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Research Article

SAVINGS AND INVESTMENT: PILLARS OF FINANCIAL SECURITY

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ABSTRACT

Financial considerations are applicable to almost everyone's life. It is common for every person living in family system and bearing the financial responsibilities to undergo the process of decision making regarding savings and investments. It is very general apologue that as the circulation of blood is necessary for the survival of the individual, in the same way savings and investments are also necessary for unpredictable future to meet the emergencies in life. It is well known fact that the life for everyone never remains the same; it is the combination of negatives and positives. In the similar manner, the scale of income and expenses also do not remain static for long period of time in the life cycle of any individual or family. To counter these ups and down in life, people usually save money in their rosy period with the intention to invest and make a cushion to take load of the unexpected jerks of bleak face in their life in future. By the quality of the cushion, one can make renders with relatively better or worse position to face the bad times of life; alternatively one can plan to fulfill their different financial plans with the help of investment of their savings. The financial future is largely influenced by the quality of investment decisions taken by the individual or family. Therefore such decision making is constantly taking place all around us and is an important part of family finance in every family unit. No one can avoid taking such decisions permanently.

INTRODUCTION

The first contact of every individual in this world is his family. Family plays a very vital role in the individual's life. However, some factors like size, composition and income of the family influence the living pattern of the individuals. The income of the family may be same but the pattern of spending it varies from family to family and individual to individual in spite of having identical needs and desires. Every family has different types of source of income that brings from very less to very large amount of monetary inflow into the family. Family has the responsibility to provide for its own needs to the extent possible. The responsibility to manage family finances should be shared between husband and wife with an attitude of trust and openness but in today's scenario, there has been a major change i.e. economic prosperity all over and also the changing pattern of family life makes it necessary for its members to analyze their financial situations so that they can find solutions to make plan for the future. Many home runners within the family face a lot of problems with their financial conditions. However several families with higher income find the solutions and cope up with their financial resources but most of the families become helpless at emergency situations. Since ages it has been the deep rooted desire of every human being to save money or wealth to meet the present and future needs. In this pursuit, the next step is taken to devote this saved money to the opportunities which are perceived to augment the savings and income in future. This psychology is based upon the maxim that 'Money begets money' or 'Money earns money'. The great rich business magnates in national and global economy in present times also inspire many of us to become rich through putting our savings to great opportunities, on the similar lines one of the famous business tycoon and the owner of Microsoft, **Bill Gates** has quoted **"If You Born Poor It's Not Your Mistake, But If You Die Poor Its Your Mistake"**. This thought enthuse to become wealthy and earn more than what people require to satisfy their daily needs.

Overview of Savings and Investment

Savings form an important part of the economy of any nation. Savings represents the part of disposable income that is not spent on final consumption of goods and services. Savings means sacrificing the current consumption in order to increase the living standards and fulfilling the daily requirements in

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future. On the other hand, Investment is defined as the sacrifice of certain present value for the uncertain future reward. Investment is the utilization of resources in order to increase income or production output in the future. Graham and Dodd (2005) defined investment in their book "Security Analysis and Portfolio Management" as putting money into something with the expectation of gain within an expected period of time. SoodandKaur (2015) stated that investment refers to a commitment of funds to one or more assets that will be held over some future time period. Anything not consumed for today saved for future use can be termed as Investment. Investment is the act of committing money or capital to an endeavor with the expectation of obtaining an additional income or profit. Investment is the portion of savings that is made with the expectation of earning good returns from their investments.

Investment Scenario in India

In India during pre-Independence period, usually the trading volume was less and financial decisions were simple and easy. Generally people spent most of their income on consumption and only small amounts of income were left in the form of savings. Hence, the saving rates were very low. After Independence in 1947, the major objective of the government policy has been the promotion of savings and capital formation as they are the primary instruments of economic growth. In economic analysis the concept of saving plays an important role. Several empirical studies have found that the advent of the Industrial revolution and rapid development of the western economies, variety of goods and the stability of the global economy caused increasing complexity of financial decisions and rate of investment. The growth in the rate of investments was made possible by way of an almost proportionate rise in the rate of savings. Savings is therefore the key factor in achieving a high rate of investments. Emerging strong even during the scariest phase of global financial failure, India has become one of the favorite investment destinations across the globe. The investment scenario in India is getting better and better with each passing day due to high confidence of investors. Today, India is considered as the fourth biggest economy in the world.

