

INVESTOR'S CHOICE

A SURVEY
July 2003



By
Student Members
Of the
Indian Liberal Group
Chennai Chapter

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Contents

Foreword	I
Preface	II
Introduction	III
A Historical Backdrop	7
Objectives and Methodology	11
Data Analysis	12
Summary and Conclusions	23
The Voice of the Investors	25
Annexures:	
Old Order Changeth - S.Radhakrishnan	27
Investment Options - A.K.Narayan	28

FOREWORD

This is the first publication by student members of the Indian Liberal Group – and that too concerning the old. It is the report of a survey they carried out in Chennai on the impact of reduced interest rates on bank deposits on various sections of society particularly on senior citizens, a majority of whom depend on the income from savings put together after a lifetime of toil. The young concerned about the travails of the old. This is as it should be. Also, it is all about choice.

The Liberal believes in reason and studied response. There has been a hue and a cry over the fall in interest rates, even as borrowers are happy to pay lower interest rates. If banks lower their lending rates it stands to reason that the interest they pay on deposits should be lowered. The two need to be reconciled.

We are told by liberal economists that excessive savings do not contribute to growth. That only when people spend on goods will production be spurred. True. At the same time the Liberal cannot ignore the fact that lowering interest rates on savings hits hard those who depend on their savings, in this case senior citizens, widows, pensioners and the like. And so the liberal has to study the question and reconcile the two. He has to offer not a statist solution which only compounds the problem but an innovative one that the market system can think of. We are not callous like some, who say that in any change some are bound to suffer - too bad! We liberals in the ILG do not accept this fatalistic dogma. We accept that no change is painless but as humanists (for all liberals are essentially humanists) we need to ensure that the pain is minimised. We have also faith in a free society that is capable of innovative solutions!

Hence the Survey. True. Our young liberals may not have found the answers. But they have sought to find out who, what and why and a little of how those affected can be helped. And that is a good beginning. To those who conceived and carried out the Survey I say 'Well done'.

S.V.Raju
President
Indian Liberal Group

PREFACE

When the student members of the Indian Liberal Group – Chennai Chapter, expressed their interest in conducting a survey of investors, I asked them why? Their answer impressed me. “Investors, most of them non pensioner, senior citizens, have their tales of woe, some of them heart-rending, about their loss of hard earned savings with many financial outfits, they find their investment preferences are shrinking. We felt it to be a matter of public concern and wanted to find out why.. Hence the survey”, they said.

Coming as it did from these young liberals, I decided to encourage them to meet the affected people and know their problems. The ILG, would be doing a service in bringing to the attention of policy makers and regulators, a matter of public concern.

I realize that it is the thrift and prudence of investors which contributes to saving of our country and which gets channelised to many wealth-creating activities. Domestic investors from the household sector need incentives besides safety, returns and liquidity, to save more.

The students who have carried out this survey have to be complimented for their systematic and methodical teamwork. Moreover, they have demonstrated their analytical skills in eliciting useful feedback from investors. The views of individual investors given in the report are not something to be brushed aside by policy makers and regulators, as the level of savings is a critical factor in our development.

I hope the Survey Report will be read with interest and empathy by all those who care for our senior citizens, and understand the “vital importance of savings”

Chennai

June 30, 2003

Prof. S. Radhakrishnan

President

Indian Liberal Group

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II

INTRODUCTION

“Falling Interest Rate Regime – the Plight of the Prudent Investors” was the theme of a meeting organized jointly by the **Indian Liberal Group** - Chennai Chapter, the Institute Of Economic Education and the Rajaji Center For Public Affairs at PS High school, Mylapore on April 6, 2003.

After listening to the speakers and investors, we were able to gauge the feeling of several senior citizen-investors who were facing hard times because of low interest incomes they receive on their deposits which are wholly inadequate for normal living. We asked a few investors why they were depending only on interest from bank deposits, when there were several other investment options. Their replies form the subject matter of this Survey Report.

It occurred to some of us that it was necessary to understand the behavior of investors, how the investment climate has changed and what investors felt about the present investment scene. We, all student members of the **Indian Liberal Group**, spoke to our mentor Prof. S.Radhakrishnan of our interest in conducting a quick survey of investors. He welcomed our questions on personal investment and gave a lucid account of the changes in the financial scene over the decade. He provided us with some document materials, asked us to study them and design a questionnaire.

We discussed our draft questionnaire and he helped us to focus it to provide the kind of feedback to make the Survey meaningful. When the questionnaire was finally ready, we plunged with the survey. We took the help of our classmates in **Maharishi Institute of Management(MIM–Chennai)** and the **Academy for Promotion of Educational Excellence {APEX}**-, Chennai to carry out the Survey. Thanks to their co-operation we were able to complete the survey in three weeks. The classification, tabulation and analysis took another three weeks.

Under the able guidance of Prof. S. Radhakrishnan (President, **ILG**, Chennai chapter), Prof. V.G. Sarangan (Academic Co-ordinator, **MIM** – Chennai) and Prof. R. Subramanian (**Faculty Incharge** finance & accounts, **MIM** – Chennai) we were able to complete our survey. A special word of thanks to our Director Major General Karthikeyan who was a source of constant encouragement and motivation in our academic pursuits.

