



A study of household investment in India – The story of a decade

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Abstract

Saving and investment are the keys to accelerate the development of an economy like India. Household sector contributes nearly 60% of Indian gross savings, So there is an immense need to study the changes in composition of the saving and investment portfolios of Indian Households. The study throws a light on the changing Investment pattern of Indian Households using the secondary data from RBI consisting index of changes in Household financial assets from 2010 – 11 to 2019 – 20. The study has employed descriptive and graphical analysis and concluded that Vast changes have taken place in the composition of Financial investment portfolios of Indian Households. Although Bank Deposit is still the most preferred investment avenue due to its safety characteristics among Indian Households yet the numbers indicate a changing picture of their mindset.

Keywords: Indian households, financial assets, investment pattern, portfolio composition

Introduction

Theories of economic growth lay down the significance of saving and investment. Harrod-Domar growth theory emphasized dependability of economic growth on the rate of saving or investment and the incremental capital-output ratio in the economy. Household sector contributes a significant proportion in capital formation by channelising its saving in different investment avenues. According to RBI, Household sector contributes approximately 60 percent of gross savings in Indian Economy indicating the sector as a major supplier of financial resources in the economy. With the changing time there is a paradigm shift in components of investment held by household sector. Investors changes its portfolio in the light of personal objectives, future expectations, new information, Rate of return and risk. Financial assets are becoming more popular due to its liquidity as well as high return opportunities. Net financial assets of Household sector amounted to 15.62 lakh crore in 2019 – 20 constituting 7.7 % of GDP as compared to 13.73 lakh crore in year 2018 – 19. Understanding the changes in investment components of Household sector is necessary to understand the dynamics of an economy.

Literature Review

Goel (2021) ^[2] studied the long-term trend of changes in household's financial assets in India by taking secondary data from RBI publications and concluded that Bank deposit is the most preferred investment among Indian Households followed by pension funds and life insurance funds while stocks and debentures as well as non - bank deposits come in the last. The analysis shows a significant and positive annual change in the portfolio of financial assets.

Francis & Sabu (2020) ^[1] analysed the trends and patterns of household savings in India covering the period from 2000–2001 to 2017 – 18 by using secondary data. The study revealed that Household saving has the major contribution in gross domestic saving. Households preferred financial assets over physical assets up to year 2000- 2004, however,

There is shift in their preference towards physical assets since 2011 – 12 onwards.

Suri & Hada (2018) ^[5] analysed trends in Household savings and its components in India by employing secondary data. The study comprises the period from year 2001 to 2015. The research concluded that various factors accelerated the gross domestic saving rate in India. The tenth five-year plan i.e., from 2002-2007 depicted the highest increase in Gross domestic saving. Bank deposit and currency are the most preferred investment avenues for the Indian households.

Umesha & Neelakanta (2017) ^[6] studied sector wise domestic household savings in India covering the period from 2004-05 to 2014-15 by obtaining data from various economic surveys of government of India. The study found that to achieve a higher growth rate, marginal propensity to save is the incentive. Savings from Household sector must be encouraged as it constitutes large share of total savings.

Kuchanur (2015) ^[3] conducted a comparative study of investment in financial and physical assets in Bijapur district of India by collecting data through questionnaire in 2014. The study revealed that households prefer to invest in physical assets. Agricultural land is the strongest form of physical asset while government securities are the strongest form of financial asset to be held as investment among households.

Mohan (2008) ^[4] reviewed the macroeconomic performance of Indian economy since independence and the potentials for growth covering the period from 1950 to 2008. It was concluded that domestic saving has largely contributed to India's growth rate over the decades. The period witnessed the increased private and corporate investment while, public investment marked decline.

Material and Methods

Secondary data has been employed for the purpose of research paper by collecting data from the website of Reserve bank of India. The research is descriptive in nature. The data has been analysed through charts and calculations in excel.