Table 1 Sector Wise Domestic Saving at current prices

S.No	Item	2012-13	2013-14	2014-15	2015-16
	1	2	3	4	5
1	**Gross Saving**	**33692.02**	**36081.93**	**41197.66**	**44189.19**
1.1	**Non-financial corporations**	**9921.93**	**12035.36**	**14129.44**	**16449.09**
1.1.1	Public non-financial corporations	1239.81	1262.50	1274.81	1341.39
1.1.1.1	Departmental enterprises	312.82	326.88	394.01	449.69
1.1.1.2	Non-departmental enterprises	926.99	935.62	880.80	891.70
1.1.2	Private non-financial corporations	8682.12	10772.86	12854.63	15107.70
1.2	**Financial corporations**	**3006.26**	**2930.84**	**3391.90**	**2878.03**
1.2.1	Public financial corporations	1748.33	1631.84	1693.17	1768.89
1.2.1.1	Departmental enterprises	51.72	59.61	67.21	72.56
1.2.1.2	Non-departmental enterprises	1696.61	1572.23	1625.96	1696.33
1.2.2	Private financial corporations	1257.93	1299.01	1698.73	1109.14
1.3	**General Government**	**-1588.97**	**-1737.29**	**-1880.52**	**-1353.24**
1.4	**Household sector**	**22352.80**	**22853.01**	**25556.83**	**26215.31**
1.4.1.1	Gross financial saving	10640.41	11907.70	12826.33	15142.07
1.4.1.2	Less financial liabilities	3304.25	3586.79	3633.85	4317.55
1.4.2	Saving in physical assets	14650.13	14164.28	15908.74	14951.50
1.4.3	Saving in the form of valuables	366.50	367.82	455.62	439.30

In India, trend in saving pattern is in the positive direction. As per the central statistical office report, households are the largest contributors to the national pool of savings as compared to the contributors of different sectors in the economy. Their share in net domestic saving remains around 75 % to 80% on an average. In this report, it is seen that savings in all the sectors are gradually increasing from 2012 to 2016 in India. Investing in today's world has become a household work and a great means of earning money as well as making profits. Now a day, every individual and their family in the households save surplus money and invest their money for the purpose to gain benefits of financial returns. People save and invest their money for the enhancement of the financial situations. Therefore, investment is the most important concerns of families as their small savings of today are meeting the expenses of tomorrow.

Motives of the Households to Save / Invest

Every family needs to save and accumulate funds for different reasons like education, marriage of children, property, loss of income, illness, death and other unforeseen contingencies. Savings also contribute families to ensure financial security in old age to meet their expenses in times of rising price and inflation. According to Virani (2012), Savings provide the financial protection to the individual saver at the time of emergency. It is necessary to have saving plans because it will help in meeting personal financial goals like secure future after retirement, children's education and marriage, meeting the demands of the family. Achar (2012) mentioned that the important motives for savings and investment are assured returns, freedom from risk, and tax benefits. Risk coverage is also assumed an important place. Chaudhary *et al*. (2015) also highlights the main purposes of investments are children's education, marriage, security and safety after retirement. Investment gives financial freedom, besides making financially independent, investment makes rich also therefore people save and invest their money for the various purposes like emergencies in future (sudden accident and death of loved ones, repairing of car, house construction).Investment also helps to cope up with financial situations and reduce future risks. Other reasons are tax concession, resale purpose (land and house). Sood and Kaur (2015) describes few reasons for savings are emergencies, education, save for vocations, security of money for future intends, to make house for residential, retirement, average life expectancy and other luxury items. Apart from the above mentioned most common reasons for investment, some people who are very generous to make investments to use the proceeds in future for social cause and some people are investing to obtain tax exemption. Consequently numerous varieties of investment decisions are available to invest surplus money.