If this Survey leads to a better understanding of the issues involved then we would consider that our effort was worth it. We take responsibility for shortcomings in our presentation.

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III

A HISTORICAL BACKDROP

Household savings contribute about 75 to 80 percent to the level of national savings . From about 10 percent savings of GDP in 1950, domestic savings have increased to 23.40 percent of GDP in 2002-2003. During these five decades, the level of GDP has grown substantially and with that, the level of savings too has grown in absolute and relative terms.

The level of savings can be stepped up to 30 percent or even more of GDP, provided investors are assured of a reasonable real rate of return and are offered adequate fiscal incentives. Such a high level of savings will enable our economy to achieve 8 per cent rate of growth which many think impossible.

Dampening of Investment

The present climate for personal savings is not conducive enough. The falling interest rate regime, caused by the high level of liquidity of the banking system and actively pursued as a monetary policy intervention, seems to be guided by two objectives, namely

1. To enable the Government to borrow at relatively low cost to reduce its rising interest payment obligations
2. To help corporates borrow at relatively low cost to gain some competitive advantage to face, both domestic and foreign.

The powerful corporate lobby has brought enough pressure on the authorities to pursue a soft money policy.

In attempting to satisfy two sectors, namely the government and the business, policy makers appear to have ignored the interests of the household sector, the major contributor to domestic savings. People do complain about declining interest rates, difficulties in meeting their varied family needs and anxieties about post - retirement financial security.

While the old generation income earners park their savings in various instruments in the market, by practicing thrift and prudence, the new generation youth, in general, seem to attach much less importance to savings. They prefer to spend a large part of their income on many things both necessary and unnecessary. In this, they are facilitated by credit cards and consumer loans, thereby mortgaging their future incomes and their potential savings. It will require some research by behavioural scientists to probe the minds of the new generation youth and why they live in the present ignoring the future.

Another disturbing trend is the shrinking investment options available to individual investors. It is not as though investment outlets are not available. But, guided by their past experience, which has not been good, investors are keeping themselves away from many of the investment avenues such as stock market, mutual funds and NBFCs.

The regulatory authorities and the policy makers have to address themselves to the genuine problems of investors to win them back into many areas of investment. Recent experiences in the financial market make many investors feel that investor protection is more rhetoric and less of concrete and speedy action.

- What happened to the promoters of companies, which have simply vanished?
- What happened to the promoters of unincorporated finance firms who swindled the savings of the public?
- What happened to the promoters of several NBFCs who cheated their depositors?
- What happened to the promoters of nidhis and benefit funds who remain at large, escaping the tentacles of the law?

Investors have their tales of woe. Their hard-earned savings have disappeared into thin air. What were the regulators doing? What has the police done to bring the offenders to book? Why are the law courts moving at snail's pace? What are the governments doing? These are the some of the laments of the investors. The very same investors who have contributed to the savings of the country making funds available for development and wealth creation. These are the investors who will continue to save, despite the agony and hardships experienced by them.

Dramatic Change in the Financial Scene:

Today, Indian investors have a wide range of financial assets to choose from, not available four decades ago. In the fifties, people generally placed their savings with banks and post offices, besides life insurance. Stock markets were there, but many investors did not go anyway near them.

In the sixties, investors had additional investment outlets such as national savings schemes, national savings certificates and units of U.T.I, in particular US 64.

In the seventies, public deposits with manufacturing companies did attract a few investors.

The heyday for investors was in the eighties. With the mushroom growth of NBFCs their public deposits won millions of investors because of the reputation of companies, higher rates of interest and incentives. At the same time, when the NBFCs came out with public equity issues investors were drawn to them. That was the time when equity culture entered the minds of investors. Even debenture issues got massive investor support.

In the early nineties, following various measures arising from the economic reforms, there was a mad rush by investors for equity and debentures of several hundreds of public issues.

If the 'eighties' were the ecstasy of investors, the 'nineties' were their agony. The equity hype suffered a set back with the first security scam. It revived after some time, only to be dampened by the second security scam. Since then, retail investors have deserted the market.

Then came the financial disasters, one after the other. The collapse of several unincorporated finance outfits which lured the investors with incredibly high rates of interest, gold coins and other incentives; the run on a few high profile nidhis and benefit fund companies and their closure, literally throwing thousands of investors on the street; the CRB episode which rocked the NBFCs and the intervention of the RBI with stringent regulations edging out thousands of NBFCs out of business, left the investors wringing their hands in distress. The US-64 crisis sent shock waves among investors, driving investors away from mutual funds and even the well run ones.

These financial disasters have dampened the interests of investors who began to distance themselves from many avenues of investment to which they used to flock even a decade ago. These resulted in drastic changes in the financial scene.

Limited options in the 21st century

The financial disasters made the investors learn their lessons in a hard and bitter way. In the heydays of the eighties and early part of the nineties, NBFCs and nidhis and benefit funds were garnering a major part of public deposits, because of the preference of investors. Banks were complaining that they were losing deposits to NBFCs. But the situation changed dramatically. The adversities of NBFCs became the opportunities of the banks, whose number has grown with the entry of new private banks and foreign banks.

Having burnt their fingers in the public deposit market, investors turned to banks and got reconciled to relatively low returns, but highly safe. The stock market, very much reformed, is still in a depressed state. Trading is now limited to a few select scrips. There have been no fresh public issues worth the name. The fortunes of mutual funds have been closely linked to the stock market. Though some investors were drawn to specific schemes of some mutual funds, by and large investors are keeping away from them.

