A Study of Impart of Internet on Saving and Investment Approach of Middle Class households with special reference to Bangalore

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Abstract: Investment is one of the major issues of middleclass families as their small savings of today are to meet the expenses of tomorrow. This study examines the investment pattern and awareness of the middle class families in Bengaluru about different investment instruments such as Bank deposits, real estate, small savings, life insurance schemes, bullion, commercial deposits, mutual funds and equity.

The rationale behind choosing this research topic is the premise that the middle class in India has gained considerable attention of economists, policy makers and market participants, as still there remains a considerable untapped potential in this income class in India.

The Study was based on the micro economic approach of estimating the responses of the respondents belonging to the middle class families in Bengaluru. The study analyses the savings and investment pattern among the middle class people of Bengaluru city. The data was collected by distributing a structured questionnaire to a hundred people belonging to middle class families in Bengaluru city.

Key Words – Savings, Investment, Middle Class,

1. Introduction

Savings and investment play not only an important role in determining the wealth of an individual household, but play a much greater role in the economic growth of a nation.

Investment is defined as the employment of funds on assets with the aim of earning income or capital appreciation. Investment has a lot of significance in the present day society.

Households are earning more and more income, but they do not know where, when and how to invest their hard earned money. A proper understanding of money, its value, the available avenues of investment, various financial institutions, the rate of returns, risk, etc., are necessary to successfully manage one's finances.

Developing countries like India face an enormous task of finding sufficient capital in their development efforts. Most of these countries find it difficult to get out of the vicious circle of poverty – of low income, low saving, low investment, low employment, etc. With high capital output ratio, India needs very high rates of investments to make a leap forward in her efforts of attaining high levels of growth.

2. SAVINGS & INVESTMEN

Difference between Savings and Investment

Theoretically speaking when a household chooses an avenue to earn return on surplus of income it has, it is considered as savings. Thus, savings is the balance leftover of the disposable income. Cash held in hand is considered neither savings nor investment.

If a household chooses certain instruments to earn income, the same is considered as investment. Thus, when savings are used to generate further returns, it is known as investment. Investing wisely not only generates returns for the individual investor, but it gets mobilised into the economy by entering into a chain of capital formation.

Physical Assets and Financial Assets

However, the Reserve Bank of India does not make a distinction between the two words – (Savings & Investment) made by the households, per se. It classifies the savings made by the households in two heads – Financial Assets (bank deposits, shares, mutual funds, insurance, etc.) and Physical Assets (Real estate and gold).

Thus investment instruments can be divided into two basic heads:

1. Physical savings like Real Estate and Gold.
2. Financial Savings like Bank deposits, shares and mutual funds, insurance and other small savings schemes.

Impact of Investment on Indian Economy

Savings and investment behaviour has always been an area of interest to the economists. The economic cycles like boom, recession, depression, and recovery, not only effect the level of GDP, but also the income of the households and hence the saving ratio and investment behaviour. The movement of the economy from one phase of the economic cycle to another phase brings a change in the saving and investment behaviour of the people.

The developing countries like India face an enormous task of finding sufficient capital for their development efforts. A majority of these countries find it difficult to get out of the vicious cycle of poverty (because of low income), low saving, low investment, low employment etc.

With high capital output ratio, Indian economy needs very high rates of saving and investment to attain higher levels of growth. Since the beginning of planning, the Indian government placed emphasis on saving and capital formation as the primary instruments of economic growth and increase in national income. Capital formation in turn has to be supported by an appropriate volume of savings.

In the years since Independence, India has achieved considerable progress in terms of GDP growth, volume of saving and investment. During this process of growth, Indian economy has undergone gradual transformation, the transformation being rapid in the last two decades. Over the past few decades, the share of agriculture in the GDP has declined where as the shares of industry and services sectors have increased.

3. Review Of Lierature

1) **SEBI – NCAER (2000) study** found that households' investment in Shares and Debentures and in Mutual Funds ranges from 7% to 9%. Majority of the equity investor's household's portfolio was found to be undiversified and relatively small value of less than Rs. 25,000. It also found that one set of households, in spite of their lower income and lower penetration level of consumer durables, are in the securities market, while another set of households with higher income and higher penetration level of consumer durables do not have investments in the securities market.

2) **Dr. Aparna Samudra and Dr. M A Burghate,** International Journal of Social sciences and Interdisciplinary Research Vol I, No. 5, May 2012, The aim of this research was to examine the investment behaviour of the middle income households in Nagpur. The study shows that the bank deposits remain the most preferred investment option of the middle class income households in Nagpur with 41% of the respondents marking it as the most preferred investment option. This is followed by the life insurance where 30% of the respondents marked it as relatively preferred investment option.

   Small Savings Schemes such as Public Provident Fund, Post Office Savings Deposits, are the third preferred investment option as these again are secure, even though the return from investment is rather less. Shares and Mutual Funds are gaining ground but remain in the fourth position as these are relatively new and investors are vary of the uncertain returns.

3) **Investor Population – the Society for Capital Market Research and Development** carries periodical surveys of household investors to estimate the number of investors. Their first survey carried out in 1990 estimated the number of shareholder between 90 – 100 lakh.
   Their second survey in mid 1993 estimated the number of share holders to be 140 – 150 lakh. In 1997 it was estimated to be around 2 crore. According to the survey, 49% of the share holders at the end of 2000, had entered the stock market before the end of 1990, 44% entered during 1991 – 94, 6.3% during 1995-96 and only 0.8% since 1997.

4) **International Journal of Research in Commerce and Management (Volume III (2012), Issue No: 5 (May)** – 'Study of Investment Pattern and Investment Preferences of Individual Households in India' – This study examines the investment pattern and awareness of Indian investors about different investment instruments such as bank deposits, real estate, small savings, life insurance schemes, bullion, commercial deposits, corporate security bonds, mutual funds, equity, and preference shares. This research finds the impact of age, education, occupation, and income level of the individual on investment.

