IJCBM International Journal of Commerce and Business Management
Volume 5 | Issue 1 | April, 2012 | 35-39

RESEARCH PAPER

Household sector's investment in mutual funds

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Received : *29.11.2011;* **Revised :** *18.01.2012;* **Accepted :** *15.02.2012*

ABSTRACT

The main objective of investing in any portfolio is to earn some income. Investment in mutual funds enables the investor to earn more than the conventional products like provident fund, post office and bank deposits, etc., while at the same time not exposing to the kind of risk as seen in the stock market. It should also be noted that the degree of risk involved in mutual fund is higher than that of the conventional products. The investors with inventible funds are selective in investing. Different assets have different characteristics with regard to risk, return, liquidity and procedural simplicity. Investors too have different needs. In this context it is important to understand the savings behaviour of households. This paper analyses the growth of the household sector savings in India since 1993-94, which begins with an analysis about the savings and investment patterns of the household sector in India in general and mutual funds in particular.

Key words **:** Mutual funds, Investment, Household sector

***How to cite this paper* :** Swaaminathan, Ti. M. (2012). Household sector's investment in mutual funds. *Internat. J. Com. & Bus. Manage*, **5**(1): 35 - 39.

The household unit for the study is defined as "a composition of persons living in the same dwelling unit, sharing food from a common kitchen". The household sector represented by individuals contributes substantially to the domestic saving effort among the various economic units in a country. Being an essential requisite for economic development, it is necessary to achieve a higher rate of growth of domestic savings. A higher rate of savings will strengthen the capital market. To develop a self-reliant economy, national income will have to be increased through a vibrant capital market. An understanding of the savings behaviour and pattern of savings of the household sector are of crucial importance in formulating appropriate saving policies. The word 'saving' here implies the residual amount that is available for a person for investment after meeting all his consumption expense and repayment of loans.

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Statement of the problem:

Performance of the mutual funds depends on the performance of the stock market and also on the credit market. The entry of Foreign Institutional Investors has especially aggravated the degree of volatility of the stock market. Moreover, deregulation of the banking sector by the Government has given impetus to the individual banks to change the interest rates. A typical individual cannot be expected to posses adequate skill, knowledge, time and inclination to keep track of such events, understand the impact and act with speed to transact business in the stock market. Financial intermediation has come into being to assist the interested investors through their services. Mutual fund is one such institution, which is a collective investment vehicle, formed with the specific objective of raising money from a large number of individuals and investing it according to pre-set and specified objectives.

However, the investment choices of individuals have not changed that much. The investors with inventible funds are selective in investing. Different assets have different characteristics with regard to risk, return, liquidity and procedural simplicity. Investors too have different needs. How the investor tries to balance various considerations in his choice of financial assets will be understood better if empirical data on such choices are available.

In this context, it is important to understand the savings behaviour of households. The households have in physical assets and in financial assets. Physical assets consist of assets such as land and buildings, gold, silver etc. Savings in physical assets restrains the capital mobilization process of the industry. Financial assets include deposits with banks, chit funds, shares, mutual funds and debentures of companies, etc. Hence, there is a necessity to stimulate the saving attitude of investors in financial assets by providing them the necessary information about the characteristics of various financial assets, risk and return attached to them and the way of investing in them. Therefore, an attempt has been made in this study, how the household sector diversifies its investment preference in financial assets in general and mutual funds in particular.

Objectives of the study:

– To study the trend of households' savings in financial and physical assets in India.

– To analyse the growth of the household sector savings in India in general and mutual funds in particular and its components since 1993-94.

– To analyse the resource mobilisation by mutual funds companies from household sector between 1993-94 to 2009-10.

ANALYSIS AND DISCUSSION

The results obtained from the present investivation are present below :

Household sector's savings in India:

Savings and investment preferences of the investors have undergone remarkable changes especially during the liberalised era in India (NCAER, 1961; 1964; RBI, 1987-88; 1999-2000). The arrival of multinational companies, privatisation of the industrial and service sectors have all opened up the floodgates for new competitive spirit in the country. This has resulted in a quantum jump in the salary levels and thus a paradigm shift has taken place in the savings and investment preferences. The trends in gross domestic savings (GDS), household sector savings (HSS), savings in physical assets (PS) and financial savings (FS) are discussed with the help of the data presented in Table 1.