Postal savings schemes have their investor-patrons, because of tax benefits. As in the case of banks interest rates on small savings are coming down, reducing the interest income of investors. They were told that they should not crib about falling interest rates as the inflation rate has been below 3 percent for nearly two years. But the current situation is that inflation rate has crossed 6 percent and for certain categories of deposits, the real rate of return is turning out to be negative. This is a worrisome factor for investors.

It is true that some new investment options such as RBI Relief Bonds, IDBI Bonds, ICICI Bonds etc are there and investor interest in them has waned. As stated earlier, NBFCs were once the favoured destination of individual investors for public deposits. Following the CRB episode, the NBFC market has shrunk considerably. As against 40000 and more NBFCs in 1996, we have only about a few hundred companies actively in business. The rest have folded up their businesses, as the RBI has prohibited several NBFCs from accepting further deposits. Unable to comply with the capital adequacy norms and other prudential norms, with cash flow from further deposits choked, many companies had no other option but to exit from business.

Even RBI certified companies are no longer soliciting public deposits the way they did in the eighties and the late nineties. Post-CRB, NBFCs have become victims of an unintended negative perception. But at the same time, the shake out of NBFCs has been followed by consolidation. NBFCs with the backing of leading industrial houses have survived and continue to enjoy the confidence of the public, though a few have hived off their NBFCs to others. One outcome of the shakeup is that men have been separated from boys.

The RBI as a regulatory authority did not find it easy to monitor and effectively supervise so many thousands of NBFCs spread all over the country. The current stringent prudential norms, stipulated by the RBI will enable only NBFCs with financial muscle and professional management to stay in business. The RBI's policy has not been to snuff out all NBFCs from business, but create conditions only for sound and reputed NBFCs to survive and prosper.

What needs to be recognized is that NBFCs are vital links in the financial supply chain. They supplement the financial services of banks - an additional source of investment for the investing public and an additional source of finance for business enterprises. Bank credit to NBFCs, enables banks to shift the risk of default to NBFCs, who have a better recovery mechanism. In fact, banks are quite wary of extending credit to corporates, except selectively. The southward movement of interest rates has not helped corporates in general, as banks hesitate to lend them. Banks are now turning to other areas such as car finance, consumer loans, credit cards and the like. In fact, muscular banks and financial institutions have invaded the NBFC turf. In such a scenario, it is only NBFCs with staying power and long term vision are likely to survive.

In this game of survival, a critical factor for NBFCs is sourcing low cost funds. Bank credit is not so easy for many NBFCs even for well run and reputed NBFCs who are time-tested as they have a negative image. Borrowers with not so good credit ratings find it not so easy to access bank credit. The Vasudev Committee recommended easing of credit flows to NBFCs.

NBFCs find bank credit expensive. Deposits from public are more expensive, but they are unsecured and unencumbered. Reputed NBFCs rely on walk-in deposits and renewal of existing deposits. They are not going in a big way as they did in eighties to solicit deposits from the public. It is not as though they do not want public deposits, but their main problem is how to deploy them. The last two years have not been so good, with the slow down in the economy. As the economy picks up, NBFCs may need additional funds and they can source debentures and place them privately. That is what many NBFCs are doing. They now offer debentures of 1 to 3 year tenure, with interest rates of 9 to 10 percent, on private placement bases. Being secured by the assets of the companies, investors should find them safe and attractive. Sourcing funds is a game of volume and spread. It has to be either low volume and high spread or high volume and low spread. In this, the size of funds assumes importance.

The investing public are facing limited options for investment. They are shying away from stock markets, and avoiding mutual funds, They are wary of deposits with NBFCs and ask several questions before parting with their savings. Reluctantly, they are parking their savings with banks and are reconciling themselves to low return safe investments.

The Banks are flush with funds, not because of their superior quality customer service (barring foreign and private sector banks), but by default. They too face the problem of deployment of funds and invest in government securities in excess of the SLR requirements. Banks too like the investing public, are choosing low return high safety avenues.

In a climate of falling interest rates, asset securitization can help NBFCs to assess low cost funds. But that option doesn't seem to be bright in the near future. Securitisation takes assets off the balance sheets of NBFCs and by shrinking their assets portfolio boosts their capital adequacy ratio. Yet there many issues in securitization that need to be sorted out, one of them being stamp duty.

There seems to be no easy solution for smaller NBFCs. They have to plough back profits strengthen their fundamentals and secure higher credit rating. Only players with long-term vision and foresight can stay. Already NBFCs as a tribe are facing near extinction and those which have survived need to be nurtured not for their sake, but because of the useful play in the financial market. In fact they were named “para-banking entities”. The regulator may consider it worthwhile interacting with the NBFC bodies before venturing to initiate any measure, positive or otherwise, to create stability in this sector.

The big question which investors are asking to day is “ where do we invest and park our funds, to get us a reasonably good return, but safe”? What is ‘reasonable return’ may be a subject of debate. And investors seem to be at the crossroads.

OBJECTIVES AND METHODOLOGY

Looking at the personal investment scene in the historical perspective and the limited investment avenues open to retail investors, we decided to conduct a Survey of Investors to know their minds.

