

Saving and investment behavior of rural household (With special reference to Coimbatore District)

T. Maheswari

M.Com, M. Phil, PGDCA Assistant Professor Department of Commerce with Computer Applications Sree Saraswathi Thyagaraja College, Pollachi, Coimbatore, Tamil Nadu, India.

Abstract

Rural India is two-third (67.63% of total population) of a country's population is living in rural area and earn one-third of the national income. Household sector is one of the most important sectors which contribute more savings to the gross domestic savings. The study has been conducted to know the saving and investment behavior of rural household as it is influenced by many factors such as age, education, income, occupation etc. It has been analyzed by using the linear regression method. The study reveals that most of the respondents earning capacity is less, even if they earned more they distributed only minimum portion of their income to saving. Number of respondents invested in financial assets is high but amount invested in financial assets is less. Respondents in rural area are low income people, less educated and they contributed to bank deposit, post office and life insurance and not to mutual fund, shares, debenture, bonds and government securities it shows that rural households are not much aware of highly risk financial assets.

Keywords: Household, Saving, Investment, physical assets, Financial Assets, Economic growth

1 Introduction

Household sector plays an important role in the economic growth of the country as it provides pool of capital in the form of financial saving such as currency, Bank deposit, Shares, Bonds, Mutual Fund, Life Insurances etc. There is a plenty of opportunities to make investments in financial assets. According to the report of the working group on savings in the 11th five year plan, the investment in financial assets falls down at the same time investments in physical assets have increased and only 5% of their savings invested in capital markets. Low participation of household in financial market reduces the economic growth. Now they shifted from financial saving to physical saving. Since household saving behavior is always changing and it is determined by many factors like income, education, culture, inflation, occupation and awareness level and the influences of these factors entirely differ from urban to rural. It is need of the hour to analysis the saving and investment behavior of rural household because as per the 2011 Census, over 70 per cent of the total Indian population resides in villages and rural areas. So rural household saving is very essential as it provides investments for government and corporate sector and it increase the GDP Growth leads to increase the household income and saving rate.

2. Review of Literature

J. Amudha, V. Aravamudhan Varathan (May 2015) this study analyzed the determinants and patterns of saving behavior in rural household of Salem. The saving determinants are analyzed empirically by a linear regression method. The income, level of expenditure, consumption pattern and saving behavior is taken as the criteria for depicting the samples. The study found that the savings does not depend upon income alone rather on the consumption pattern of the individuals also. Income grows the population is encouraged to save and the dis-saving occurs with the old generation as due to no or less income.

Haruni Jeremia Mapesa (2015) conducted research on shaping the saving behaviour of the rural poor: Experiences of rural finance programme in Tanzania. The study also aimed at understanding the determinants of savings/investments in financial assets offered by microfinance. The study was conducted in Iringa Region of Tanzania, and involved 210 small holder farmers. Results show that rural finance programs have significantly managed to mobilize savings of rural farm households. Results suggest that household access to MFIs has a positive and significant impact on financial savings of farm household and also shows that rural farm households are able to save/invest in financial assets (Deposits, shares and other securities).

Girma Teshome. Belay Kassa, Be Zabih Eman, Jema Haji (2013) the study assessed the saving behavior among rural household. Survey data generated from 700 sample households. The results of the study shows that rural households do save irrespective of their low income mainly in informal saving institutions showing high request for accessibility potential for formal saving institutions.

Subhashree Nayak (May 2013) analysed the determinants and saving behaviour of rural household in western Odisha. The study was conducted through primary survey with 300 households. The study reveals that the lowest income groups (the agricultural labours and the non- agricultural labours) have the highest marginal propensity to consume which leads to lowest marginal propensity to save as compared to the other occupational groups. The study also reveals that most of the rural households have low educational status which is resulting in less awareness of the people towards the benefits of saving.