The GDS has increased from Rs.1,93,621 crore in 1993-94 to Rs.4,84,256 crore in 1999-2000 and further to Rs. 19,65,997 crore in 2009-10. The household sector savings, which is a component of GDS has also increased correspondingly over the years. It has consistently increased from Rs.1,58,310 crore in 1993-94 to Rs.4,12,516 crore in 1999-2000 and again to Rs. 13,98,766 crore in 2009-10. But the relative share of HSS in GDS has not been consistent. To begin with, it declined from 81.76 per cent in 1993-94 to 72.30 in 1995-96. It increased thereafter and touched the highest level of 94.26 per cent in

Table 1 : Trends in household sector savings (in Rupees crore)

Years	GDS	HSS		PS		FS	
		Amount	As % of GDS	Amount	As % of HSS	Amount	As % of HSS
1993-94	193621	158310	81.76	63572	40.16	94738	59.84
1994-95	251463	199358	79.28	78625	39.44	120733	60.56
1995-96	298195	215588	72.30	110422	51.22	105166	48.78
1996-97	316923	232914	73.49	91786	39.41	141128	60.59
1997-98	358250	271383	75.75	121185	44.65	150198	55.35
1998-99	386732	336469	87.00	143958	42.78	192511	57.22
1999-2000	484256	412516	85.19	205914	49.92	206602	50.08
2000-01	499033	454853	91.15	239634	52.68	215219	47.32
2001-02	534885	504165	94.26	256689	50.91	247476	49.09
2002-03	647970	569134	87.83	315879	55.50	253255	44.50
2003-04	821026	670776	81.70	357516	53.30	313260	46.70
2004-05	1000424	725110	72.48	406846	56.11	318264	43.89
2005-06	1227348	866756	70.62	445915	51.45	420841	48.55
2006-07	1441423	985822	68.39	517837	52.53	467985	47.47
2007-08	1629870	1134228	69.59	591653	52.16	552176	48.68
2008-09	1809187	1305883	72.18	714270	54.70	639872	49.00
2009-10	1965997	1398766	71.15	789116	56.42	665775	47.60
Mean	815682.53	614237.1	78.47	320636.3	49.11	300305.8	50.89
SD	586330.76	398501.3	8.21	227388.8	5.93	185159.6	5.54

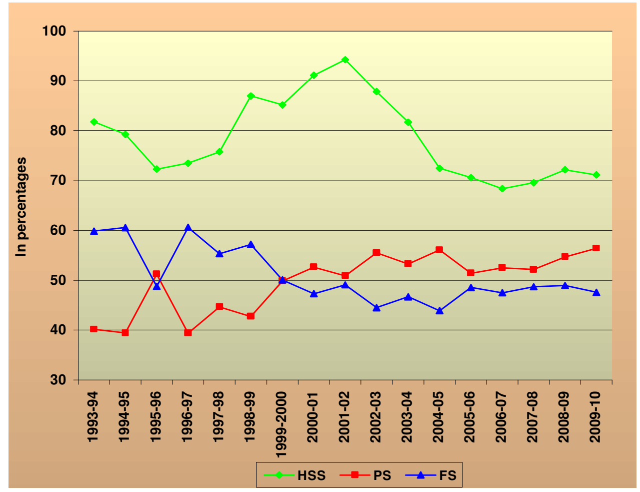
Note: SD – Standard deviation. HSS – Household sector savings; PS – Physical Savings; FS – Financial savings.
Source: National income accounts, central statistical organisation, New Delhi, (Various Years).

2001-02. The relative share of HSS, since then climbed down and stood at 71.15 per cent in 2009-10.

