STIMULATING FINANCIAL SAVINGS THROUGH RETAIL PARTICIPATION IN INDIA

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"The Indian retail investor can choose from multiple asset classes and the choices in their portfolio are dictated by multiple factors. Financial literacy of the consumer, understanding of the available products and their features (including taxes), risk–return parameters, ease of availability/investment in these products, complexity of the underlying process are few of the factors that influence the customer in their portfolio choices."

The turn of the millennium has an interesting statistic for those who follow the Indian personal finance market. For the first time in the history of independent India, the gross domestic savings (as % of GDP) by the household sector crossed the threshold figure of 20% to reach 21.8% in FY00. While this was indeed a milestone event for the Indian economy, the next 15 years have seen the figure hover around the early and mid 20's and to virtually circumambulate to 21.9% in FY13, as shown in Chart I[1].

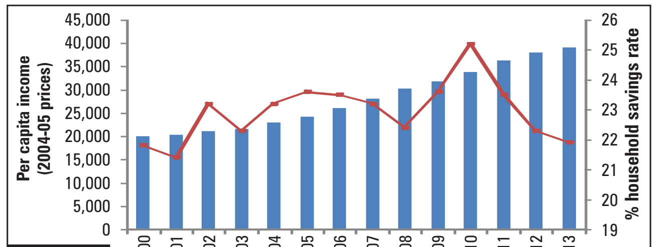


Chart I

Chart I reveals a stagnating household savings rate in the context of a rising per capita income during this period. The Report of the Working Group on Savings during the 12th Five Year Plan recognises the 'general reduction in the elasticity of household savings over the past decade'. Higher consumption expenditure to support better lifestyles and rising inflation, among other factors, have contributed to this phenomenon.

The structural shift in the composition of household savings, shown in Chart II[2], demonstrates the rising preference for physical assets by Indian households over the last 15 years. The investment in physical assets has helped the quantum of household savings to grow during this period.

Policy makers and personal finance industry practitioners, thus, have a two-fold challenge to contend with. Not only should they facilitate the household savings rate to move upwards, there is an urgent need to have Indian households invest more in financial assets. The Indian retail investor can choose from multiple asset classes and the choices in their portfolio are dictated by multiple factors. Financial literacy of the consumer, understanding of the available products and their features (including taxes), risk-return parameters, ease of availability/investment in these products, complexity of the underlying process are few of the factors that influence the customer in their portfolio choices.

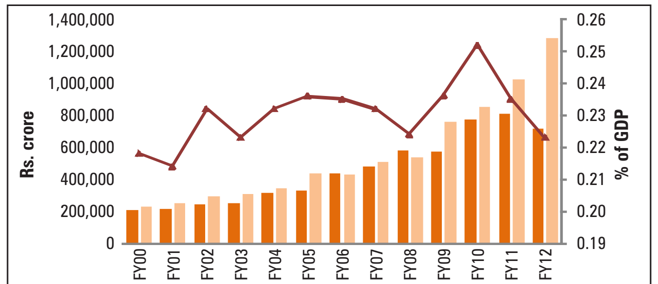


Chart II

Currency, bank deposits and insurance products, which comprised 56% of the household financial savings basket in FY00, grew at an average 17% y-o-y till FY12 to account for 86% of household savings in FY12. Shares, debentures and mutual funds de-grew during this period from Rs. 16,300 crore in FY00 to a negative saving of Rs. 4500 crore in FY12. Apart from the investment pattern and figures shown in Chart III[3], Indian households also invested in gold from the perspective of increasing their savings.

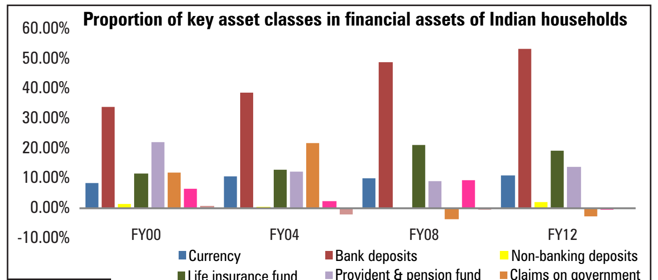


Chart III

While the household sector was exhibiting relatively muted participation in the capital market during this period, the Indian mutual fund industry's average assets under management (AUM) witnessed a robust y-o-y growth of 18%. The AUM figures increased from Rs 107,946 crore in FY00 to Rs 587,217 crore by FY12 and further to Rs 904,538 crore by March 2014[4]. Chart IV gives an analysis of the March 2014 AUM and the inflow/outflow during FY14, which reveals an overwhelming preponderance of the debt category in the AUM.

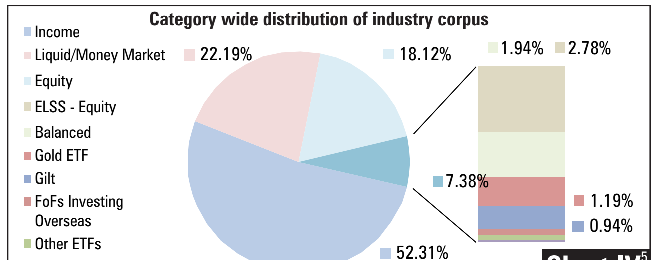


Chart IV[5]

With the debt category accounting for almost 75% of the corpus in FY14, the overall participation by corporates increased by 23.75% in FY14.

With 75% of retail sector investment being in equity, equity-ELSS and gold ETF, retail as a category lost almost 50 lakh folios in FY14, since retail investors made significant redemptions on account of diminishing returns and related issues.

