ABSTRACT

A quiet Revolution seems to be occurring in India’s retail space with a gradual change in the savings profile. Both savings and investment play an important role in the process of capital formation in a country. There are three sources of savings in India namely: household, private corporate and government. Of these from the Indian perspective household is the major source of savings.

A heartening feature has been the gradual transformation of household savings from physical savings to financial savings, with the effect being more pronounced after the demonetization move of the Indian Government in November 2016. Of late there has been a growing demand from households for mutual funds in India because of the high investment returns and less risk and cost. Mutual Funds can be considered as a form of investment which allows several investors to pool their resources in order to purchase stocks, bonds and other securities. There are different types of Mutual funds and their classification can be based on: asset class; structure and investment objective.

Mutual funds have both their merits and demerits. The merits include: professional management, diversification, greater choice, affordability, tax concession, liquidity, transparency and regulation by a mandatory authority. However, they are not without their demerits among which are: market risk, fluctuating returns, high cost, lock in period and difficulty experienced in selection. Mutual funds are gradually gaining popularity in India and in fact are one of the fastest growing and most competitive segments of the financial sector. The entry of private and foreign players in the market has created an element of competitiveness. In keeping with expanding investors’ support and favorable outlook of the current government, the future seems to be very bright. However, India has still a long way to go. The current urban outlook has to be changed and steps should be taken to reach the remotest corners of the country

Keywords: financial savings, physical savings, mutual funds

INTRODUCTION

India is witnessing a quiet revolution in the retail space, with the savings profile gradually changing. There seems to be a steady flow of funds towards asset classes such as bonds, stocks and real investment trusts. Saving can be defined as that part of income which is not spent. Investment on the other hand refers to purchase of goods not for present consumption, but for future creation of wealth. Savings and investment can both be considered as the key elements for the growth and development of any economy.
Capital formation is an important engine of a country’s economic growth. It refers to transfer of savings from households, corporate and public sectors for investment purposes. Thus savings can be considered as an important element in promoting investment and therefore economic growth. India is the second most populated country in the world but the growth of economy has not kept pace with the population increase. Several factors could be responsible for this – possibly one of them being low rate of savings. This brings forth the importance of savings. As Adam Smith the Father of Economics stated “Whenever a person saves from his revenue he adds to his capital and since the capital of an individual can be increased by what he saves from his annual revenue, so also the capital of the society can be increased in the same manner” The saving profile in India apparently is changing with households (the main source of India’s savings) moving slowly from physical savings to financial savings – with the effect being more pronounced after demonetization. Against this background an humble attempt has been made in this Paper to examine the sources of savings in India, to discuss the trends in savings over the last few years and to attempt to explain the reasons for the changing trend, to go into the origin and meaning of mutual funds, to mention the various types of mutual funds, to look into the advantages and disadvantages of investment in mutual funds, and to try and foresee what the future entails for India

**OBJECTIVES OF THE STUDY**

1. To discuss the concept and sources of savings in India;
2. To examine the trends in savings in India with the help of statistical data;
3. To explain in detail the concept of mutual funds, the various types of mutual funds and to point out their merits and demerits; and
4. To try and oversee what the future entails for India.

**SOURCES OF SAVINGS IN INDIA**

**Household Savings**

Household savings, which constitute two third of the total savings can be subdivided as:

1) Investment in physical assets like land, furniture, and real estate.

2) Investment in financial assets which would be in the form of currency, bank deposits, shares and debentures, mutual funds, insurance, Provident fund and Pension funds;

3) Unaccounted Savings in the household sector in the form of gold, silver and durable goods.

**Corporate Savings**

The corporate savings or savings of the private sector is a flow concept and generally refers to physical investment plus net lending in the corporate sector