The savings of the household sector consists of savings made in physical assets and financial assets. In a feudal set up, it is natural that people tend to prefer PS over FS to a greater extent, mainly due to lack of awareness, lack of risk-taking ability and the underdevelopment of the financial market. With the development of the economy, increased monetisation and the arrival of market forces, financial market and its related products develop, which tremendously increase the portfolio of choices to the investors. Table 1 also shows the trend in FS and its relative share in HSS. In absolute terms, FS went up from Rs.94,783 crore in 1993-94 to Rs.2,06,602 crore in 1999-2000 and further to Rs. 6,65,775 crore in 2009-10. This consistent rise, however has not replicated in its relative share in HSS. It accounted for 60.56 per cent in 1994-95, but nosedived to 48.78 per cent in the subsequent year (declined even in absolute terms), but again got restored to that level in the next year, 1996-97. In the remaining years too, the share of FS has undergone huge fluctuations. In 2004-05, it has touched the lowest level of 43.89 per cent and clocked 47.60 per cent in 2009-10. Meanwhile, savings in physical assets increased from Rs.63,572 crore in 1993-94 to Rs.1,10,422 crore in 1995-96, in which years its share in HSS crossed the 50 per cent mark. Though people's preferences for PS declined to Rs.91,786 crore in the next year, it did not last long. Since 1997-98 onwards, there was a continuous and consistent rise in PS from Rs.1,21,185 crore in that year to a whopping Rs. 7,89,116 crore in 2009-10.

Table 1 also provides the mean and standard deviation of all the variables. The mean score of HSS was Rs. 6,14,237 crore, that of PS was Rs. 3,20,636 crore and FS was Rs. 3,00,306 crore. However, the mean share of FS (50.89) was marginally higher than that of PS (49.11), mainly due to the higher share of the former compared to that of the latter during the 1990s.

The trends in HSS, PS and FS are graphically presented in Fig. 1. It depicts that HSS as a proportion of GDS, with lot fluctuations in its growth rate peaked in 2001-02, and started to decline rather swiftly, though its rate of decline somewhat moderated since 2004-05. The trend in PS indicates that it was lying low till 1999-2000, in which year it was on par with the FS and gone past the latter since then. This suggests that even after liberalisation of the financial sector in India, and the resultant arrival of plethora of portfolios, the dominance of physical sector products which includes gold, land and others still dominates the HSS. The trend of the FS is the mirror image of the PS, as the former is only the reciprocal of the latter.



Note: HSS in terms of GDS; PS and FS are in terms of HSS.
Source: Based on Table 1.

Fig. 1 : Trends in household sector savings in India

Household sector's mutual fund investments:

This section analyses the investments made by the household sector in the Indian mutual fund industry, classified under investment in the UTI and in the mutual funds other than the UTI. Table 2 presents the growth of these two components of the industry in terms of net resource mobilised through the household sector during 1993-94 to 2008-2009.

A cursory glance at Table 2 clearly indicates that the net resource mobilised from the household sector by the UTI fluctuated heavily as it declined from Rs. 4705 crore in 1993-94 to Rs. 262 crore in 1995-96, before increasing to Rs. 8242 crore in 1999-2000. But in the very next year, it became negative to Rs. 2301 crore implying the fact that total redemption exceeded total investment. This negative trend continued till 2003-04, the worst years of the UTI. This trend was reversed in 2004-05 as the net resource mobilised became positive with Rs. 728 crore which further increased to Rs. 3967 crore in 2005-06 before declining to Rs. 1109 crore in 2008-09. This fluctuating trend of UTI's resource mobilisation was clearly captured by the annual growth rate which began with a negative rate of 16.94 per cent in 1994-95 followed by a huge 93.30 per cent fall in 1995-96, though in the next year, the growth rate touched 1341.22 per cent. This sort of positive and negative trends was the prominent feature of the net resource mobilisation by the UTI. Thus, the mean score of net resource mobilised stands at Rs. 1165.2 crore.