The objectives of the Survey are:

1. To know what lessons investors learnt from their past experience with institutions and instruments.
2. To find out their preferred choice of investments today.
3. To assess the feed back of investors regarding the role of regulators in protecting their interests, and
4. To suggest measures to revive investor confidence and attract them into areas they fear to tread.

Methodology

Keeping the above objectives in mind, a questionnaire was structured in consultation with some experts. A group of sixty students belonging to the Maharishi Institute Of Management (MIM) and Academy for Promotion of Educational Excellence (APEX) volunteered to meet 15 investors each, and get the questionnaire filled in.

We targeted 900 respondents and 746 responded. However the response ratio of 83 percent was reasonably good, providing a cross section of investors from different walks of life, spread over the city of Chennai. We believe that the responses of investors, analysed in the following pages are fairly representative.

DATA ANALYSIS

The completed questionnaires were classified and tabulated by one group of students, and the data were analysed by another group of students. The results of our data analysis are presented below:

(1) Area of Residence

The respondents of our survey numbering 746 were spread over 50 postal areas in the city of Chennai, as given in Table 1 below. For purposes of analysis, the areas were broadly grouped into 11 contiguous zones.

Table 1: AREA OF RESIDENCE

No.	Area of Residence	No. of Residents	%
1.	Annanagar, Ambattur, Perumbur, Avadi & Villivakkam	46	6.17%
2.	Poonamalle, Purasawakkam, Chetput, Kilpauk & Virugambakkam	39	5.22%
3.	Mount Road, Egmore, Triplicane, Royapettah & Nungambakkam	67	8.98%
4.	Mylapore, Raja Annamalaipuram, Teynampet, Alwarpet & Gopalpuram	123	16.49%
5.	Basant Nagar, Adyar, Thiruvammipur, Kottivakkam, Neelangarai & Kotturpuram	126	16.89%
6.	Guindy, St. Thomas Mount, Saidapet, Porur, Alandur & Velachery	84	11.26%
7.	T.Nagar, west Mambalam & Ashok Nagar	96	12.87%
8.	K.K. Nagar, Vadapalani, Valasaravakkam & Kodambakkam	65	8.71%
9.	Madipakkam, Nanganallur, Pammal & Adambakkam	40	5.36%
10.	Chrompet, Pallavaram & Tambaram	37	4.97%
11.	Tondiarpet, GT, Mint St., Periamet & Ennore	23	3.08%
	Total	746	100.00

It will be seen from the above table that 249 respondents or 33.48% of the total were from Mylapore, R.A.Puram, Adyar and Besant nagar. This was because most of our students reside in these areas.

The area covered was fairly large which is about 50% of the city, even if the sample size may be negligible compared to the city population.

(2) Profile Of The Respondents

The profile of the respondents, given in Table 2 below, is fairly a representative sample covering a cross section of the population. The respondents were drawn from people belonging to different professions and occupations.

Table 2 : Profile Of The Respondents

	NO.'S	PERCENTAGE
Central Govt.	76	10.19
State Govt.	87	11.66
Public sector central	64	8.58
Public sector state	48	6.43
Bank	93	12.47
Insurance	29	3.89
Own business	83	11.13
Pensioners	82	10.99
Retired non Pensioners	74	9.92
Professionals	110	14.74
a) Auditing	(26)	
b) Teaching	(19)	
c) Medical	(17)	
d) Legal	(09)	
e) Consultancy	(08)	
f) TV/Entertainment	(17)	
g) Others	(14)	
Total	746	100

The professionals belonging to teaching, auditing, medical, legal, consultancy and entertainment together added up to 110 respondents or 14.74%.

Next were 93 bank employees (12.47%), 87 state government employees (11.66%), followed by 83 people self employed (11.13%), 82 pensioners (10.99%) and 76 Central government employees

(10.19%). The other professions and occupations represented less than 10% each. The smallest number of respondents were 29 insurance company employees and agents accounting for 3.89%.

The *others* in the Professional category included astrologers, non-pensioners and contractors.

(3) Income Group

While designing the income group in the questionnaire, we decided to go by the average monthly income of families, rather than individuals. There are families with husband and wife as income earners, who make investment decisions jointly. There are also families where the incomes of father, mother, unmarried sons and daughters are pooled and investments made for the family as a whole or for the benefit of individual members.

Table 3: Monthly Family Income Group

INCOME GROUP	NO.	PERCENTAGE
Below Rs.10000.	73	9.78
Rs.10000 to Rs.20000	218	29.23
Rs.20000 to Rs.30000.	183	24.54
Rs.30000 to Rs.40000.	167	22.38
Rs.40000 to Rs.50000.	62	8.31
Above Rs.50000.	43	5.76
Total	746	100.00

It is evident from the above table that families with monthly incomes of Rs. 10,000 to Rs. 30,000 added up to 474 constituted 63.55% of the total respondents. They may be categorized as middle class families, who are generally prudent, frugal and thrifty and save for the future.

Families with less than Rs. 10,000 of monthly income were about 10%, but they too manage to save a little, in investments of their choice like postal schemes and chit funds.

(4) Investment Preferences Of Respondents

Having analysed the personal data of investors, we took up the examination of investment preferences of the respondents of our survey.