4. Objective Of The Study

- To understand the various objectives of investment of the middle class households in Bengaluru.
- To analyse the investment pattern of middle class families in Bengaluru
- To evaluate and analyse the investment preference of middle class families in Bengaluru
- To offer suggestions for exploring efficient options for channelizing the investment of middle class families in Bengaluru.

Scope of the Study

The scope of the study is limited to investment approaches of 100 selected middle class families in Bangalore since this number cannot be considered as true representative samples of all middle class families in Bangalore, a detail study may be taken up with representative samples across all regions of Bangalore city.

Limitations of the Study

Sample size is limited to 100 middle class households. Bengaluru city (which includes Bengaluru urban district)

As this study is limited for household sector.

Research Design

The Research Design utilised in this project is the:

Particulars	Research Design
Sample Unit	Bengaluru City
Sample Size	100
Data Collection Method	Primary Data
Data Collection Sources	Middle Class households in Bengaluru
Tools for Analysis	Questionnaire

Analysis of Demographic Data

1.1QUALIFICATION DATA
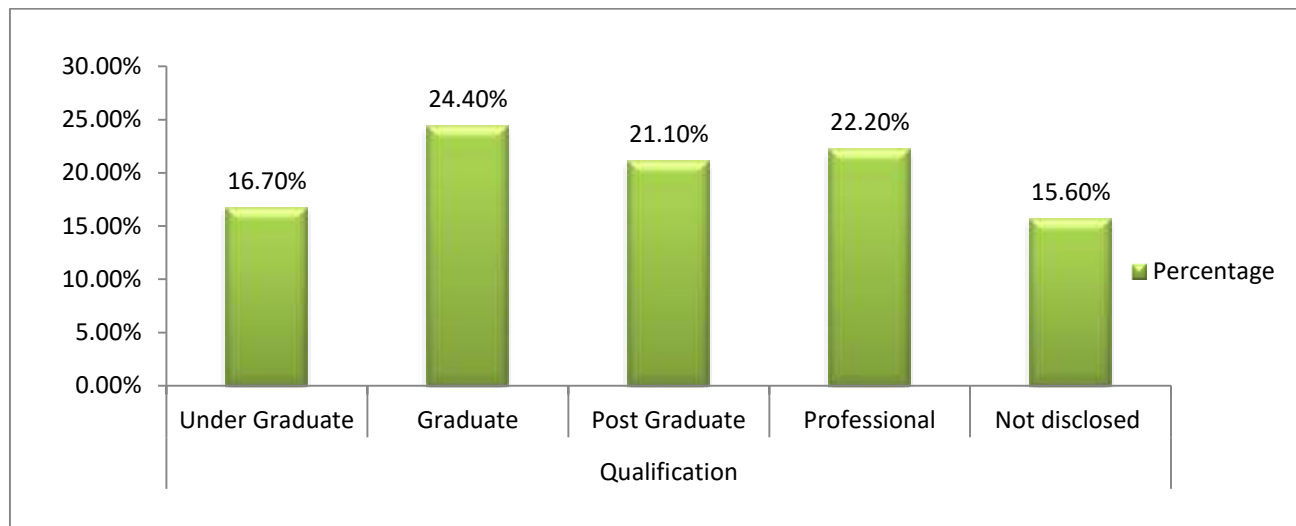
Source: Primary Data

Qualification wise, the respondents fall in to the following groups: 15 are undergraduates, 22 are graduates, 19 are post graduates, 20 hold professional degrees, and 14 have not disclosed their qualification. Thus graduates form the highest percentage of respondents, followed by postgraduates and persons with professional degrees. 15.6% of the respondents have not disclosed their qualification.

When the marital status is taken into consideration, 83.3% of the respondents are married; where as 16.7% of they are unmarried.
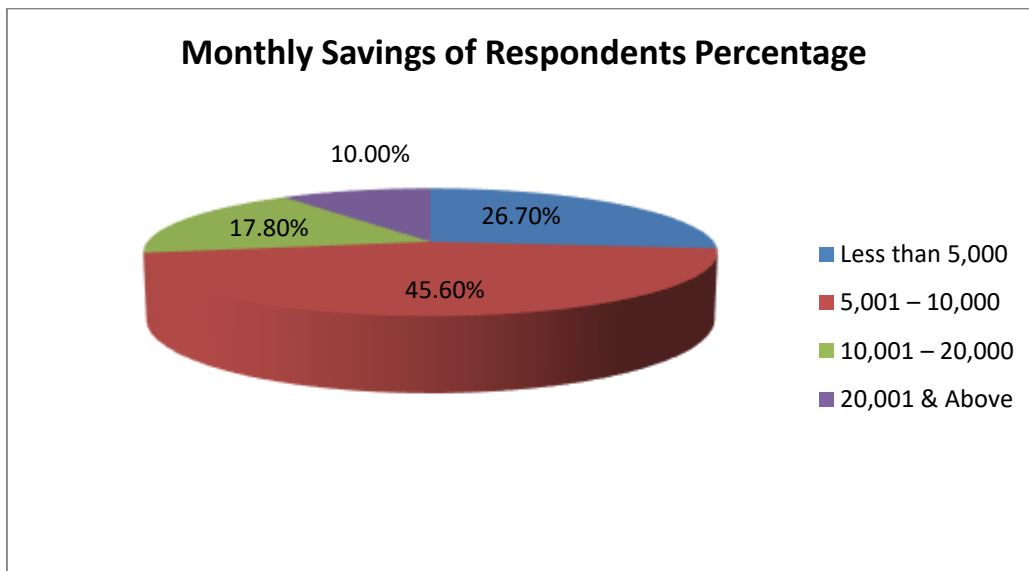
Table 1.2

Monthly Savings of Respondents

Amount	No. of Respondents	Percentage
Less than 5,000	24	26.7%
5,001 – 10,000	41	45.6%
10,001 – 20,000	16	17.8%
20,001 & Above	09	10.0%
Total	90	100.0%

Source: Primary Data

Table 1.2

Monthly Savings of Respondents

Source: Primary Data

1.2 Savings of Respondents

The savings normally depends on the respondent's willingness to save money. Table 1.2 shows the classification of respondents on the basis of monthly savings. From the above table it is seen that 26.7 % of the respondents save less than Rs. 5,000 per month and 45.6%% save between 5,001 – 10,000 and 17.8 % of respondents save between Rs. 10,001 and 20,000, and 10% of the respondents save more than 20,001 per month.