Determinants of Investments Decisions

Investment of savings is a sensitive issue as it is concerned with different expectations of the investors. Every investment is exposed to one or another type of risk. Investment decisions are defined as determining when, where, how and how much spending of savings/ surplus money in the pursuit of making a profit in future. Achar (2012) mentioned that there are three risk factors that would try to satisfy are Safety, Liquidity and Profitability. According to Sudha *et al*. (2014), determinants of investment are income of the investors, past market trends, risk appetite and expected returns. Srividhya and Visalakshi (2013) stated that most investments are risky. Some of the factors which help the investors from making risky investments are ability to save, easy liquidity, tax relief and reasonable rate of return. Apart from risk and return, other considerations of investment decisions are initial investment, tax benefits & considerations, loan facility, past experiences, age and needs. According to Bhardwaj *et al*. (2013), Investment also depends upon the awareness about investment opportunities and financial market trends. Therefore people should be alert about numerous considerations at pre and post investment stage and also aware about the various investment alternatives available for making an investment decisions. Ignorance in taking proper pre and post investment steps may lead to loss in longer run. Hence, it is necessary to every investor that they should keep certain determinants/ factors in their mind while making investments.

Types of Investment Options Available for Investors

The role of domestic savings and Investment is very dynamic in promoting economic growth of India. Personal disposable income of the household is divided between consumption and savings. Savings becomes active when it is canalizing into 'return bearing avenues'. The act of canalizing of savings into return bearing avenues is investment. In this sense, investment refers to the increase in real capital which leads to the generation of income. There are varieties of investment avenues available for making an investment. Patil and Nandawar (2014) classified investment options into five categories i.e. Equity, Debt, Real Estate, Commodities and Miscellaneous. According to Sudha *et al*. (2014), Household investments may be in the form financial investment and physical investment. Financial investment comprises deposits in banks, shares, debentures, provident fund, public provident fund and insurance. While physical investments include land, buildings and gold. Manjunath (2015) mentioned a variety of investment avenues are available such as shares, banks, companies, gold and silver, real estate, life insurance and so on. Jain (2014) reported two main classes of investment; first is fixed income investment such as bonds, fixed deposits, shares. Second is variable income investment such as business ownership (equities) and property. According to Sathiyamoorthy (2015), Certain investments like bank deposits, post office, company deposits, life insurance, mutual fund, real estate, yield only income. On the other hand, investments are also classified on the short term and long term duration basis. Another classification of investment patterns is based on risk instruments described by Virani (2012).

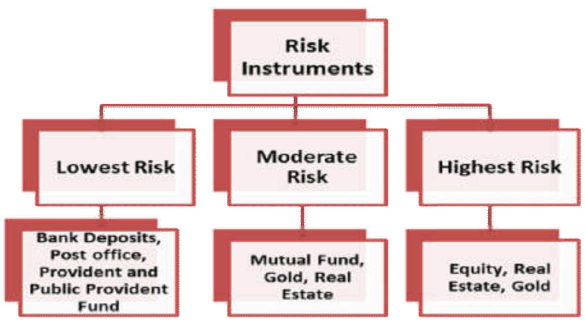

Figure1 Types of Investment Avenues

Post office Accounts**:** Post office account is one of the oldest channels available for saving in India. It is owned and run by the government of India. It encourages small savings and thus allows accounts to be opened with smaller amounts compared to Banks. Some of its schemes also give a higher rate of return as compared to banks. However rate of returns changes from time to time. Post office offered various schemes such as post office savings account, Recurring account, post office time deposit, post office monthly income scheme, KisanVikasPatra, National Saving Scheme, National Saving Certificate and Senior Citizen Saving Schemes etc.

Bank Accounts**:** A bank is a financial institution licensed to accepts deposits, pay interest, clear checks, make loans, act as an intermediary in financial transactions and also provide many financial services to general public.

PradhanMantri Jan DhanYojana**:** Under this scheme financial services like bank's savings and deposit accounts, remittance, credit, insurance, pension and more, is provided to those who are from rural area and do not have access or does not have any bank account. The scheme also offers an overdraft facility of Rs 5000 along with a RuPay Debit card with in-built accident insurance cover of Rs 1 lakh.

Sukanya Samriddhi Account**:** This scheme is a part of the government's "BetiBachaoBetiPadhao" movement. It was launched on January 22, 2015. By investing in this scheme, people will be eligible to annualized returns of 9.1%. The rate of returns has been since increased to 9.2% for the financial year 2015-16. The interest rate offered under the scheme is subject to revision and will be compounded every year.