In the case of the mutual funds other than UTI too, the net resource mobilised fluctuated but importantly it never became negative during the period 1993-94 to 2008-09. It increased moderately from Rs. 1272 crore in 1993-94 to Rs. 1647 crore in 1994-95 before declining to Rs. 531 crore in 1996-97. It again went up to Rs. 1881 crore in 1997-98 and then to Rs. 7983 crore in 1999-2000. Though it touched Rs. 1550 crore in 2004-05, it went up further to Rs. 49187 crore in 2007-08, before declining to Rs. 38365 crore in 2008-09. Thus, the mean

Table 2 : Resource mobilisation by mutual funds from household sector between 1993-94 to 2008-09 (Rupees in crore)

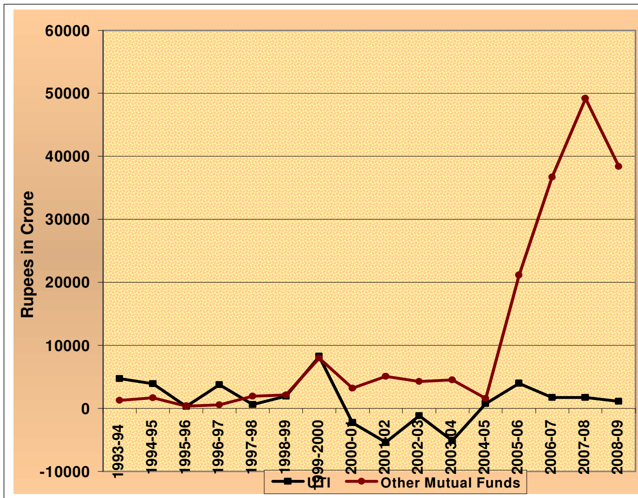
Years	UTI		MF other than UTI		Total	
	Amount	Annual growth rate (%)	Amount	Annual growth rate (%)	Amount	Annual growth rate (%)
1993-94	4705	-----	1272	-----	5977	-----
1994-95	3908	-16.94	1647	29.48	5555	-7.06
1995-96	262	-93.30	344	-79.11	606	-89.09
1996-97	3776	1341.22	531	54.36	4307	610.73
1997-98	595	-84.24	1881	254.24	2476	-42.51
1998-99	1887	217.14	2108	12.07	3995	61.35
1999-2000	8242	336.78	7983	278.70	16225	306.13
2000-01	-2301	-127.92	3196	-59.96	895	-94.48
2001-02	-5359	-132.90	5079	58.92	-280	-131.28
2002-03	-1193	-377.74	4293	-15.48	3100	-1207.14
2003-04	-5105	-327.91	4519	5.26	-586	-118.90
2004-05	728	701.25	1550	-65.70	2278	-488.74
2005-06	3967	444.92	21139	1263.81	25106	1002.11
2006-07	1735	-56.26	36700	73.61	38435	53.09
2007-08	1687	-2.85	49187	25.39	50874	24.45
2008-09	1109	-52.12	38365	-28.21	39474	-28.88
Mean	1165.2	117.94	11237	120.49	12402	-10.01
SD	3528.1	442.94	15955	332.79	16693	479.85

Source: National Income Accounts, Central Statistical Organisation, New Delhi, (Various Years)

score of the net resource mobilised by the mutual funds other than the UTI stands at Rs. 11237 crore. Thus, its annual growth rate showed only moderate fluctuations.

The net resource mobilised by the mutual fund industry as a whole through the household sector decreased slightly from Rs. 5977 crore in 1993-94 to Rs. 5555 crore in 1994-95 and further to Rs. 606 crore in 1995-96. From 1996-97 to 2000-01, the industry showed a positive trend in resource mobilisation, though in 2001-02, total redemption exceeded total investment resulting in negative mobilisation to the extent of Rs. 280 crore. This was absolutely prompted by the down fall of the UTI and the scale of fall (Rs. 5359 crore) is such that it out-weighed the positive mobilisation made by the mutual funds other than UTI to the extent of Rs. 5079 crore. But, the opposite occurred in 2002-03 when the negative mobilisation of the UTI (Rs. 1193 crore) was out-weighed by the positive mobilisation (Rs. 4293 crore) of the other mutual funds, resulting in the positive mobilisation by the overall industry to the level of Rs. 3100 crore. In 2003-04, the industry's mobilisation again turned negative by Rs. 586 crore, but only to become positive in the next five years, that is since 2004-05. Hence, resource mobilisation of the industry also portrays considerable swings in both directions. The growth trends of the Indian mutual fund industry are graphically presented in Fig. 2.

