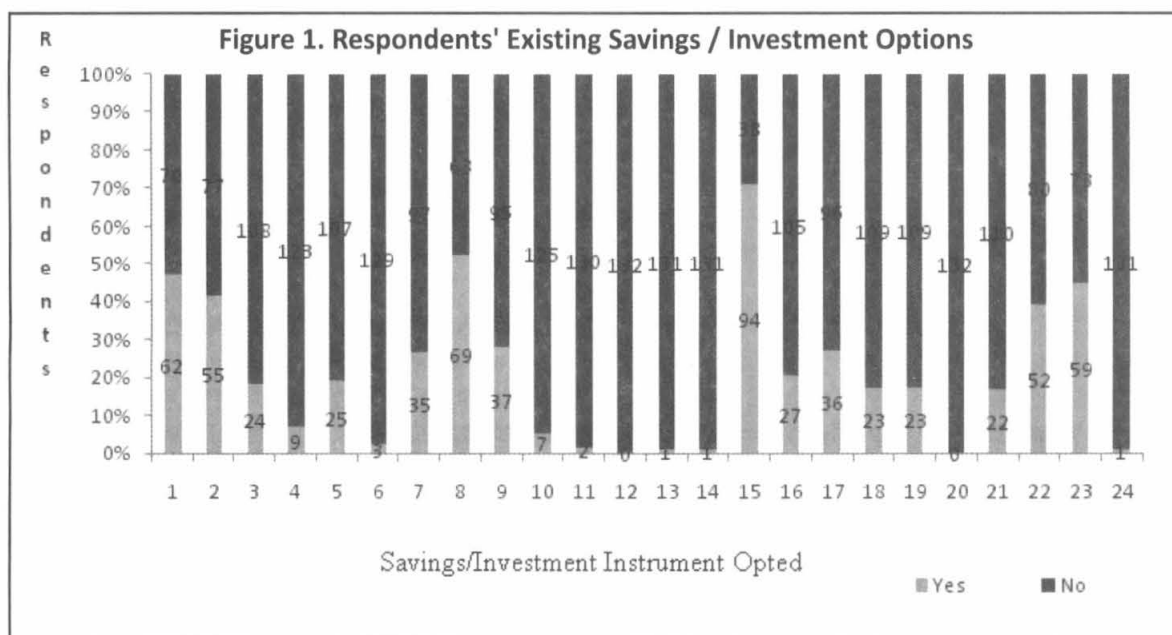

Figure 1. Respondents' Existing Savings / Investment Options

Table 1. List of Respondents' Existing Savings Options (Items as per their Number)

01 Bank Savings	05 Bank Metals	09 Post Office Scheme Recurring Deposit	13 Post Office Scheme Public Provident Fund	17 Chit funds	21 Shares
02 Bank Fixed Deposit	06 Bank Others	10 Post Office Scheme National Savings Certificate	14 Post Office Scheme Others	18 Others	22 Bonds
03 Bank Recurring Deposit	07 Post Office Scheme Savings Bank	11 Post Office Scheme National Savings Scheme	15 Life Insurance Government Company	19 Metals	23 Mutual Funds
04 Bank Public Provident Fund	08 Post Office Scheme Fixed Deposit	12 Post Office Scheme Kisan Vikas Patra	16 Life Insurance Non-Government Companies	20 Stones	24 Derivative Instruments

Table 2. Respondents' Awareness Regarding Difference Between Savings and Investment

	Frequency	%
Yes	117	88.6
No	15	11.4
Total	132	100

Table 3. ANOVA Results for Age & Knowledge about Difference Between Savings and Investment

Significance Value	0.399
F value	0.925
Degrees of freedom	5

private players with regard to life insurance products. A study conducted by Singh (2011) in the North Eastern part of India also revealed that 68 out of 135 sample respondents preferred insurance as a savings option in rural households. This gives an idea that irrespective of geographical diversity, Indians consider life insurance as one of the safest savings and investment options. On the other hand, an informal assessment of age group of the population interested in private insurance products indicates that approximately 80% (21 respondents) of the young investors in the age group of less than 35 years opted for private life insurance products. This indicates that the private players need to create more secured and high returns based investment environment with regard to the life insurance products so that they can attract and sustain more young investors.