1.3 Relationship between Monthly Income and Savings

Table 4.4, below shows the cross tabulation between monthly income and monthly savings of the respondents

Table .1.3

Relationship between
Monthly Income and Savings

Monthly Income	Monthly Savings								Total	
	Less than 5000		5000-10000		10001-20000		20001 And above		Count	Col %
	Count	Col %	Count	Col %	Count	Col %	Count	Col %		
10001-20000	15	62.5%	5	12.2%	2	12.5%			22	24.4%
20001-50000	6	25.0%	28	68.3%	8	50.0%	2	22.2%	44	48.9%
50001 And above	3	12.5%	8	19.5%	6	37.5%	7	77.8%	24	26.7%
Total	24	100.0%	41	100.0%	16	100.0%	9	100.0%	90	100.0%

Source: Primary Data

Table 1.3

Relationship between Monthly Income and Savings

Source: Primary Data

The above table shows that there is a significant relationship between monthly income and savings of respondents. Among the respondents who save less than Rs. 5,000 per month, 62.5% fall in the 10,001 to 20,000 category.

Among the respondents who save between Rs. 5,000 and 10,000 per month, 12.2% fall in the 10,001 to 20,000 category, 68.3% fall in the 20,001 – 50,000 category and 19.5% fall in the 50,001 and above category.

Among the respondents who save between Rs. 10,001 and 20,000, 12.5% fall in the 10,001 to 20,000 category.

Among the respondents who save Rs. 20,001 and above per month, 77.8% belong to the 50,001 and above category.

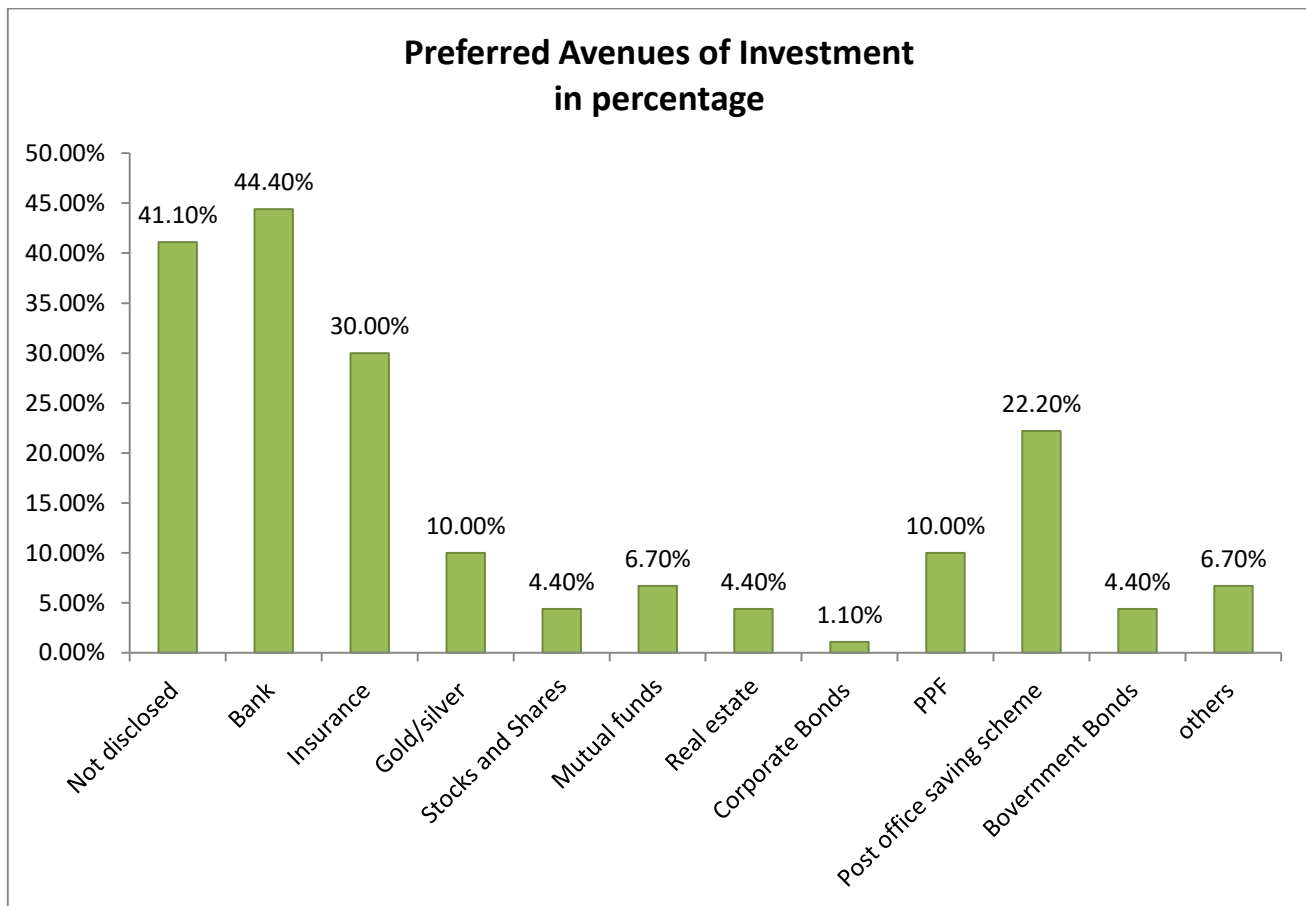# 1.4 Preferred Avenues of Investment

Table 4.5 shows the classification of respondents on the basis of the main avenues of investment:

Table 1.4

Preferred Avenues of Investment

		Total Total	
		Count	Col %
Q2. Avenues of Investment (Multiple Answer)	0. Not Disclosed	37	41.1%
	Q2. (MI) 1. Bank Deposits savings FD RD	40	44.4%
	Q2. (MI) 2. Insurance	27	30.0%
	Q2. (MI) 3. Gold Silver	9	10.0%
	Q2. (MI) 4. Stocks and Shares	4	4.4%
	Q2. (MI) 5. Mutual funds	6	6.7%
	Q2. (MI) 6. Properties and Real Estate	4	4.4%
	Q2. (MI) 7. corporate Bonds	1	1.1%
	Q2. (MI) 8. Public Govt Employees PF	9	10.0%
	Q2. (MI) 9. Post Office Savings Schemes	20	22.2%
	Q2. (MI) 10. Government Bonds	4	4.4%
	Q2. (MI) 11. Other name	6	6.7%
Total		90	100.0%

Source: Primary Data

Table 1.4

Preferred Avenues of Investment

Source: Primary Data

From the above table it can be inferred that a majority of investors (44.4%) preferred Bank Deposits as the most important savings avenue. Surprisingly, 41.1% did not disclose their avenue of investment. The next most popular avenue of investment (30.0%) was insurance. Stocks and Shares (4.4%), Mutual funds (6.70%) and corporate bonds (1.1%) have a very low priority among the respondents. In the table below, a further analysis is ma

1.5 Preference of Investment by Categories

In the table below, the preference of investment by income categories is analysed. These figures are analysed on multiple answer basis.

Table 1.5
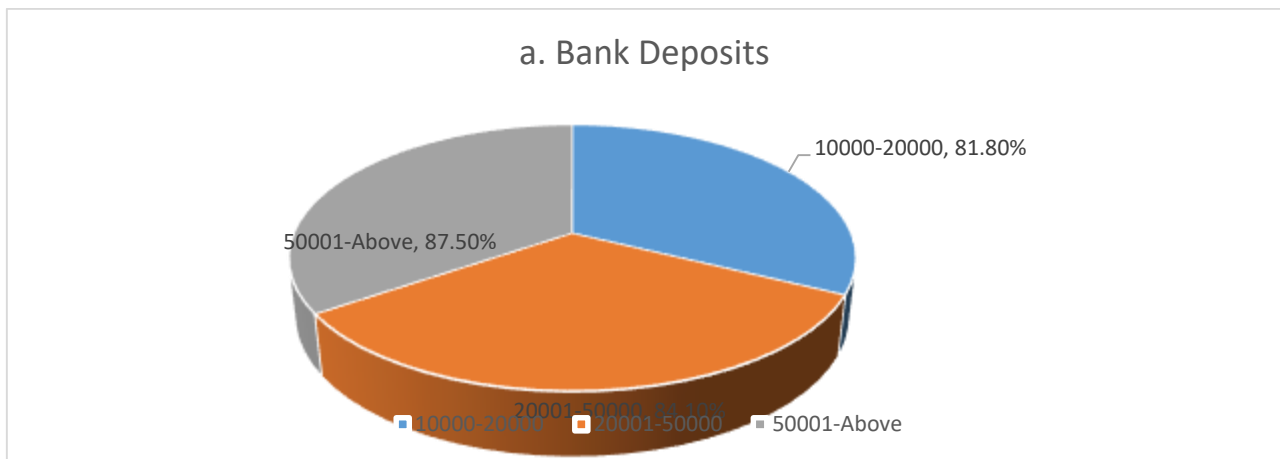
Preference of Investment by Categories

What is your preference of Investment (Multiple Ans.)	Monthly Income						Total	
	10000-20000		20001-50000		50001 And above		Count	Col %
	Count	Col %	Count	Col %	Count	Col %		
a. Bank Deposits	18	81.8%	37	84.1%	21	87.5%	76	84.4%

|								
b. Insurance	17	77.3%	36	81.8%	22	91.7%	75	83.3%
c. Gold/ Silver	15	68.2%	38	86.4%	21	87.5%	74	82.2%
d. Stock & shares	14	63.6%	23	52.3%	16	66.7%	53	58.9%
e. Mutual Fund	13	59.1%	24	54.5%	15	62.5%	52	57.8%
f. Properties and Real estate	18	81.8%	35	79.5%	20	83.3%	73	81.1%
g. Corporate Bonds	13	59.1%	21	47.7%	12	50.0%	46	51.1%
h. Public/Govt/ Employees provided fund	13	59.1%	25	56.8%	12	50.0%	50	55.6%
i. Post Office savings	16	72.7%	28	63.6%	15	62.5%	59	65.6%
j. Government bonds	12	54.5%	23	52.3%	13	54.2%	48	53.3%
k. Any other	13	59.1%	20	45.5%	12	50.0%	45	50.0%
Total	22	100.0%	44	100.0%	24	100.0%	90	100.0%