Lakshmi Kumar, PhD and Jyoti Prasad Mukhopadhyay (2013) the study examined how the rural and urban poor in the state of Tamil Nadu, India, manage their money. They adopted the "Q-squared" methodology (combining quantitative and qualitative methods) to gain a holistic understanding of the financial behavior of these two distinct populations. They used

financial diaries to collect data on income, consumption, savings, borrowing and lending from a sample of poor households over a period of six months. Analysis shows that the rural and the urban poor in Tamil Nadu are not homogeneous in nature. Their livelihood activities, access to basic services like health care, education and financial services are different. Consequently their financial behavior and needs also differ. Hence these two heterogeneous groups of poor must be served with different financial product-mix which is commensurate with their needs. The poor woman needs some financial literacy programs that enable them to make financial decision.

Amu Manasseh Edison Komala (2012) conducted research to find out the demographic influences on rural households saving and Investment behavior the sample size of 160 households was drawn from the population using the multi stage cluster sampling technique.

The finding showed that there was a direct positive relationship between age of household and insurance, Knowledge of savings and insurance and family size and difficulty in saving. There is a negative relationship between age of the household head and savings and investment, income level and insurance and savings. It was concluded that there is a mixed influence of family characteristics on the family savings and investment behavior.

Oluwakemi Adeola Obayelu (2012) conducted research to assess the level of saving behavior of rural households in Kwara State, Nigeria and the researcher concluded that increase in food expenditure reduce the saving rate and the government should review its macroeconomic policies aimed to reduce rural consumer price index. The study also shows that reducing the number of children can help beef up savings to protect families from income shortfall. Further, diversification into non farming activities was found to increase saving rate of the rural household heads.

Dr. Surya Prakasa Rao Gedela (Aug 2012) conducted study on determinants of saving behavior in rural and tribal households (An empirical analysis of Visakhapatnam district).120 sample households have been collected from both tribal and rural households. Multiple Regression Model and Logistic Regression Model for finding. The study concluded that that the age of the head of the household, sex, dependency ratio, income and medical expenditure are significantly influencing the saving behavior in the entire study area.

Dr. Elangbam Nixon Singh (2011) analyzed rural saving and its investment in Manipur and he tried to identify some of the important issues relating to the formal finance. The study reveals that almost everybody is of the opinion that formal mechanism for savings and investment shall be expanded to

all the rural masses for a better climate conditions for saving and investment.

3. Statement of the problem

The financial situation and behavior of households has significant influence on the stability of the financial system and economic growth of the country. The household investors saving and investment behavior is always changing especially for rural household because of education level, life style. Occupation. In come. Consumption pattern entirely differ from other households. They are not able to save their money, even if some household saved but not in formal way hence it will reduce the supply of capital to the country as well as GDP growth Rate. Lack of awareness in financial assets, leads to increase the investments in informal way as it is not accountable to the capital formation of the country. It is need of the hour to analysis the saving and investment behavior of rural household because as per the 2011 Census, over 70 per cent of the total Indian population resides in villages and rural areas. Against this background the study has been conducted to know the saving behavior of rural household with special reference to Coimbatore District.

4. Objectives of the study

- To know the demographic profile of rural household
- To know the saving and Investment pattern of rural household

5. Research Methodology

The study has been conducted to know about the saving and investment behaviour of household and it provides opportunity to know about whether individuals for their finance and in what it helps to reach their financial goals indentified by adopting the following research methodology. The universe of the study is finite and Coimbatore district has been selected as the universe of the study. The sample consists of 250 respondents selected for the study by adopting convenience non probability sampling method. The respondents of the study are households. The study is based on primary data and secondary data. Primary data is collected through scheduled questionnaire method. The secondary data has been collected from the published records, journals, magazines and web portals.

6. Demographic profile of the rural household

The personal profile of the rural household is given in the table 1 and it plays an important role in selecting saving and investment avenues of the rural household.