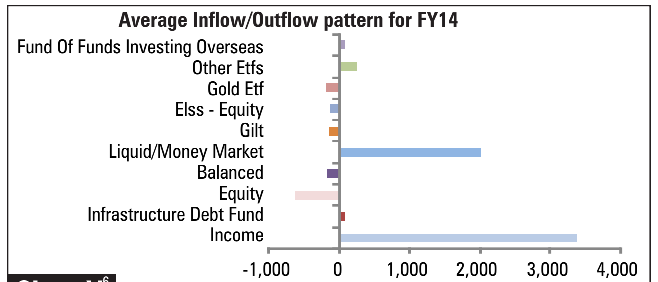


Chart V[6]

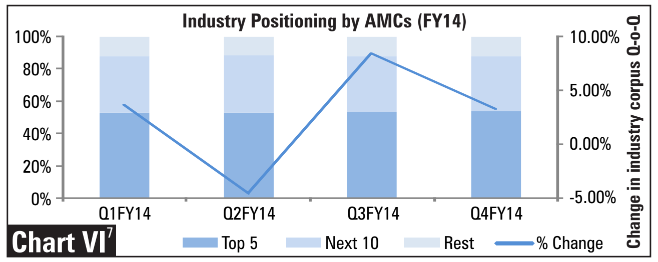


Chart VI[7]

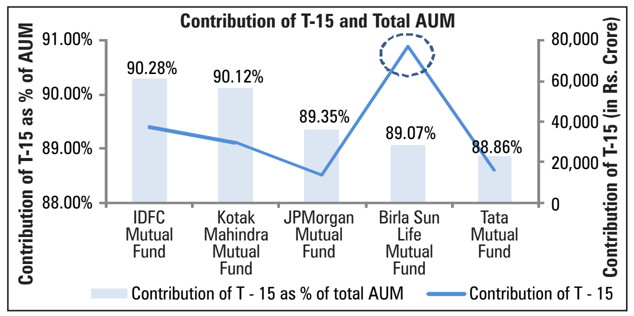
1. With 88% of the industry AUM being concentrated across 15 players, the geographic pattern of collections is shaped by their strategies.
2. More than 65% of their AUM is from Maharashtra, New Delhi, Karnataka, Gujarat and West Bengal.

It is further seen that top 15 Indian cities (or T-15) account for 85% of total collections and the next tier of cities (or B-15) account for balance collections. However, differences are noticed across asset management companies (AMCs), with certain AMCs being able to garner higher surpluses from B-15 cities, as seen in Chart VII[8].

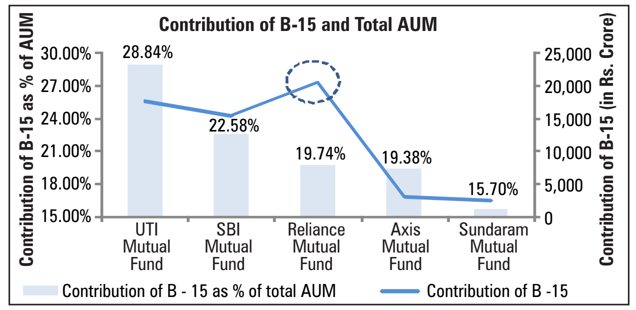
With increase in household savings being a desired objective for the Indian economy, migrating depositors of other asset classes to mutual funds and creating new depositor class, especially in B-15 cities and in states with low penetration of mutual funds, is crucial for the mutual fund industry. Apart from designing products that are congruent with the risk-return profile of retail investors and ensuring their last mile reach, it is imperative to create awareness among the retail investor community.

SEBI has made it made mandatory for each AMC to annually spend at least two basis point of its daily net assets on investor education, which approximates to Rs 180 crore (based on quarterly average assets) as on March 2014. Over the last few months, most AMCs have made visible efforts in reaching out to the investor by organising investor camps, promoting awareness campaigns in the media, publishing e-books and newsletters, and similar initiatives. A complementary initiative by AMFI, labelled the District Adoption Programme, has resulted in about 200 districts being adopted by AMCs to build greater customer awareness.

Can existing investors increase their savings rate and new households adopt the savings paradigm? The answer is certainly in



IDFC has the highest contribution from T-15 cities in % terms followed by Kotak Mahindra and J P Morgan among the top fifteen AMCs in terms of Q4FY14 AAUM. However in rupee terms Birla Sunlife leads the pack.



UTI AMC has the highest contribution from B-15 cities followed by SBI Mutual Fund among the top fifteen AMCs in terms of Q4FY14 AAUM. The point to note is three out of five are bank sponsored AMCs whcih gains from presence of bank branches in B-15 cities.

Chart VII

the affirmative and the mutual fund industry can contribute to this transition. Currently, Indian households have parked Rs 112,100 crore in currency, which can be tapped by the industry to generate better returns for the Indian investor and contribute to its growth. Analysis of data provided by AMFI reveals that in FY14, 62% of investment in equity by retail investors was for a period of more than two years. Getting more retail investors to participate in the mutual fund industry should turn out to be a win-win situation for all stakeholders. The collection pattern by select AMCs in B-15 cities re-emphasises the belief that collections in mutual fund can be increased through coverage of hitherto uncovered areas and focusing on emerging category of customers.

Early signs of a revival in capital markets along with the recent investor education initiatives will create a foundation for wealth generation for the retail investor, and also meet the policy objectives of attaining a higher savings rate.

The views and opinions expressed in this article are those of the author.

1. Source: Economic Survey & public domain reports **2.** Source: Handbook of Statistics on the Indian economy (2012-13) **3.** Source: Handbook of Statistics on the Indian Economy (2012-13) **4.** Source: Handbook of Statistics on the Indian Economy (2012-13) & AMFI publications **5.** Source: AMFI Monthly reports for FY14 **6.** Source: AMFI Monthly reports for FY14 **7.** Source: AMFI Quarterly AAUM for FY14 **8.** Source: AMFI and SEBI

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