Source: Primary Data

Table 1.5

Preference of Investment by Categories

Source: Primary Data

Table 1.5

Preference of Investment by Categories
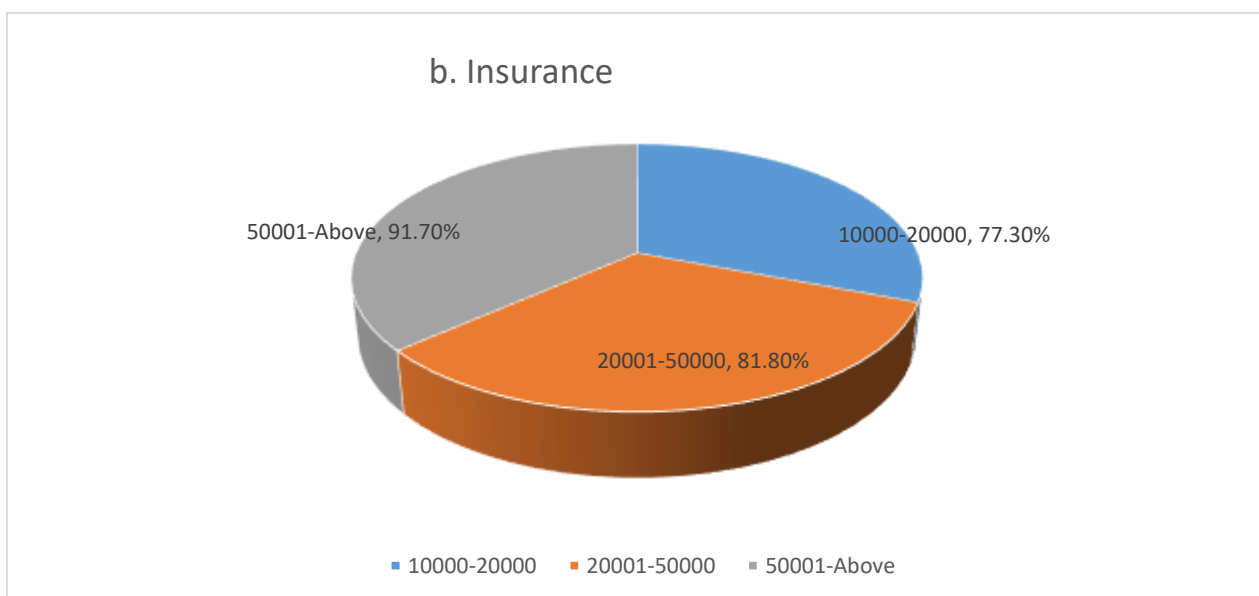
Source: Primary Data

Table 1.5

Preference of Investment by Categories
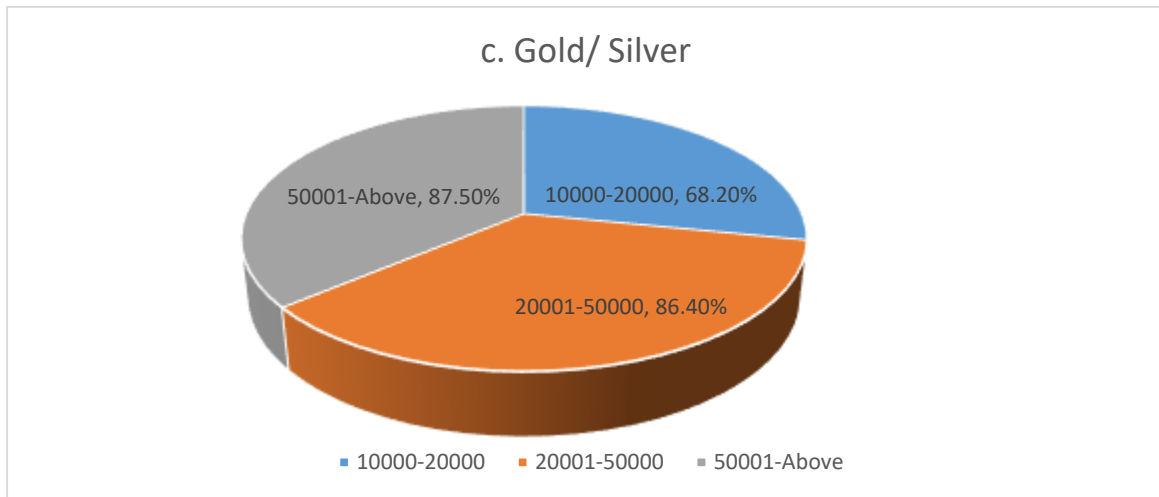
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Table 1.5

Preference of Investment by Categories
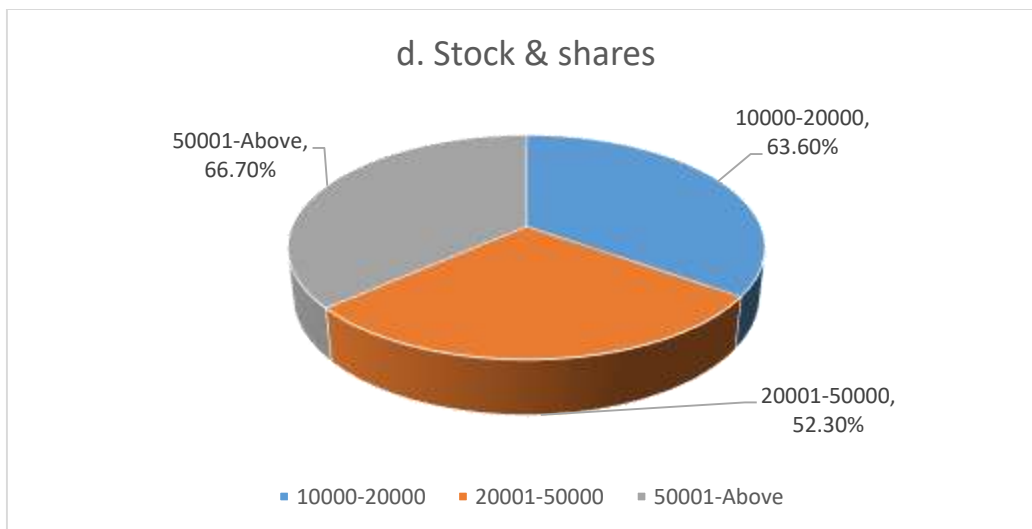
Source: Primary Data