When the influence of age group on knowledge about the difference between savings and investment activity was studied, a stunning fact was observed ; 88.6% (Table 2) of the total sample respondents knew the difference between savings and investments clearly, which is a good sign for the investment market as well as for the investment advisors.

Going further, analysis of variance test was conducted to ascertain whether age has any role to play in the knowledge about the difference between savings and investments. The results reveal that there is no significant influence of age on knowledge, as the ANOVA values are observed to be 0.399 (Table 3), which helps in rejecting H1 at 5 degrees of freedom. The reasons are attributed to factors such as technological advancements, enthusiasm shown by younger generation in exploring different avenues such as private financial institutions offering higher returns for financial investments, easy encashment options, lesser surrender values, and so forth with respect to financial products. The *F* statistic value, which is 0.925 is also insignificant in proving the influence of age on knowledge. Hence, H1 is rejected.

On the other hand, it was felt that gender does play a role in being a systematic saver (H2). So, the respondents'

Table 4. Chi- Square Results for Influence of Gender on being a Systematic Saver

Sample Size	Chi-square value		p - Value		Degrees of Freedom	Decision
	Gender	Systematic Saver	Gender	Systematic Saver		
132	29.121	7.758	0.000	0.005	01	Accepted H2
	Gender	% of Savings	Gender	% of Savings		
132	29.121	88.818	0.000	0.000	01	Accepted H2

Table 5. Factors like Motivation, Advertisements, and Future Projects of Companies will Impact Percentage of Savings

Motivation from	Chi - square value	p - Value	Degrees of freedom	Decision
Friends and Family	3.667	0.056	01	Rejected
Market	0.273	0.602	01	Rejected
Advertisements	7.758	0.005	01	Accepted
Future Projects	33.000	0.000	01	Accepted

details were tested with the help of chi-square test since both the variables selected are categorical in nature. The results reveal that in Vellore city, gender does play a role in being a systematic saver with a chi-square value of 0.000 and 0.005, which is a significant value (Table 4), thus proving that the gender of the respondents impacted their savings behaviour.

Furthermore, to have a comprehensive understanding of whether gender influenced the percentage of savings made by respondents, the same chi-square test was conducted, and it was found that there is an absolute influence of gender on the percentage of savings made by individuals, with the test values being 0.000 on one another at one degree of freedom. Hence, it can be inferred that still, gender is an influencing factor for savings in Vellore city. Bajtelsmit and Bernasek (1996) also pointed out that gender was considered to be the third most important determinant of making investments. This shows the need for social correction measures to be taken by the governmental and non-governmental agencies and bring a change in the mindset of individuals in the current globalized market conditions.

Next, to understand the impact of age on savings, one more component was felt necessary to be tested, that is, motivation. Since motivation acts an influencing factor upon the behaviour of individuals, it was felt necessary to test the same. Yao, Wang, Weagley, and Liao (2011) also tested this factor in their study. We examined whether the factors such as motivation from friends and family members, market forces, advertisements, and future projects of companies had any impact on the percentage of savings made by individuals. This was tested using chi-square and we obtained the following results.

Motivation from family and friends as well as market movements show insignificant influence (0.056 and 0.602 (Table 5)), while the other two factors, namely advertisements and future projects of firms prove (0.005 and 0.000 (Table 5)) to have motivated individuals not only to save, but also to save a good percentage. When an in depth assessment was made amongst advertisements and future projects' influence on decision making with the help of chi-square value, it was revealed that future projects act as a highly influencing factor with a score of 33.000 (Table 5), which is also an indication for the companies to highlight their future projects and plan of action such that prospective investors can have a clear risk and return assessment for their savings and investments. This does partially prove that the hypothesis is effective in the current scenario, thereby leading to the acceptance of H3.