Trends of Household Sector Investment in India

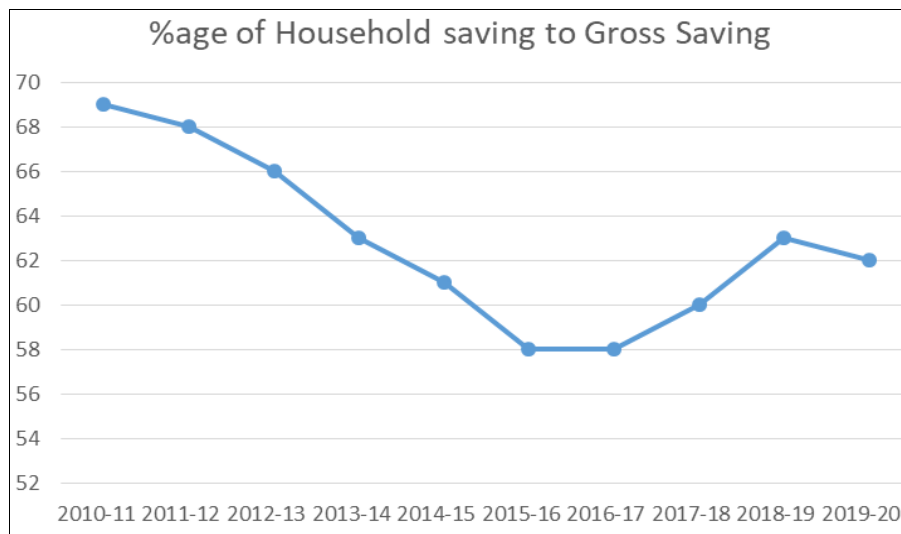
Table 1 depicts that Gross savings has been increasing throughout the decade. In 2010-11, Gross savings were 26,21,742 crores, while in 2019-20, it rose to 63,85,981

crores surged to 143.57%. However, the proportion of Household saving to gross domestic saving has been decreased to 62.49% from 68.66% throughout the period of 10 years.

Table 1: Gross Domestic Saving and Household savings in India.

Year	Gross Savings (In crores)	Household sector	%Age of Household saving to Gross saving
2019-20	6385981	3990822	62.49
2018-19	5776960	3646485	63.12
2017-18	5480741	3296596	60.15
2016-17	4825113	2787134	57.76
2015-16	4282259	2474913	57.79
2014-15	4019957	2439104	60.67
2013-14	3608193	2285301	63.34
2012-13	3369202	2235280	66.34
2011-12	3026837	2065566	68.24
2010-11	2621742	1800174	68.66

(Source: RBI, Handbook of statistics on the Indian Economy)



(Source – Author’s Own)