Table 1.5

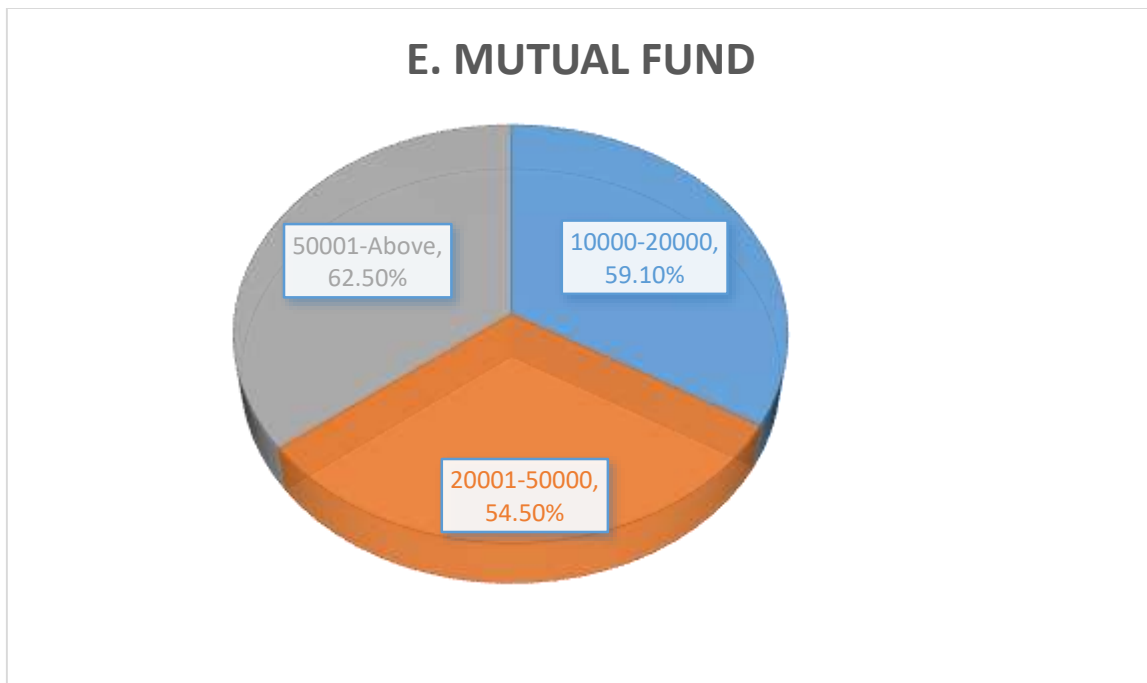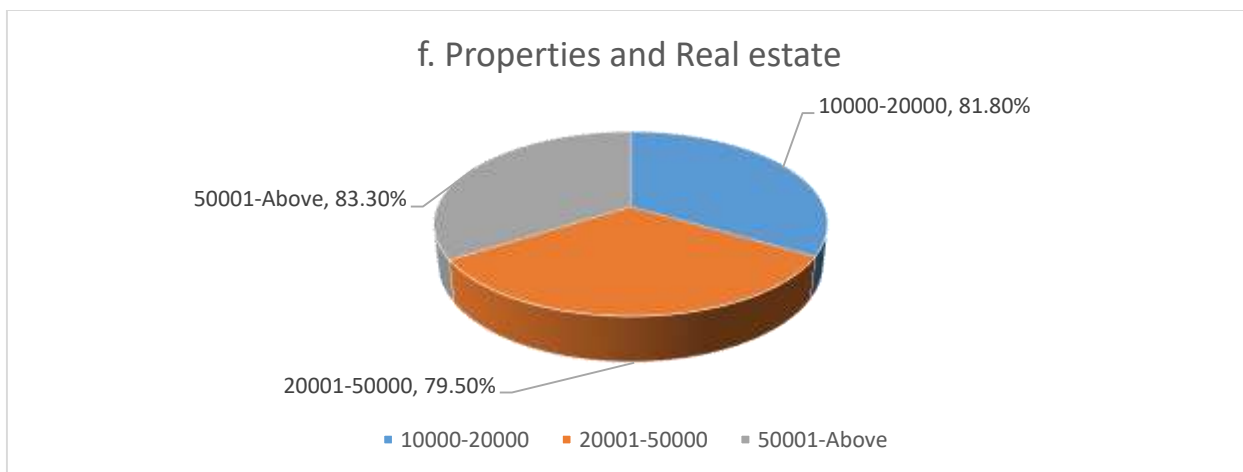**Preference of Investment by Categories**