The degree and nature of correlation of UTI and other mutual funds with total investment is presented in Table 3. It shows a very weak (0.11) correlation between the UTI and the total investment, while the correlation between other mutual



Source: Based on Table 2

Fig. 2 : Resource mobilisation by mutual funds from household sector between 1993-94 to 2008-09

Table 3 : Correlation of UTI and other mutual funds with total investment

Components	Total investment	UTI	MF other than UTI
Total investment	1.00		
UTI	0.11	1.00	
MF other than UTI	0.96	0.12	1.00

Source: Computed from Table 2.

Table 4 : Household sector's financial asset performance (in percentage)

Years	Net deposits	Shares and debentures	LIC funds	Provident and pension funds	UTI	MF other than UTI	Investment in Govt. security	Investment in small savings
1993-94	34.67	15.59	9.71	19.34	4.97	1.34	0.48	6.81
1994-95	34.97	14.40	9.12	17.74	3.24	1.36	0.07	10.85
1995-96	32.64	8.65	12.86	21.25	0.25	0.33	0.42	8.70
1996-97	42.18	7.37	11.04	21.53	2.68	0.38	0.49	7.87
1997-98	39.87	3.36	12.35	21.48	0.40	1.25	1.86	12.89
1998-99	34.79	3.85	11.73	24.08	0.98	1.10	0.70	13.95
1999-2000	25.04	11.88	13.40	26.10	3.99	3.86	1.06	12.97
2000-01	33.63	4.11	15.18	22.26	-1.07	1.48	1.95	16.18
2001-02	28.70	1.81	18.63	18.84	-2.17	2.05	6.80	14.18
2002-03	29.00	2.34	16.33	18.96	-0.47	1.70	3.20	18.95
2003-04	24.80	1.27	15.89	16.45	-1.63	1.44	9.09	18.80
2004-05	13.46	2.78	20.87	17.67	0.23	0.49	6.70	26.74
2005-06	23.90	8.00	20.05	14.88	0.94	5.02	3.42	17.29
2006-07	30.61	10.68	22.23	14.02	0.37	7.84	0.35	8.02
2007-08	31.87	10.53	23.17	14.58	0.31	8.48	0.29	7.21
2008-09	33.18	8.41	24.39	15.06	0.25	7.20	0.49	8.23

Note: Share in terms of financial savings.
Source: National Income Accounts, Central Statistical Organisation, New Delhi, (Various years)

funds and total investment in considerably strong (0.96). However, there was again a weak correlation between the UTI and other mutual funds which indicates that these two components were not significantly correlated, though the relationship was positive.

It is also equally important to analyse the trends in relative shares of each component of financial savings to understand the proportionate dominance of one on the other. The relative growth trends of the components of FS are presented in Table 4.

Table 4 portrays a clear trend implying the fact the Indian household sector is now moving towards more risk-oriented products, though very cautiously. For instance, the proportion of shares and debentures which was at a high of 15.59 per cent in 1993-94 plummeted to a low of 1.27 per cent in 2003-04, but rebounded equally sharply and stood at 10.68 per cent in 2006-07, though only to come down to 8.41 per cent in 2008-09. Along with it, the proportions of both UTI and other mutual funds too have changed, reaching the lowest in 2003-04 (-1.63 per cent for UTI and 1.44 per cent for other mutual funds) and turning the corners similarly. But, in between UTI and other mutual funds, there was a vast difference, as the latter's share has gone up to 7.84 per cent in 2006-07, while that of the former has not gone beyond 1 per cent. This vouches for the fact of investors' increased risk taking ability, of late. Among others, except the proportion of Life Insurance Corporation funds, those of all other financial instruments have declined, particularly in a long term perspective. This points to a possibility of close correlation among the products which needs further analysis.

Conclusion:

The analysis of domestic savings of the three sectors of the economy namely, household sector, private corporate sector and the public sector revealed the fact that the contribution of household sector to the gross domestic savings and net domestic saving of India was significant. The share of household sector is more in domestic savings, which plays a significant role in the economic development of the country. It can be understood that households in prefer to save in financial assets than in physical assets. The propensity to save in financial asset must be appreciated. The findings of this study will be useful to understand the role of household sector in the economic growth.

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