Fig 1: Graph showing proportion of Household saving to Gross savings

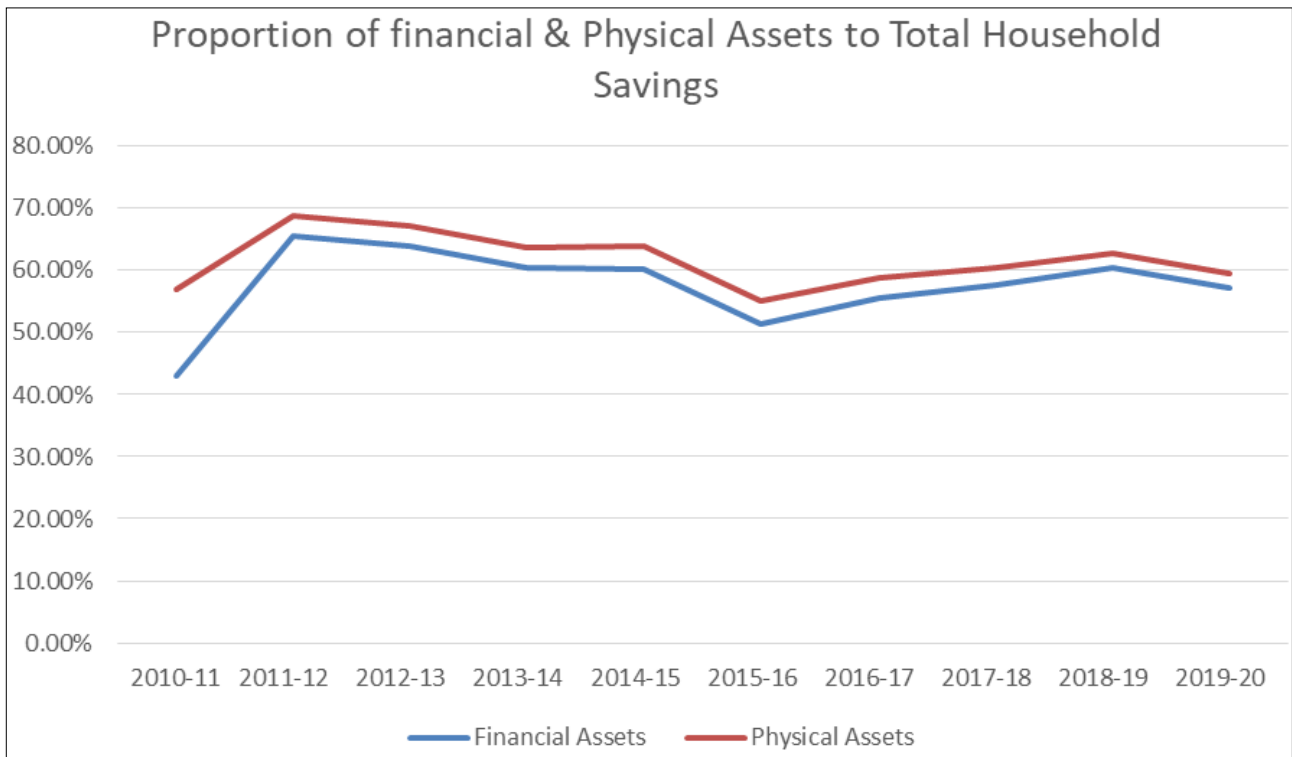
Households invest their savings in financial as well as physical assets. Physical assets involve investment in construction, Machinery & Equipment, and stock, while financial assets consist of currency, bank deposits, non – bank deposits, mutual funds, pension funds, shares & Debentures etc. Savings in Financial assets ensures resource mobilisation and ensure Economic Growth. As it can be seen from the chart there is dominance of Physical Assets over Financial Assets in Household Savings. The reason being the trust of people in these traditional avenues of

Savings. However, the study of Table shows that Household sector is opening doors for financial Assets over time. As shown in table 2, There is continuous growth in percentage of Savings in Financial Assets to Total Savings from 2015-16 onwards. In 2010-11, Financial Assets constituted 43% of total Household Savings while, it rose to 57.23%. The charts Depicts Household sector prefers to invest in Physical assets. However, the gap between Proportion of Physical assets and financial assets has been decreasing.

Table 2: Table showing Household Investment in form of financial and physical saving.

Year	savings of Household sector	Net Financial Assets	%age of Total Savings	Physical Assets (including Gold & Silver)	% age of Total Savings
2010-11	1800174	773859	42.99%	1026315	57.01%
2011-12	2065566	1355687	65.63%	1422957	68.89%
2012-13	2235280	1428363	63.90%	1501663	67.18%
2013-14	2285301	1379646	60.37%	1453210	63.59%
2014-15	2439104	1467565	60.17%	1558689	63.90%
2015-16	2474913	1271130	51.36%	1364068	55.12%
2016-17	2787134	1548041	55.54%	1641105	58.88%
2017-18	3296596	1897561	57.56%	1990891	60.39%
2018-19	3646485	2205438	60.48%	2290778	62.82%
2019-20	3990822	2284108	57.23%	2370368	59.40%

(Source – RBI, Handbook of statistics on the Indian Economy)



(Source – Author’s own)

Fig 2: Graph showing proportion of financial and physical savings of Indian Households.

Investment in Financial Avenues like bank deposits, non-bank deposits, life insurance funds, shares & Debentures surges capital formation in an economy. Since last few years govt. is taking initiatives such as attractive interest rates, widening the width of these avenues by launching new schemes, organising seminars and educational programmes etc. to attract investor’s attention to these investment options. it is the result of these efforts that structure of

Financial savings of households has seen radical change over the last decade.