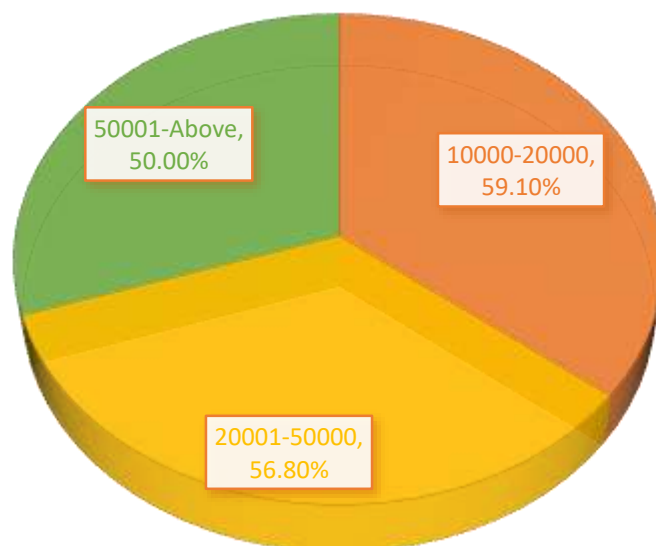**Table 1.5**

Preference of Investment by Categories

Source: Primary Data

Table 1.5

Preference of Investment by Categories
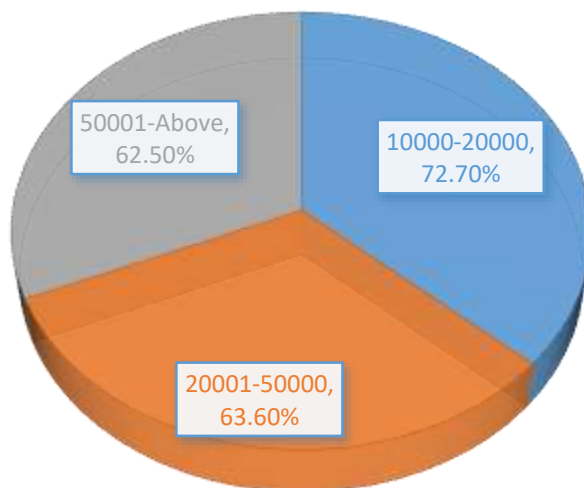
H. PUBLIC/GOVT/ EMPLOYEES PROVIDED FUND

- 50001-Above, 50.00%
- 10000-20000, 59.10%
- 20001-50000, 56.80%

Source: Primary Data

Table 1.5

Preference of Investment by Categories

I. POST OFFICE SAVINGS

- 50001-Above, 62.50%
- 10000-20000, 72.70%
- 20001-50000, 63.60%

Source: Primary Data

In the above table and also graph, it is observed that the bank deposits is the preferred choice (84.4%) of investment among all categories of respondents, followed very closely by Insurance (83.3%), bullion (82.2%), and Real estate 81.1%).

In the 10,000 to 20,000 category, Bank Deposits (81.8%), and Real Estate (81.8%) get equal first preference, followed by Insurance (77.3%), Post office savings (72.7%) and Bullion (68.2%).

The responses show that the respondents are aware of different investment avenues and when it comes to investing, they go in for traditional avenues like Bank Deposits, Insurance, Bullion, Real estate and Post Office Savings schemes.

1.6 Criteria for Investment

Table 1.6gives classification of investors on the basis of the objectives of investment.

Table 1.6

Criteria for Investment

(Multiple Answers)

	Objectives of Investment	Count	Percentage
1.	High Interest	47	52.2%
2.	Safety	83	92.2%
3.	Liquidity	51	56.7%
4.	Tax benefit	64	71.1%
	Total	90	100%

Source: Primary Data

Table 1.6

Criteria for Investment

Source: Primary Data

OBJECTIVE OF INVESTMENT IN PERCENTAGE
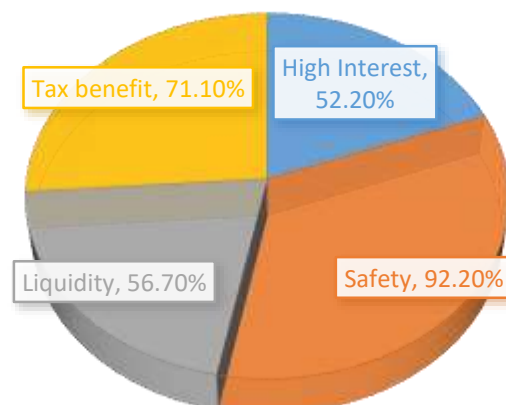
For all the respondents, the highest criteria for investment are safety (92.2%), followed by Tax Benefit (71.1%), Liquidity (56.7%) and high interest (52.2%). A combination of these four criteria leads to choice of investment avenues by individual investors.

## 1.7 Frequency of Investment

The following table analyses the frequency of investment by the respondents. Obviously, monthly investment is preferred by a majority of respondents.

Table 1.7

Frequency of Investment

Frequency >	Monthly	Quarterly	Half Yearly	Yearly	One Time	Total
No. of Respondents	46	10	7	19	8	90
Percentage	51.1%	11.1%	7.8%	21.1%	8.9%	100.0%

Source: Primary Data

**Table 1.7**

Frequency of Investment
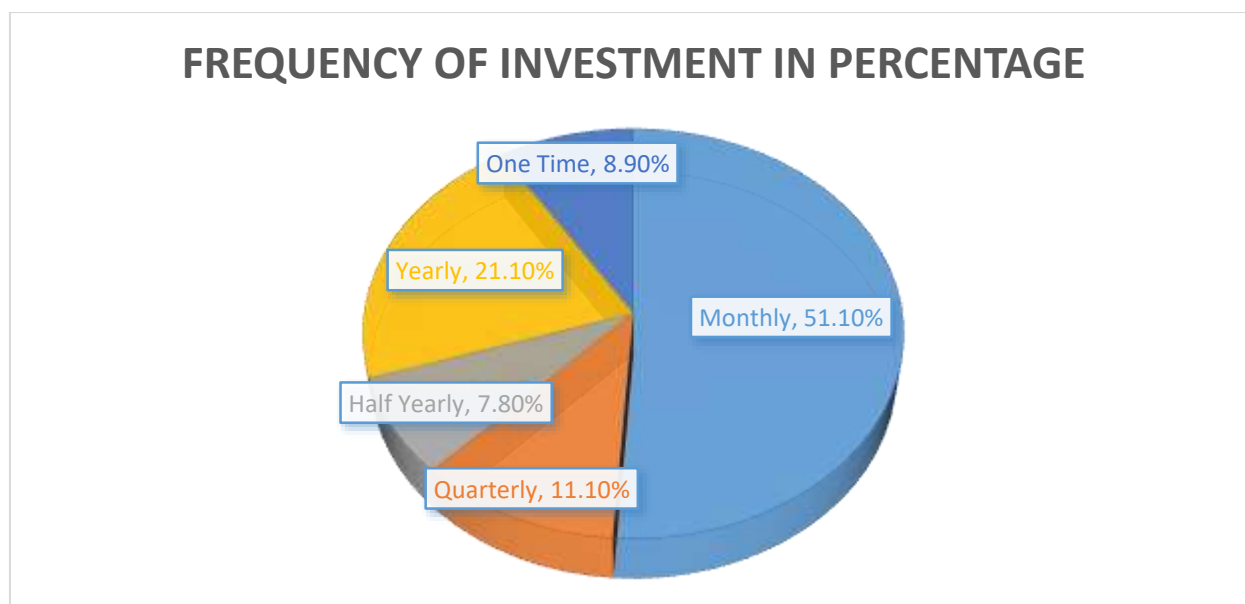
The above table shows that majority of people (51.1%) invest on a monthly basis and the next preferred option is yearly basis by 21.1% of the respondents.

