

MONEY TODAY

INSIDE Stocks Better regulation is making small investors return to the stockmarkets

Insurance From a tax-saving option, life insurance is now a risk cover

PERSONAL FINANCE By ROHIT SARAN

WHERE DO WE INVEST?

Low interest rates, higher inflation, shrinking tax rebates and a profusion of investment choices have left individual investors confused on where to invest

The richer Indians get, the less sure they are of their investments. The more the savings options multiply, the more confused people are about where to invest. The steeper the fall in returns on some savings schemes, the more the money pouring into them. These three apparent contradictions explain the current state of the Indian middle class.

Let us delve a bit deeper into these contradictions. Today, an average Indian earns 60 per cent more than he did in 1994. More money in pockets should mean greater risk-taking capacity. That is, people should look beyond bank deposits and government-run small saving schemes (e.g. NSC, PPF and RBI Relief Bonds) to invest their surplus income in. But the reality defies this simple logic. In 1993-4 Indians kept less than 28 per cent of their savings in bank deposits. By 2003-4, 40.5 per cent of their savings were in these deposits. Such a preference for the safety of bank deposits in a decade when new savings options mushroomed in mutual funds, insurance

and stockmarkets is baffling.

Even more stunning is the rush to invest in small savings schemes. Beginning in the late 1990s, interest rates on all small saving schemes have been slashed by 3-5 percentage points, yet people are flocking to these schemes. The share of these schemes in household savings more than doubled to 14 per cent in 2003-4, from just 6 per cent in 1993-4.

A clarification: the share of a saving option in total household savings can fall even if people continue to invest in that option. A fall in the percentage share of one saving option only means that investments in other avenues are higher. For instance, total investment in mutual funds has increased from Rs 30,320 crore in 1994-5 to Rs 1,52,445 crore in 2003-4. Yet, during the same period the share of mutual funds in people's savings fell from 5.5 per cent to

about 1 per cent.

So, what's going on? Three basic factors influence the saving patterns of individuals:

Choices: Investment options have proliferated phenomenally in the past decade. In 1995 there were some 200 mutual fund schemes to choose from. That number stands at 684 today. Till the mid-1990s there was just one life insurance company. Today there are 14. For bravehearts, investment opportunities in the stockmarkets have also multiplied.

Risk: With increased choices has come heightened risk. In some cases, old hidden risks have become apparent. For years before the US-64 fiasco, many UTI schemes were bought with the perception that they were fixed return plans. And since the government owns UTI, investors thought the returns were guaranteed. It took the collapse of several



“ Making investments is riskier today. The burden of managing interest rate risks has shifted from the government to investors. ”

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