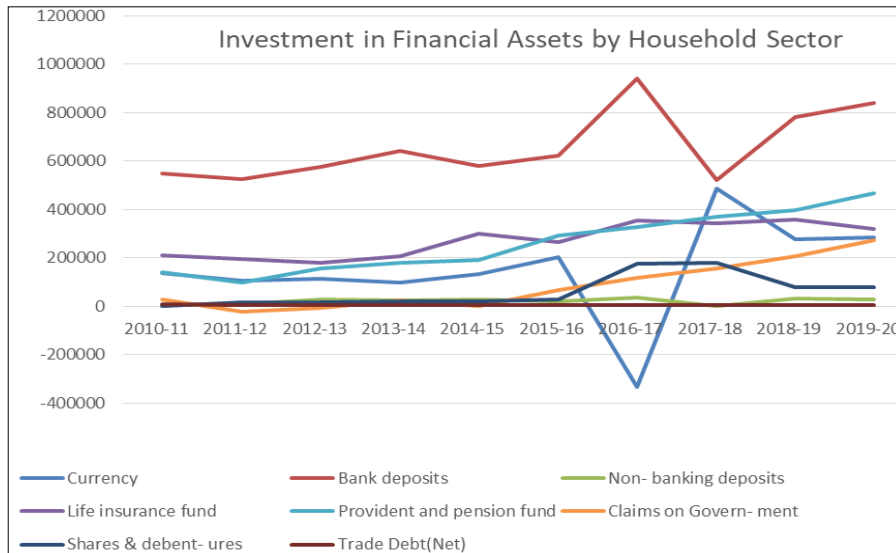
Composition of Financial Assets

Currency: In 2010 – 11, currency constituted 12.7% of total financial assets, while it was 12.37% in 2019-20 which is almost same. However, in year 2016-17, savings in form of currency became negative and the same shifted in bank deposits due to demonetisation. However, it again got hike in the year 2017-18.

Table 3: Composition of financial Assets of Households in India.

Year	Currency	Bank deposits	Non- banking deposits	Life insurance fund	Provident and pension fund	Claims on Government	Shares & debent- ures	Trade Debt (Net)	Financial Assets
2010-11	137131	548299	5099	210102	141139	29545	1729	6823	1079867
%age	12.70%	50.77%	0.47%	19.46%	13.07%	2.74%	0.16%	0.63%	100.00%
2011-12	106242	525970	10021	195673	95680	-21889	16522	4509	932729
%age	11.39%	56.39%	1.07%	20.98%	10.26%	-2.35%	1.77%	0.48%	100.00%
2012-13	111521	575080	27911	179949	156479	-7109	17027	3183	1064041
%age	10.48%	54.05%	2.62%	16.91%	14.71%	-0.67%	1.60%	0.30%	100.00%
2013-14	99520	639304	22816	204469	177841	23053	18930	4838	1190770
%age	8.36%	53.69%	1.92%	17.17%	14.93%	1.94%	1.59%	0.41%	100.00%
2014-15	133345	579272	28915	299322	190883	969	20364	4177	1257247
%age	10.61%	46.07%	2.30%	23.81%	15.18%	0.08%	1.62%	0.33%	100.00%
2015-16	200518	622364	18082	264177	290729	67940	28356	4066	1496232
%age	13.40%	41.60%	1.21%	17.66%	19.43%	4.54%	1.90%	0.27%	100.00%
2016-17	-332907	938574	34856	354321	325539	115469	174466	4360	1614677
%age	-20.62%	58.13%	2.16%	21.94%	20.16%	7.15%	10.81%	0.27%	100.00%
2017-18	484714	521580	-568	343989	369403	155670	177417	4201	2056405
%age	23.57%	25.36%	-0.03%	16.73%	17.96%	7.57%	8.63%	0.20%	100.00%
2018-19	277872	780021	30118	358835	397676	206363	78974	4209	2134068
%age	13.02%	36.55%	1.41%	16.81%	18.63%	9.67%	3.70%	0.20%	100.00%
2019-20	282630	837355	28136	317751	465508	271503	77423	4257	2284563
%age	12.37%	36.65%	1.23%	13.91%	20.38%	11.88%	3.39%	0.19%	100.00%

(Source – RBI, Changes in Financial Assets and Liabilities)



(Source – Author’s own)

Fig 3: Graph showing Financial assets held by Indian Households.

Bank Deposits: Bank deposits are the most preferred form of saving for the Household sector in India throughout the decade. However, proportion of bank deposits is gradually decreasing since 2011-12. In 2016-17, demonetisation took place which increased the quantum of bank deposits. Percentage of Bank deposits has shown the highest fall among all the investment avenues. It dropped from 50.77% in 2010-11 to 36.67% in 2019-20. Low rate of return on bank deposits as compared to other investment options is the main reason of its shrinking popularity among households.