1.8Emergency Fund

The following table analyses the responses made by respondents regarding emergency fund maintained by them to take care of their emergencies

Table 1.8

Maintenance of Emergency Fund
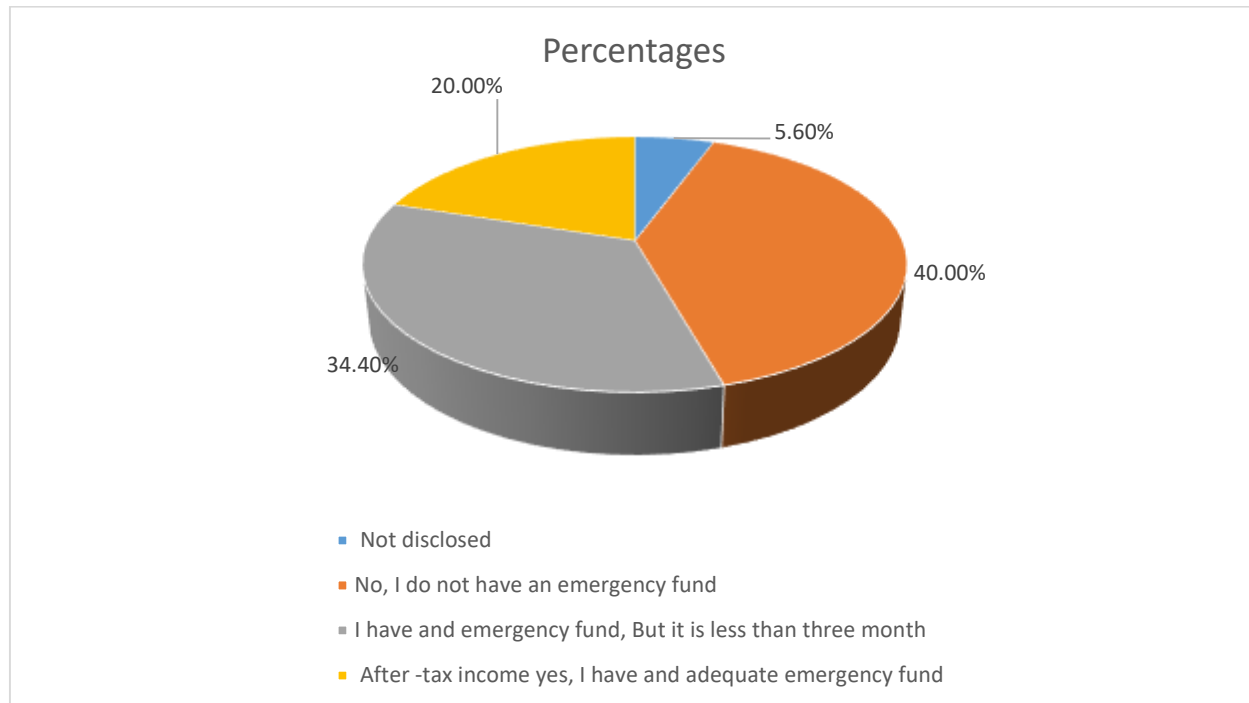
Source: Primary Data

Only 64.4% claimed to have an emergency fund of which 34.4% had less than three months emergency fund and only 20% of respondents had an adequate emergency fund.

5. Conclusion

The savings and investment pattern of the middleclass income households in Bengaluru can be concluded in the following way:

➢ Most of the respondents belonging to the middle class families in Bengaluru could save substantially and are in a position to make investment.

➢ A majority of investors take investment decisions on their own and only a very few of the investors take professional help in making choices in investments.

➢ Bank deposits remain the most popular instrument of investment, followed by insurance,

➢ Small savings schemes such as the Public Provident Fund, Post Office savings Deposits, are the third most preferred investment option.

➢ The largest share of households with savings accounts can be found in the oldest age categories. Over all the bank deposits and insurance are the most preferred investment in all the income groups.

6. Suggestions

Through the conclusions drawn earlier, following suggestions are made which may help to the investment pattern and investor preferences among middle class households in Bengaluru.

- Policies have to be framed in such a manner that these households are willing to part away with their consumption for a longer period of time.

- The tax advantage in any instrument takes the last place in the minds of the investors. The middle class investors look for high returns and liquidity rather than low risk and tax advantage of the instrument. This clearly indicates tax concessions given by the government on instruments are fairly less attractive as an investment objective.

- Tax benefits on pensions and long term savings need to be increased so that people are to be encouraged to invest for long term.

- There is an urgent need to inculcate savings habits among the growing middle class families.

- There is also a need to increase the financial literacy of the middle class households in Bengaluru.

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