**Government Savings/Public Savings**

They emerge from surpluses of public enterprises and other financial institutions
TABLE 1 TRENDS IN GROWTH OF GROSS DOMESTIC SAVINGS (Percentage of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Household Savings</th>
<th>Private Corporate Savings</th>
<th>Public Sector Savings</th>
<th>Gross Domestic Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>23.2</td>
<td>3.3</td>
<td>-1.6</td>
<td>24.9</td>
</tr>
<tr>
<td>2002</td>
<td>23.2</td>
<td>3.3</td>
<td>-1.6</td>
<td>24.9</td>
</tr>
<tr>
<td>2003</td>
<td>23.2</td>
<td>4.6</td>
<td>1.3</td>
<td>29.1</td>
</tr>
<tr>
<td>2004</td>
<td>23.6</td>
<td>6.6</td>
<td>2.3</td>
<td>32.5</td>
</tr>
<tr>
<td>2005</td>
<td>23.5</td>
<td>7.5</td>
<td>2.4</td>
<td>33.4</td>
</tr>
<tr>
<td>2006</td>
<td>23.2</td>
<td>7.9</td>
<td>3.6</td>
<td>34.6</td>
</tr>
<tr>
<td>2007</td>
<td>22.4</td>
<td>9.4</td>
<td>5.0</td>
<td>36.8</td>
</tr>
<tr>
<td>2008</td>
<td>23.6</td>
<td>7.4</td>
<td>1.0</td>
<td>32.0</td>
</tr>
<tr>
<td>2009</td>
<td>25.2</td>
<td>8.4</td>
<td>0.2</td>
<td>33.7</td>
</tr>
<tr>
<td>2010</td>
<td>23.5</td>
<td>7.9</td>
<td>2.6</td>
<td>34</td>
</tr>
<tr>
<td>2011</td>
<td>22.3</td>
<td>7.2</td>
<td>1.3</td>
<td>30.8</td>
</tr>
<tr>
<td>2012</td>
<td>22.8</td>
<td>7.3</td>
<td>1.5</td>
<td>31.6</td>
</tr>
<tr>
<td>2013</td>
<td>22.7</td>
<td>7.7</td>
<td>2.0</td>
<td>32.4</td>
</tr>
<tr>
<td>2014</td>
<td>23.0</td>
<td>8.0</td>
<td>2.5</td>
<td>33.5</td>
</tr>
<tr>
<td>2015</td>
<td>23.3</td>
<td>8.3</td>
<td>3.1</td>
<td>34</td>
</tr>
</tbody>
</table>

The picture is clear from the table and the following graph. Household savings have over the years maintained a steady pattern, of 23% of GDP, with a peak in 2009, (25% of GDP). This could be possibly due to the accelerated growth of the economy. Private corporate savings are also showing a gradual rising trend, with the share in GDP moving from 3.3% in 2001 to 8.3% in 2015. A pleasing factor is that the public savings have been gradually increasing, throwing light thereby on the good performance of public sector units. In addition this could be related to higher collection of union excise duties – (particularly from petroleum products and reduced petroleum subsidy bill by the government).
TABLE 2 TRENDS IN HOUSEHOLD SAVINGS (as percentage of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Household Financial Savings</th>
<th>Household Savings in physical assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>11.6</td>
<td>10.5</td>
</tr>
<tr>
<td>2008</td>
<td>10.1</td>
<td>13.5</td>
</tr>
<tr>
<td>2009</td>
<td>12.0</td>
<td>13.2</td>
</tr>
<tr>
<td>2010</td>
<td>10.4</td>
<td>13.1</td>
</tr>
<tr>
<td>2011</td>
<td>8</td>
<td>14.3</td>
</tr>
<tr>
<td>2012</td>
<td>9</td>
<td>13.8</td>
</tr>
<tr>
<td>2013</td>
<td>10</td>
<td>12.7</td>
</tr>
<tr>
<td>2014</td>
<td>10.8</td>
<td>12.2</td>
</tr>
<tr>
<td>2015</td>
<td>11.6</td>
<td>11.7</td>
</tr>
<tr>
<td>2016</td>
<td>11.9</td>
<td>11.7</td>
</tr>
</tbody>
</table>

GRAPH 2

The table and the subsequent graph reveals that net household financial savings after a slump in 2008 and 2011 have shown a rising trend with the slope becoming steeper post 2016. Household savings in physical assets after having reached a peak in 2008 and 2011 have been gradually declining. This could be attributed to the fact that in the wake of inflation and bleak prospects for employment, households found it safer to invest in gold and real estate.

Indian economy displays a paradox of sorts with India on one hand, resembling the successful East Asian countries of high domestic savings, close global integration and macroeconomic stability, and on the other like the Latin American countries with weak domestic savings and economic instability.