Provident Funds**:** Provident Fund is a term for pension fund. A specific portion of the salary is deducted regularly from the earnings of the people in services. The money in the fund us then paid out to retirees. In some cases, it's paid out to the disabled who cannot work.

Public Provident Fund**:** Public Provident Fund (PPF) is long term small savings scheme which was introduced to help people save for retirement especially for those who are self-employed. One can invest up to Rs. 1.5 lakh per annum in their PPF account and also avail tax benefits under the 80C of Income Tax Act. One can also open PPF accounts in the name of their spouse and children. The best part is tax-free returns on the maturity, which makes it a great investment tool.

Mutual Funds ELSS**:** Tax benefit under section 80C is allowed for an investment in specially-designed Mutual Funds schemes called ELSS (Equity-linked savings scheme). Under this, people can save up to Rs 1.5 lakh under section 80C and also get a chance to earn potentially higher amount of returns on investments with the lowest lock-in period of only three years, as compared to any other tax saving investment schemes.

Gold**:** Gold is a symbol of prosperity and it is brought not just of ornamentation but a huge amount of gold is purchased for investment. Gold as an investment option has the moderate risk and one big thing is that it is in the physical form so, mostly Indian people prefer.

Real Estate: Real estate is also most profitable investment option. One can also invest in real estate that offers attractive return, but the price fluctuation in bad times is very high and also one needs lakhs of rupees to get started in this market.

***Insurance*:** Insurance has become one of the most important investments option in India. It is an economic device that provides financial protection against a possible unexpected loss. There are two basic types of insurance companies. First is life insurance, which sells life insurance, annuities and pension products. Second is non-life or casualty insurance, which sells other types of insurance. Despite of these investment options, there are some schemes that the Indian Government has initiated to reinforce India's economic development and financial stability of its citizens. These schemes were introduced in order to provide financial support in the form of bank accounts, financial security for education, loans, and for emergencies like death.

***PradhanMantriJeevanJyotiBimaYojna*:** This is a life insurance scheme provided and supported by the Government of India. This scheme can be taken up by any individual between 18 to 50 years of age. It can be subscribed to at a minimum annual premium cost of Rs 330 with a death benefit of Rs 2 lakh to the nominee.

PradhanMantriSurakshaBimaYojana: This will offer a renewable one-year accidental death-cum-disability cover of Rs 2 lakh at Rs 12 as an annual premium. The insured will get Rs 1 lakh in the case of partial permanent disability.

***Atal Pension Yojana*:** This scheme is intended to provide pension benefits like social security, with a minimum contribution per month. Those who work in the private sector can opt for a fixed pension of Rs 1,000 to 5,000 that will start once they are 60 years old. Upon the death of the contributor, the spouse or the nominee can claim the pension money and the accumulated corpus. But this scheme is only for those who come under the low-income group or are not a part of the tax bracket. The scheme has been put into place to help people in the low strata of the society, like security guards, drivers or the house help.

CONCLUSIONS

In the modern world, income plays an important role in everyone's life and the quality of everyone's life is closely tied with the level or standard of living maintained by the person. Thus, people have started realizing the importance of savings and proper investment of their savings with the purpose of increasing the living standard. One of the main reason of investments is that if people keep their money with their self instead of investing it, money doesn't work for them. People can earn money in two ways by working or by having their assets work for them. However, there are many people who want to invest their money, but making an investment are little uneasy for them because of the limited knowledge they have in this field. It is well known that all the investment decisions will not be profitable. As investors, people will not always make the correct investment decisions over the period of years. Many individuals find investments to be fascinating because they can participate in the decision making process and see the results of their choices. Therefore, there is a great need to impart education regarding investment decisions. Getting the right knowledge in this field will not only help them to make the right informed choices, but also make them feel confident. On the other hand, nobody wants to work their entire life. In the life cycle of every individual, there is a period of old age when people are not able to work or earn money properly. Hence, people will only have the money that they have saved. They can invest their money and generate more money by earning interest on what they have put away or by buying and selling assets that increase in value. Therefore, making an investment is an inevitable for the every individual and their family, this process may lead to financial safety, security, independence, increase in wealth, fulfilling personal goals and reduces future risks, as well as it gives mental satisfaction and financial well-being to the family and also contribute to economic growth of the nation.

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