4.1 INVESTMENT IN EQUITY

Of the 746 respondents, only 121 of them, or 16.22%, had ever subscribed in public issues of equity. All of them belong to the income group of Rs. 30,000 and above. They may be classified as high net

worth families; who have equities in their investment portfolio. Though there were 272 respondents in this income group, only 121 of them seemed to have exposure to this investment medium.

Out of 746 respondents, 625 of them, accounting for 83.78%, seem to be averse to risk taking. We asked them why they kept away from public issues.

In table 4 below, we give the reasons why some investors were not attracted to equity investment. They had more reasons than one for that, as it is evident from the following table.

Table 4: Why no equity investment?

REASONS	NO.	PERCENTAGE
I don't understand Stock Market	116	18.56
Investments in Equity are risky	289	46.24
Market has been volatile	394	63.04
No good Securities are available	163	26.08
Can't afford to buy in Stock Market	472	75.52
No good issues were there	312	49.92
I am scared of scams	93	14.88

The largest number of respondents namely, 472(75.52%) stated that they could not afford investment in equity issues. The next reason was the volatile nature of the stock market, which seemed to scare them. It looked as though they might have invested in what they thought, individually, as good public issues. At least 312 respondents felt that there were no good public issues.

These risk averse investors believed that they didn't understand the stock market; that equity investment was risky and at least some of them would have gone in for them had there been good corporate securities.

Among the respondents, 121 of them had invested in new public issues in the last two years – in spite of limited number of public issues.

Those who invested in equities, only 35 investors traded on them regularly and 63 investors sold, while 12 of them bought and sold and 11 neither bought nor sold during the last two years. Their responses are given in Table 6.2.

However, even risk averse investors were inclined to invest in equities if some good public issues came up. What is a good or a bad public issue was based on their subjective judgement.

As against 121 respondents who had invested in equities, another 112 respondents would consider investing in good public issues. But 70% of them (522) would not risk their savings in equity investment.

Those inclined to invest in new public issues would prefer blue chip companies (224), public sector companies (186), private sector banks (173) and public sector banks (101).

Why do investors go in for equity investment? Their answers are given in the following table.

Table 5: Why invest in equity?

Get reasonable dividends	131	58.48%
Sell off at attractive prices	93	41.52%
Both of the above	76	33.93%

It is observed that out of 224 respondents who would go in for equity investment, dividend expectation seems to be a major consideration for 131 (58.48%) of investors; while making capital gains from price appreciation was an influencing factor for 93. There were 76(33.93%) investors who would decide to retain the shares or sell them, depending on the market situation

Among 395 investors, as many 216 (54.69%) would prefer bonds and debentures, perhaps because of their assured returns, while 179 (45.31%) would go in for equity. Of course, there were investors who expressed their interest in both, perhaps to have a good portfolio mix.

4.2. MUTUAL FUNDS

From investment in equity, we asked the respondents about their investments in Mutual funds.

As against 121 respondents who had invested in equities, as many as 354 (47.45%) of them had invested in mutual funds. This included the equity investors as well. It indicated that investors averse to equity are not so averse to invest in units of mutual funds, as it is an indirect route to the stock market.

As against 354 respondents who had invested in the units of mutual funds only 317 had put their savings in US 64.

Out of the 317 investors in US 64, 176 of them (55.52%) were able to redeem their units, when the scheme ran into a crisis in 1999. We don't know why the remaining 141 investors did not or were not able to redeem them. Perhaps, they had more than 3000 units and units in excess of 3000 were not redeemed.

The 317 investors had also invested in some of the other schemes of UTI.

The UTI scheme of ULIP and Retirement Benefit Plan seemed to attract most of the investors.

Table 6 : Investment in UTI Schemes

Gift growth scheme for children	114	35.96%
ULIP	167	52.68%
UTI MEP	111	35.01%
MASTER GAIN	76	23.97%
RETIREMENT BENEFIT PLAN	143	45.11%
UGS 2000	57	17.98%

Regarding the schemes of other mutual funds, investors seemed to have invested in them also, as shown in Table 7

Table 7 : Investment in other Mutual Funds

• KOTHARI PIONEER	82	25.86%
• SUNDARAM MUTUAL FUND	64	20.18%
• ELSS OF CANARA BANK/ INDIAN BANK	71	22.39%
• SBI MUTUAL FUND		
• ICICI MUTUAL FUND	59	18.61%
• BIRLA MUTUAL FUND	63	19.87%
• ZURICH, HIGH INCOME	37	11.67%
• FRANKLINE INDIA BLUE CHIP FUND.	23	7.25%
	16	5.04%

The table indicates that investors have been diversifying their investments in many schemes of the UTI and other mutual funds as well.

The preference of investors to several types of schemes is given in Table 7.1.

Table 7.1 : Preferences of Investors

Income schemes	137	43.21%
Growth schemes	193	60.88%
Balanced schemes	272	85.80%
Tax Saving schemes	123	38.80%

The 317 investors showed a strong preference for balanced schemes (85.80%), followed by Growth schemes (60.88 %), and Income schemes (43.21%). The preferences of investors revealed their individual risk perception.