CONCEPT OF MUTUAL FUNDS

Mutual Funds can be considered as a form of investment which allows several investors to pool their resources in order to purchase stocks, bonds and other securities. These collective funds, which are also known as AUM (Assets under Management) are then invested by an expert fund Manager who in turn has to be appointed by a Mutual Fund Company (called AMC or Asset Management Company).
The combined underlying holding of the Fund is called a ‘portfolio’ and each member holds a portion of the portfolio in the form of units.

Thus Mutual Funds can be considered as one of the financial intermediaries which enables millions of small and large savers both within the country and internationally to derive benefits from the growth of the capital market. It has been gaining popularity because of the high investment returns and less risk and cost.

HISTORY OF MUTUAL FUNDS

The origin of Mutual Funds dates back to 19th century in UK, when Robert Fleming in 1868 set up the first Investment Trust entitled – ‘Foreign and Colonial Investment Trust’. The first Mutual Fund in USA was the Massachusetts Investors Trust set up in 1924.

As regards India the first Mutual Fund – namely the Unit Trust of India (UTI) was set up in the public sector under the UTI Act of 1963, following which in the late eighties nationalized Indian banks entered the field. An important development occurred, when under the leadership of SEBI (Securities and Exchange Board of India), the Mutual Fund Regulation Act of 1993 was passed and all funds, except UTI, were brought under a common regulatory framework. In addition permission was granted to private foreign and domestic players to launch funds. The first Private Mutual Fund was launched in 1993 named “Kothari Pioneer Mutual Fund, which was a joint venture between Kothari group of Companies and Pioneer a US Fund Company.

TYPES OF MUTUAL FUNDS

ASSET CLASS

a) Equity Funds

They are invested in equity stocks or shares to provide higher results. The general objective of this fund is long term capital growth. They are also known as high risk funds;

b) Debt Funds. They are invested in debts like Government Bonds, Company debentures and fixed income assets. In view of the fact that they provide fixed returns they are known as safe funds;

c) Money Market funds

They are invested in liquid assets like Treasury bills, commercial papers etc. they are safe because they provide an immediate and moderate return on your investment, which would be slightly higher than that on bank deposits;

d) Hybrid or Balanced Funds

The objective of this fund is to provide a balanced mixture of safety, income, and capital appreciation. Accordingly they are invested in different asset classes;

e) Sector Funds

Here investment is made in a particular sector – for example infrastructure funds, where investment is only limited to infrastructure companies. In this case the risk factor varies from sector to sector.

f) Index Funds

They are an investment instrument that represent specific index to monitor the returns and the movement of index;

g) Tax saving Funds

These funds mainly make investment in equity shares and make an investor eligible to claim tax deductions under the provisions of Income tax act.
STRUCTURE
These include:
   a) Open-ended Funds
   These are instruments dealing in units which can be purchased and redeemed throughout the year;
   b) Close-ended Funds
   They deal in units that can only be purchased in the initial years and are eligible for redemption on a specific maturity date.

INVESTMENT OBJECTIVE
Among this category are:
   a) Aggressive Growth Funds
   They have a higher chance of sudden growth and their value rises up at a fast speed. The objective of this type of fund is higher return and therefore involves higher risks
   b) Growth Funds
   This investment portfolio would include a combination of small, medium and large scale corporations. In this case the Fund manager will select growth stock which uses growth to make profits instead of paying dividends;
   c) Balanced Income and Growth Funds
   The basic objective of this Fund is to provide a balanced mixture of safety, income and capital appreciation. While providing the investors with present income it also offers the possibility of growth;
   d) Income Funds
   The primary objective is to provide a steady cash flow to the investors and therefore they make investment in a range of fixed income securities. One cannot ignore the risk factor on account of fluctuations in the rate of interest.