The Figure 2 and Table 6 depict the percentage of respondents' preference to act as investors or speculators, or both in cases if they entered into the secondary market. Only 3% of the respondents were not able to decide their
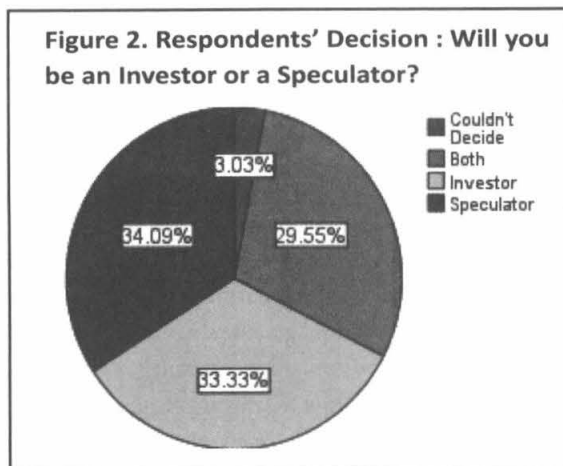
Figure 2. Respondents' Decision : Will you be an Investor or a Speculator?

Table 6. Preference to be Either Trader/Speculator/both (H4)

Prefer to be	Frequency	%
Investor	44	33.33
Speculator	45	34.09
Both	39	29.55
Couldn't Decide	04	03.03
Total	132	100.00

preference. However, a good number of respondents (39%) were ready to act as both investors and speculators, and majority (45%) preferred to be speculators, which is an indication of their high risk taking ability. So, companies can float instruments which yield high returns at high risks as well in this market, since investors in Vellore were not only aware of the difference between savings and investments (refer Table 2), but were also ready to take high risks, which proves H4 to be effective and accepted. However, these prospective investors were of the view that the percentage of commission charged by the broking firms was high in the present scenario (2.5%) (SEBI, 2015), a figure which they were not ready to pay. The study further reveals that 96.2% and 98.5% of the respondents (Table 7) were interested in dealing with equity and derivative instruments, and they wished that the percentage of commission could be less than 0.50%. This indicates that the broking firms need to work on the percentage of commission to be charged by them for their professional services. As SEBI has permitted to charge

Table 7. Percentage of Commission to be Paid on Equity & Derivative Instruments (H5)

	Equity Instrument (Frequency)	Equity Instrument (%)	Derivative Instrument (Frequency)	Derivative Instrument (%)
0.01 to 0.10%	11	8.3	5	3.8
0.10 to 0.20%	41	31.1	49	37.1
0.20 to 0.30%	28	21.2	31	23.5
0.30 to 0.40%	32	24.2	24	18.2
0.40 to 0.50%	15	11.4	21	15.9
> 0.50%	5	3.8	2	1.5
Total	132	100.0	132	100.0

Table 8. Awareness about IAPs & Need for Conducting IAPs (H6)

	Frequency of YES	Chi - square Value	Significance value	Degrees of freedom	Decision on H6
Aware of IAPs	43	16.03	0.000	01	Accepted
IAPs are Needed	100	35.03	0.000	01	Accepted

2.5% commission, the broking firms will not be interested in reducing their commission rates, and this can also be considered as one of the reasons why many professional broking firms do not set up their branches in cities like Vellore. Hence, the hypothesis H5 is rejected. Even though rates of returns charged cannot be reduced, investment advisors can always provide supplementary services like opening D-Mat account free of cost, help in tax computations, planning for savings and rates of savings, filing income tax returns, and so forth. Such steps would aid advisory firms in enhancing their clientele base as well as volume of business, and they would be able to earn higher profits.