The investors considered investment in mutual funds as safe. That is 55.76% of 746 investors regarded investments in mutual funds as safe. This included even investors, who had not invested in them. It is not known, why then they did not invest in them. Still 44.24% of investors did not think investment in mutual funds as being safe. Perhaps, they believed that the fortunes of mutual funds moved in tandem them with stock market fluctuations.

By and large, 43.30% investors felt that some mutual funds were performing better than others.

Among the relatively better performing mutual funds, investors mentioned the following:

1	Canliquid Fund	69
2	IL & FS Gilt Long term	57
3	Sundaram Bond Saver	56
4	Prudential ICICI premier	57
5	Birla I.T.B	43
6	HDFC Tax Plan	37

The other mutual funds figured in single digits.

4.3 NBFCs

Among the respondents of the survey, 497 investors (66.62%) had deposits with NBFCs that failed.

Of them, 366 investors said that they had received only a part of the deposits due from the failed NBFCs. The steps taken by the police, receivers appointed by the court and the High court to recover the amounts due from the borrowers of NBFCs and the sale of assets of the NBFC promoters have not yielded the results expected by depositors in the full, said 287 respondents.

Among the surviving NBFCs all of which have been certified by the RBI to accept deposits, investors found the following NBFCs safe:

1	Sundaram Finance Limited	312	73.06%
2	Lakshmi General Finance Ltd.	298	69.78%
3	Ashok Leyland Finance Ltd.	293	68.61%
4	Cholamandalam Finance Ltd.	279	65.33%
5	Shriram Investments Ltd.	263	61.59%
6	Kotak Mahindra Finance Ltd.	251	58.78%
7	Tata Finance Ltd.	244	57.14%

Investors appeared to have confidence in the above mentioned NBFCs and 394 of them (52.82%) said that they would continue to keep some of the deposits with these NBFCs in preference to banks.

Table 8: NBFCs

1	No. of investors in failed NBFCs	497	66.62%
2	No. of investors who received part of deposits from failed NBFCs	336	67.60%
3	Satisfaction of investors about recovery measures	287	57.74%
4	No. of investors who would invest in NBFCs in preference to Banks	394	52.82%

4.4 NIDHIS / BENEFIT FUNDS

Tamil Nadu has about 800 Nidhis / Benefit Funds, which provide mortgage loans and jewellery loans. Being indigenous in character, some of them have been in existence for more than a century. They have played an important role in promoting the habit of thrift among the middle class. However, a few of the nidhis/benefit fund promoted after 1980 lended recklessly to preferred friends and borrowers and collapsed. These are now entrusted to independent Board of Directors appointed by the Department of Company Affairs, Government of India and Commissioners appointed by the Madras High Court. Assisted by the Economic Offence Wing of the State Police Department, they are recovering the monie's from the borrowers and the nidhis/benefit funds have come under stringent regulations.

Among the respondents in the survey samples (746), 327 investors (43.83%) had deposits with nidhis and benefit funds that failed.

Of them, 212 depositors (64.83 %) have received only two or three instalments so far. These investors admit that their investments in them were foolish, as they did not choose the safe ones among them.

As many 241(73.30%) investors believed that there are a number of nidhis/benefit funds that are safe. They did not invest in them because of their location away from their homes and work places.

They mentioned the following as safe:

1	Triplicane Permanent Fund Ltd.	212	87.96%
2	Abiramapuram Fund Ltd.	197	81.74%
3	Nungambakkam Saswatha Nidhis Ltd.	182	75.51%
4	Egmore Benefit Fund Ltd.	161	66.80%
5	Puraswakkam Saswatha Nidhi Ltd.	153	63.48%
6	The Hindu Jana Paropakara Nidhi Ltd.	147	60.99%

They had also mentioned a few others whose figures were less than 50.

Table 9 : Nidhis / Benefit Funds

1	No. of depositors with Nidhis / Benefit Funds which failed	327	43.83%
2	No. of depositors who have received a part of the deposit	212	64.83%
3	No. of depositors who believed that there are safe Nidhis / Benefit Funds	241	73.30%

4.5. CHIT FUNDS

Chit Fund is another indigenous, home spun and traditional financial institution, which originated in Tamil Nadu and Kerala. It is a popular mode of saving and credit among millions of people in Tamil Nadu.

Out of 746 respondents 214 (28.68 %) had investment in Chit Funds. Of the 214 Chit subscribers, 78 (36.44%) said that they joined to save, and the rest of the 136 (63.55%) said to borrow.

Among the investors who joined to borrow, 89 (41.58 %) became prize winners at auctions and all of them said that they had received the prize amount. The rest, 47 chit subscribers, had not so far succeeded in the auctions.

All the 214 chit subscribers said that they found chit fund a good investment. They also said that in the present scenario, families with monthly income believed that chit fund was the only avenue for them to invest and could not afford many others.

The response of investors to Chit Fund is summarized below

Table 10: Chit Fund investment

1	No. of respondents with investment in Chit funds	214	28.68%
2	No. of investors to Save	78	36.44%
3	No. of investors to Borrow	136	63.55%
4	Prize amount received	89	41.58%
5	Not successful in auction	47	21.96%
6	Chit fund a good investment	214	100%

4.6. BANK DEPOSITS

All the 746 respondents, had savings account with banks; but 657 (88.06%) had fixed deposits of varying maturities.

Of the 657 fixed deposit investors 512 had FDs with public sector banks, 39 with private sector banks, 73 with new private sector banks and 33 with foreign banks.