Table 1

Demographic Factors	Variables	No. of respondents	percentage
Age	Below 30 years	9	4
	31 to 40 years	34	14
	41 to 50 years	169	67
	More than 51 years	38	15
	Total	250	100
Gender	Male	175	70
	Female	75	30
	Total	250	100
Educational Qualification	Illiterate	9	4
	Up to 10 th Standard	107	43
	Up to 12 th Standard	41	16
	Under Graduate	28	11
	Post Graduate	13	5
	Others	52	21
	Total	250	100
Occupation	Farmer	100	40
	Business	25	10
	Profession	13	5
	Self Employed	22	9
	Government Employee	25	10
	Private employee	41	16
	Others(Specify)	25	10
	Total	250	100
Monthly Income	Below Rs.10000	72	29
	Rs.10001 to Rs. 20000	91	36
	Rs.20001 to Rs. 30000	40	16
	More than Rs.30001	47	19
	Total	250	100
Monthly Expenses	Below Rs.10000	153	61
	Rs.10001 to Rs. 20000	53	21
	Rs.20001 to Rs. 30000	38	15
	More than Rs.30001	6	3
	Total	250	100
Monthly Savings	Below Rs.10000	203	81
	Rs.10001 to Rs. 20000	34	14
	Rs.20001 to Rs. 30000	9	4
	More than Rs.30001	3	1
	Total	250	100

Source: Primary data

The above table shows that out of 250 respondents 70 percent of the respondents were male, 67 percent of the respondents were in the age of 41 to 50 years and 4 % of the respondents were in the age group of below 30 years, 98 percent of the respondents were married, 42 percent of the respondents had education up to 10th standard, 40 percent of the respondents were farmers and 16 % of the respondents were private employees,78 percent of the respondents were in nuclear family and remaining 22% of the respondents were in the joint family, 61 percent of the respondents had monthly expenses of Below Rs.10,000,37 percent of the respondents had monthly

of Rs.10,001 to Rs. 20,000. 61% of the respondents had spent less than Rs.10, 000 per month as well as 86% of the respondents saved below Rs.10, 000 per month.

7. Relationship between monthly income and monthly saving

The monthly income plays an important role in determining the saving and investment pattern of the respondents and distribution of amount to saving and expenses depends on the earning income of the respondents. Table 2 reveals that how the earned income is distributed to Savings.

Table 2: Monthly income and savings of the respondents

Monthly Income	Monthly Savings				Grand Total
	Below Rs.10000	Rs.10001 to Rs.20000	Rs.20001 to Rs. 30000	More than Rs.30001	
Below Rs.10000	72	-	-	-	72
Rs.10001 to Rs. 20000	70	21	-	-	91
Rs.20001 to Rs. 30000	30	6	4	-	40
More than Rs.30001	31	7	5	4	47
Grand Total	203	34	9	4	250

Source: Primary data

The above tables shows that the relationship between monthly income and monthly saving of the respondents. Out of 72 respondents had monthly income of below Rs.10,000 at the same time their savings also below Rs.10,000.93 respondents had monthly income from 10,001 to 20,000 out of that 81 respondents saved less than Rs.10,000 per month.43 respondents had monthly income from 20,001 to 30,000 out of that 32 respondents saved below Rs.10,001.42 respondents

had monthly income of more than Rs.30,001 out of that 31 respondents saved below Rs.10,001.The study reveals that income does not influencing the saving behavior since irrespective of their income level most of the respondents saved below Rs.10,000.

8. Relationship between Educational qualification and saving and Investment Avenues

Table 3: Educational qualification and saving and Investment Avenues

S. No	Saving and Investment Avenues	Educational Qualification						No. of Respondent	%
		Illit	10 th	12 th	UG	PG	Others		
1	Bank Deposit	3	36	10	3	-	10	62	25
2	Post office saving Scheme	2	6	-	4	-	1	13	5
3	Provident fund	-	2	-	2	3	7	14	6
4	Life Insurance	4	25	3	3	0	4	39	16
5	Mutual Fund, Shares, Bond Debentures and Government securities	-	-	-	-	-	-	-	-
6	Gold and Silver	-	10	6	6	3	15	40	16
7	Land and building	-	2	6			1	9	4
8	Chit funds	-	4	3	-	-		7	3
9	Bank deposit and Post office saving Scheme	-	11	2	3	-	4	20	8
10	Bank deposit and life insurance	-	6	2	1	-	3	12	5
11	Bank deposit and gold and silver	-	2	4	3	4	4	17	7
12	Gold and silver and land and building	-	3	5	3	3	3	17	7
	Total	9	107	41	28	13	52	250	100