After evaluating respondents' attitude towards savings and different investment options, it was felt necessary to discuss their financial literacy condition, since SEBI is spending huge sums of money to educate the public about the same. The budget estimate set for the fiscal year 2014-15 was ₹ 54.86 crores (SEBI, n.d., p.20). The Table 9 shows that of the total respondents, 26 were illiterate, but were aware of the difference between savings and investments, which is a good sign. In the same context, when questions were raised on knowledge about investor awareness programmes (IAP) conducted by different broking firms, SEBI, or BSE, and their role in the current scenario, 43 respondents, that is, 32.57% of the total respondents (Table 8) were aware, however, 100 respondents, that is, 75.75% (Table 8) of the respondents wished to attend these kinds of programmes to enhance their financial skills.

To understand the association between awareness and need for conducting of IAPs, the chi - square test was applied and the results (Table 8 ; Sig. Value = 0.000) also project that there is an acute need for such kinds of programs as there is a strong association between the two selected variables. Hence, H6 is accepted.

The Tables 9 - 12 reveal general information about the frequency of respondents' gender, age groups, and preference of insurance companies' type for savings and investment options, which have already been considered, and it has been concluded from the Tables 1 and 2 that these variables have an influence on the savings and investment behaviour of the respondents in Vellore. It can be inferred from the Tables 9 -12 that individuals of Vellore city were well aware of the difference between savings and investments, irrespective of their qualifications, income levels, family member numbers, and occupations they were engaged in. However, proper guidance is needed to make use of professional skills for which the investment advisors also need to adopt certain measures like reduction in commission that they charge, conduct awareness programmes, door to door campaigning, and so forth. The current study was conducted to identify the awareness of savings and investment diversification, investors' choices towards different instruments, scope for floating new savings and investment instruments into the market, and so forth. The results reveal that H2, H3, H4, and H6 are accepted, while H1 and H5 are rejected.

Implications and Conclusion

The study gives direction to all the investment advisory firms, stock broking agencies, and academic researchers as to the need for considering Z category cities while floating new investment instruments as the results of the current study give a direction as to the effectiveness and importance of small investors' contributions to the money market, as hypotheses H2, H3, H4, and H6 are accepted, while H1 and H5 are rejected. This shows that small cities investors' contribution to the money market is possible only when a comprehensive assessment is made and followed by investment advisors as well as firms in the Indian scenario.

Table 9. Frequency Table of Educational Qualifications of Sample Respondents

Qualification	Frequency	%
Illiterate	26	19.7
SSLC and Below	9	6.8
Diploma	18	13.6
UG Degree	47	35.6
PG Degree	19	14.4
Higher than PG Degree	9	6.8
Others	4	3.0
Total	132	100.0

Table 10. Frequency Table of Gender of Respondents who Opted for Life Insurance

Gender	Frequency	%
Male	97	73.5
Female	35	26.5
Total	132	100.0

Table 11. Frequency Table of Age Group of Respondents who Opted for Life Insurance

Age Group	Frequency	%
< or equivalent to 30 Years	80	60.6
31 to 45 Years	50	37.9
46 and Above	2	1.5
Total	132	100.0

Table 12. Frequency Table of Sample Respondents' Preference for Life Insurance Options

Insurance as savings	LIC of India Products		Private Insurance Companies Products	
	Frequency	%	Frequency	%
Yes	94	71.2	27	20.5
No	38	28.8	105	79.5
Total	132	100.0	132	100.0

Limitations of the Study and Scope for Further Research

While conducting the study, the literature review identified has emphasized on perfect capital mobility related studies. Very few studies have been conducted on savings and investment instruments, especially in the Indian context. Not only this, even though the study shows a direction for investors as well as advisors, diversity in demographic aspects is a serious concern for result assessment in the process of research, which made our job a difficult one.

After conducting a thorough study on the awareness and intuition to save and invest in different options by Z category city people, it can be concluded that similar studies need to be conducted in several cities across India, and effective measures such as implementation of Pradhan Mantri Jan - Dhan Yojana (PMJDY) and such others need to be promoted to improve the general public's financial inclusion process in the Indian money market.

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