All the 657 fixed depositors with banks were influenced by safety, liquidity and tax benefits.

Regarding the quality of service in banks 589 (90.47%) investors said that it was good, while the rest of 68 said it was improving in public sector banks.

Of the 657 investors, 624 expressed the view that bank deposit was their first option while a small number, 33 said that their first choice was a reputed NBFC.

The response of fixed depositors of banks is summarised in the following table

Table 11: Bank Deposits

1	No. of investors with SB a/c	746	100%
2	No. of investors with FD in banks	657	88.06%
3	FD with Public Sector Banks	512	78.64%
4	FD with Private Sector Banks	39	5.99%
5	FD with New Private Sector Banks	73	11.21%
6	FD with Public Sector Banks	33	5.06%
7	Good Quality Service	589	90.47%
8	Bank deposit as first choice	624	94.99%

4.7. INVESTMENT CHOICE

Investors responded to our questionnaire by saying that even though there were several avenues of investments, they kept themselves away from many of them, because of their past experience.

In the present situation, bank deposits were their first choice, because of the safety factor. Going by the interest rate return factor, bank deposits were not their first choice. This was the general view of all respondents.

NBFCs were once a favourite of as many 483 investors (%), but today they are choosy about NBFCs. They said that there were a few safe and reputed NBFCs whom they could trust. However, to be safe, they distributed their investments among three or four NBFCs.

Investors were interested in bonds and debentures. But there were not many public issues. Public sector bonds such as IDBI Bonds, ICICI Bonds, RBI Bonds etc. were quite attractive, as they were safe and gave a higher rate return than bank deposits, besides tax benefits.

Equity investment had lost its charm for many investors. For one thing, if some public issues of public sector banks and companies and blue chip companies came out with public issues, they would invest in them. Except high net worth individuals, middle class investors preferred to keep away from stock markets.

Many preferred to take the indirect route to the stock market through mutual funds, though not all of them were performing in all the schemes.

Among the respondents, those in the monthly income group of less than Rs. 20,000 would choose chit funds as an avenue for saving and as a source of credit.

So also with nidhis and benefit funds. Investors who had had long association with nidhis/benefit funds would prefer to invest with them.

Many of the respondents did not seem to know much about chit funds and nidhis/benefit funds.

Postal deposits were generally preferred by retired pensioners because of their slightly better returns. Income tax assesses go in for NSS, NSC and IVP because of tax benefits.

There is wide variety of investment options to choose from. Investors today were therefore, very selective and averse to risk taking. The urge and the necessity to save is there. It is only when the economic climate shows positive signals of improvement, that investors may be expected to return to many of the investment avenues available now. People are ready to save. The country needs more savings. The regulatory authorities and policy makers have to create a favourable climate for safe and profitable investment.

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SUMMARY AND CONCLUSIONS

The financial scene in India has changed over the last seven years. The avenues for investment, which were there before are still there; but investors are keeping a distance from many of them.

Investment in equity was a craze in the eighties and the early nineties. After the first security scam, many retail investors had run away from them, never to return. Then, many investors made fortunes at the height of the stock market boom in the early 1990s. Many others lost a lot of money during that time. Though the interest in the stock market revived after 1995, it proved short-lived. Particularly after the second security scam, small investors deserted the equity market. Equity investment was no longer the favourite of several investors.

Investment in mutual funds was quite popular since the launch of US-64 by the UTI in 1964. After the monopoly of UTI ended in 1989 with the entry of many new players, investment in units of mutual fund with several schemes became attractive - only so long as the stock market was buoyant. The income schemes of mutual funds, where the corpus was used for investment in fixed income securities were found relatively safe to growth schemes. Investors, depending on their individual perceptions, chose from among the several schemes offered by mutual funds.

NBFC deposits, once the first preference of several investors, are no longer so. The failure of many NBFCs pauperised many investors. The strength of the surviving NBFCs are based on their financial muscle and professional management. They are able to retain their existing customers and attract new customers. No longer are they offering high rates of interest and better yields as interest rates in general were marring down.

Bank deposits, the traditional medium of savings for many, seemed to be surging. Not because of superior quality service or technological improvement. Safety considerations have overtaken return considerations and banks are getting more and more 'walk in' deposits. Interest rates are sliding and there are several investors grumbling loudly as they depend only on the interest income for their livelihood. Banks seem to be the unintended beneficiaries of NBFC failures.

Postal deposits and schemes had their middle income low and income patrons. Marginally better interest rates and tax benefits were the financial attractions.

Indigenous institutions like chit funds and nidhis/benefit funds have their own loyal patrons. The failure of a few nidhis/benefit funds have not dampened the interest of investors in the surviving ones.

What emerges from our Survey is that there are several investment avenues available in the country. But investors who had tasted better returns from many investment media find that they are no longer so and are keeping away from them. Investment in equity is generally for the risk takers. The risk averters can still invest in them, retain the shares to get dividend and some shares. It is the risk takers who trade in equity and make gains.

The preference of investors for one or the other investment medium is a matter of individual decision. Investors cannot blame others or the system for their own imprudent investments driven by greed and they have learnt their bitter lessons.

It cannot be denied that the regulatory authorities had not exercised adequate vigil to prevent several failures of financial outfits. It is the case of the proverbial stable being locked after the horses had bolted.