Source: Primary data

The above table shows the relationship between education qualification and saving and investments pattern of rural households. The study reveals that out of 250 respondents 25% of the respondents saved their money in bank deposits out of that majority (36) of the respondents had education up to 10th level, 16% of the respondents invested in life insurance out of that majority (25) of the respondents had education up to 10th level and 15% of the respondents invested in gold and silver out of that those majority (9) of the respondents had education up to secondary school level. The study reveals that no respondents invested in shares, debentures, bonds and government securities. Educational level does not influenced

the saving and investment pattern because most of the respondents invested in bank deposit, post office saving scheme and life insurance, gold and silver even if they had education at various levels.

9. Relationship between Annual Income and saving and Investment Avenues

Income plays an important role in financial decision making. Distribution to expenses and saving based on income earned. Low income people spend and save less and higher income people spend and save more. The table 4 shows that the relationship between the annual income and saving and investment avenues.

Table 4: Annual Income and saving and Investment Avenues

S. No	Saving and Investment Avenues	Annual Income				No. of Respondents	%
		Below Rs.10000	Rs.10001- Rs. 20000	Rs.20001- Rs. 30000	More than Rs.30001		
1	Bank Deposit	25	23	4	10	62	25
2	Post office saving Scheme	8	5	-	-	13	5
3	Provident fund	2	4	3	5	14	6
4	Life Insurance	11	17	4	7	39	16
5	Mutual Fund, Shares, Debentures and Bond, Government securities	-	-	-	-	-	-
6	Gold and Silver	3	17	12	8	40	16
7	Land and building	1	2	2	4	9	3
8	Chit funds	4	0		3	7	2
9	Bank deposit and Post office saving Scheme	3	13	4	-	20	8
10	Bank deposit and life insurance	7	2	2	1	12	5
11	Bank deposit and gold and silver	7	3	3	2	15	6
12	Gold and silver and land and building	1	5	6	7	19	8
	Total	72	92	42	47	250	100

Source: Primary data

The above table shows that the relationship between the annual income and saving and investment pattern of rural respondent. 25% of the respondents invested in bank deposit out of that most of the respondents had income of below Rs.10,000. 16 % of the respondents invested in life insurance as well as in gold and silver out of that most of them had income from Rs.10,000 to Rs.20,000. Those respondents had an income of more than Rs.30,000 invested more in bank deposits, gold and silver and land building but not invested in high risky financial assets even if they had higher income.

10. Findings

- Majority of the respondents were in the age group of 41-50 years.
- Majority of the respondents were male
- Majority of the respondents had education up to 10th
- Majority of the respondents were farmers
- Majority of the respondents had monthly income of Rs.10,001 to Rs.20,000
- Majority of the respondents had monthly expenses of less than Rs.10,000
- Majority of the respondents had monthly saving of less than Rs.10,000
- Majority of the respondents had monthly income of Rs.10000 as well as saved less than Rs.10,000.
- Majority of the respondents had education up to 10th and they invested more in bank deposit, post office saving scheme, life insurance and gold and silver.
- Majority of the respondents had monthly income of less than Rs.20,000 and they invested more in bank deposit, life insurance and gold and silver.

11. Conclusion

The study of saving and investment behavior of household is very important and difficult to measure it. Preserving and saving money is an art. One has to learn how to spend and how to save and people have to realize which is important and not important for that the study has been conducted to know the saving and investment behavior of rural household and the study reveals that only 19 % of the respondent's investments in physical assets and remaining 81 % of the respondents invested in low risk financial assets of bank deposits, post office saving scheme, life insurance etc and no respondents invested in shares, debentures, bonds, mutual fund and government securities even if the respondents are highly educated. Those who had an income of more than Rs.30,000 also invested in bank deposits. It is very important for the country to increase the GDP growth rate for that there is a need of capital formation. Respondents have been selected only from rural area and they are not well educated, not well employed, lower income, risk perception, lack of awareness on new schemes and opportunities in financial assets leads to reduce the investments in higher risk financial assets. The government should take measures to provide financial awareness in rural area and should increase the opportunities to do the research in this area to find how the rural households are taking financial decision makings.

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