Non-banking Deposits: Deposit schemes of NBFCs getting popularity among household sector due to its low risk and high return incentives. It rose from 0.47% to 1.23% of total financial assets in 10 years.

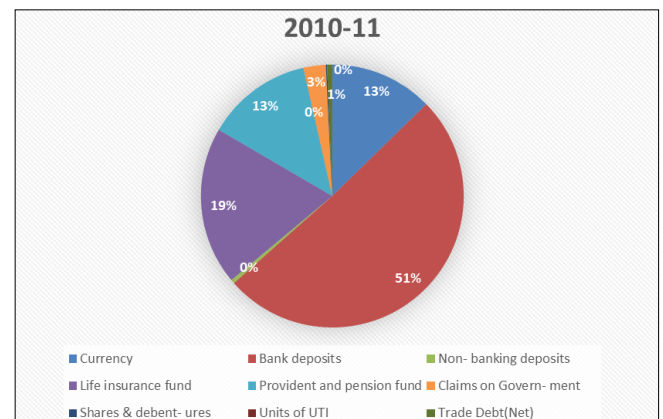
Life insurance fund: Life insurance fund has been one of the most popular investment options after bank deposits. However, with the emergence new investment options its share in total financial assets has slashed from 19.46% in 2010-11 to 14% in 2019-20.

Provident & Pension fund: Provident & pension fund are becoming popular among Households with the growth of service persons. Life insurance funds were popular among households up to year 2014-15 but afterwards provident funds took higher share of total financial assets than life insurance funds. It constitutes 20% of total financial assets in the year 2019-20.

Govt. claims - Govt: securities are the most risk free and safe option having good rate of return. This is the reason that share of these saving option increased by 9% in the period of 10 years.

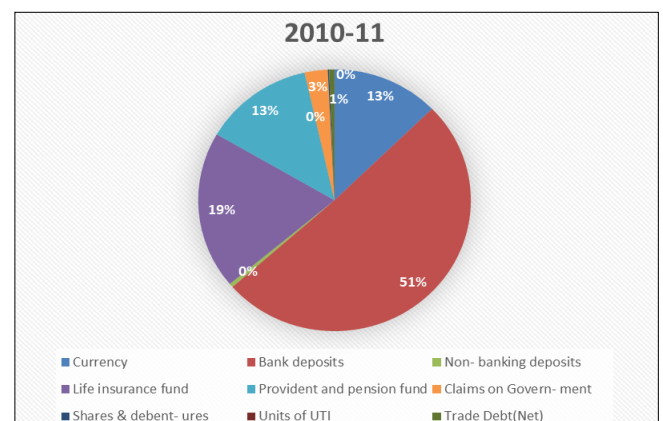
Shares & Debentures: Shares & Debenture are becoming popular among households due to high returns as well as liquidity characteristics. Proportion of shares & debentures shown a sudden rise in 2016 – 17 due to demonetisation phase. Households parked their currency in share market and bank deposits. These saving option has depicted a gradual growth of 3.23% in the last decade.

Decadal Shift in Households’ Financial assets.



(Source – Author’s own)

Fig 4: Pie chart showing components of Indian Household’s Financial assets in the year 2010 - 11.



(Source – Author’s own)

Fig 5: Pie chart showing components of Indian Household’s Financial assets in the year 2019 - 20.

Findings and Conclusion

- Household sector is the largest contributor in Gross domestic saving of India contributing 62.5% of total savings in 2019-20. However, Share of Household sector is Shrinking gradually.

- Households prefer to park their savings in form of Physical Assets instead of Financial Assets. However, the popularity of Financial Assets is enhancing due to Government efforts and the gap between proportion of Physical Assets and Financial Assets in Total Household Savings is falling.
- Bank deposits are the most preferred form of financial saving followed by Provident & Pension funds and currency is the third preferred saving option among households in India.
- Bank Deposits have depicted the highest decadal fall of 14%(of total financial saving) from year 2010-11 to 2019-20, while life insurance fund is the second highest one.
- Share of Provident & Pension Funds and govt. claims have risen significantly in the last decade. While 'Shares & debentures' is the third Investment option becoming popular among Households.

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