DATA ON MUTUAL FUNDS IN INDIA

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Rupees Billion)</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>905.87</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>1005.94</td>
<td>9.95</td>
</tr>
<tr>
<td>2003</td>
<td>1092.99</td>
<td>7.96</td>
</tr>
<tr>
<td>2004</td>
<td>1396.16</td>
<td>21.71</td>
</tr>
<tr>
<td>2005</td>
<td>1496</td>
<td>6.67</td>
</tr>
<tr>
<td>2006</td>
<td>2318.62</td>
<td>35.48</td>
</tr>
<tr>
<td>2007</td>
<td>3262.92</td>
<td>28.94</td>
</tr>
<tr>
<td>2008</td>
<td>5051.52</td>
<td>31.41</td>
</tr>
<tr>
<td>2009</td>
<td>4173.00</td>
<td>-21.05</td>
</tr>
<tr>
<td>2010</td>
<td>6139.79</td>
<td>32.03</td>
</tr>
</tbody>
</table>
The table and the two graphs reveal the fluctuating trends in the assets under management of mutual funds in India. In the period between 2001 and 2004 there has been a steady rise in the assets under management of mutual funds, with a fall in 2005. This, however, was soon followed by rising trend up to 2008, with a temporary steep fall in 2009, only to rise once again barring 2011 which again witnessed a fall. This trend was in keeping with financial asset savings as was discussed above.
MERITS OF MUTUAL FUNDS

1) Professional Management

Mutual funds are managed by Professionals who apparently make wise investment according to market movements and trend analysis, and thereby help you to manage your hard earned money with their skills and expertise;

2) Diversification

Mutual funds enable an investor to invest his savings across a variety of securities and thereby diversify his assets according to the objective and degree of risk tolerance. In this context one can add that, it is highly impossible for all stocks to fall at the same time;

3) Greater choice to the investor

Mutual funds provide the investors with a variety of schemes in keeping with their expectations and investment objectives;

4) Affordability

As the minimum requirement is low – even investment can be made with Rupees 500. Thus it provides an investor an opportunity to earn on his savings and is open to the common man;

5) Tax deductions

Certain mutual funds help you to enjoy the benefits of tax deductions and make it a favorable option with the salaried class

6) Liquidity

Mutual funds provide liquidity as it helps you to redeem total or partial investment anytime;

7) Transparency

The various publications keep the investors updated with the performance of various mutual funds;

8) Regulations

Possibly the biggest advantage is that the overall trading operations are regularly monitored by SEBI.

DEMERITS OF MUTUAL FUNDS

1) Market Risk

Mutual Funds are subject to market risk. It is difficult to find mutual funds without market risk;

2) Fluctuating Return

They are like any other investment which does not have a guaranteed return;

3) High Cost

Mutual funds no doubt provide the investors with professional management. But this is at a high cost. Cost here would include charge for managing the funds, salary of the manager, distribution cost etc;

4) Lock in period

They may not be easy to select the right financial securities
FUTURE OUTLOOK

Mutual funds are gradually gaining popularity in India. In fact the Indian Mutual Fund is one of the fastest growing and most competitive segments of the financial sector. The entry of private and foreign players in the market has created an element of competitiveness. In keeping with expanding investors’ support and favorable outlook of the current government, the future seems to be very bright.

The demonetization move and efforts towards creation of a cashless economy has seen a shift from saving in physical assets to financial assets as is evident from the increase in the number of folios, domestic retail inflows into financial markets and rise in demat accounts, this is more pronounced in case of middle class families. However, India’s love for physical assets continues with diversion of savings into gold and real estate. But the recent falling returns from property and gold have helped in moving the equity market to the new era.

Mutual funds however lack penetration. This could be attributed to low demand from public outside the metropolitan areas, low levels of financial literacy and cultural attitude towards investment.

Initially mutual funds were urban oriented but with the commercial banks playing the role of a distributor for Mutual Fund Schemes and few designated Post offices also joining the network of distributors, a favorable platform can be created for building mutual fund culture in rural areas. A public awareness program can be initiated particularly in the remote areas to brief the common man about the various investment options.

CONCLUSION

From the above discussion it appears that Indian households are slowly realizing the importance of financial savings. Besides the Mutual Fund industry is gaining in popularity. There are several opportunities for the Mutual fund industry which have hardly been used. The need therefore is felt for greater investor education, simplification of product communication, and expanding the scope beyond metros and mini metros.

At present the asset base of mutual funds as percentage of GDP is much lower than the world average of 62%. India has a good saving culture and consequently greater scope for channelizing these funds in mutual fund industry.

It thus appears that the overall outlook for the sector is promising. A few challenges exist which can be taken care of by a right mix of incentives, diversification and government policy. The need of the hour is a greater foresight and vision to help keep abreast with international standards.

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