It is now the responsibility of the regulators to rebuild the confidence of investors in many areas of investment. Investors have to be made to understand that falling interest rate is a general phenomenon in many parts of the world and they should get reconciled to low interest rates regime.

It looks as though liberalization threw open the doors to many players in the financial field. In the competition that ensued, many promoters took the shortcut to enrich themselves at the expense of the investors. It is a lesson for the regulatory authorities that unlimited freedom without adequate supervision could lead to financial disaster that must be avoided in future.

There seems to be a need for a massive programme of investor education through the visual and print media and training programmes, to help investors make well-informed decisions.

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INVESTORS VOICE

In our survey the questionnaire did not require the respondents to reveal their names. They were, however, invited to offer their comments and suggestions.

We give below a few samples of frustrated investors who expressed their views freely.

"Stock market has become out of bounds for retail investors. It does not need us or our money. It is now dominated by FIIs and institutions. They have lots of money to play around. It is a game which ordinary middle class investors don't understand any more."

*

"The regulator SEBI has failed us. They could not keep watch on adventurous spectators who boomed the market and took many small investors with them and later burst, leaving us badly injured. We will not go near stock market anymore."

*

"Stock market seems to be the den of speculators. SEBI knew who they were. It failed to rein them. It was the failure of the umpire not to have declared the batsmen out and sent them out of the game."

*

"Who wants small investors in the stock market? Earlier we could invest in hundred shares of Rs.10/- each at public issues and wait for allotment. We got allotment in some and not in others. Now, they want us to invest in minimum of five hundred shares and that is an investment of Rs.5000. The market is slowly becoming a market for the rich".

*

"Where are the public issues nowadays? If at all they come, there is a premium on the shares, which I don't understand. I get dividend only on the face value of shares and not on any premium. The entire game seems to be so tricky and foxy".

*

"What did SEBI and DCA do about 'vanishing companies', which have vanished? It took a couple of years for the regulators to know that the promoters of these issues had disappeared. What a shame for the regulators? It took some more time for them to initiate action, which has not produced any result. It makes investors suspect a nexus between promoters and regulators. It may also be a case of behind every vanished company there was a politician".

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"Mutual Funds promise many things. But they don't deliver. They claim professional expertise. What use?"

*

"The UTI let us down badly in US 64. Thank God being a public sector institution, the government pumped in money to save the investors. I can't imagine what would have happened if it was a private mutual fund company."

*

"Even reputed mutual funds are not performing consistently in all their schemes. We put our money in full trust with these companies and keep praying all the time".

*

"I lost some money in a couple of NBFCs. What triggered the crisis is my view, was the failure of RBI to keep a close watch on some erring NBFCs. When the scam surfaced, it put all the NBFCs in crutches. It is the regulators who spoil the confidence of investors".

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"It looks as though the RBI wants all savings in the form of deposits to be only with banks. NBFCs were doing better job. But then, why kill all of them".

*

"How is it that the RBI is able to regulate banks well and keep them alive from collapsing and failed in saving the investors from some NBFCs".

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"The RBI failed even in the early stages of the rise of NBFCs in prescribing entry norms. That led to mushroom growth of NBFCs most of them of dubious nature. It is only after a crisis that the RBI steps in, to make matters worse for investors".

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"The regulators did not warn the investors, about the impending collapse of high profile nidhi companies. Many investors lost lot of money. Even the recoveries are moving slow. We don't know how many years it will take to get back our monies".

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"It seems necessary that a statutory warning, as in cigarette packs, has to be issues by deposit accepting companies that "your investment in our company is at your own risk". Statutory warning has not prevented smoking. So also statutory warning of depositors will help depositors to invest at their own risk".

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"We have learnt one lesson. We may not know where to put our money. Today we know where not to put it".

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"Too many unscrupulous persons were allowed to set up financial outfits, without appraisal. If the promoters show some proof of initial capital, they were allowed to set up business and take the investors for a ride. Where are the promoters of defaulted companies? They seem to be out of the clutches of law. Perhaps, high connections keep them away from the arms of law. God, save our country".

*

"Interest rates are falling. There are people who say that the rate of inflation is about 3% and a 1 year deposit at 6% gives real rate of return of 3%. When inflation rate touches 6% we get zero rate of return. The point is inflation rate is the official rate while the market rate is more. So bank deposits do not give us positive real rate of return. The authorities know whatever the rate of interest and inflation, there are people who will save. So, they don't care for investors".

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ANNEXURE-1**Old Order Changeth****- S. Radhakrishnan**

When ever millions of people congregate in pilgrimage centers on special occasions such as Mahamaham, Kumbhamela, Bramhotsavam etc., there is a regular stampede in such places despite security arrangements, resulting in accidental deaths.

A similar thing happened in the Indian Financial Market in the 80's and early 90's. There was a regular stampede of financial outfits which mushroomed in the 80's going by different names leasing, hire purchase, loan, investment, nidhis and benefit fund companies. All of them were competing among themselves and with banks for the savings of the people. The financial market looked very much competitive within the then prevailing regulatory framework. All of them were in the business of money lending, a term which may appear offensive to some. The hard fact is that banks and non banks were engaged in money lending – borrowing from AB&C and lending to XY&Z.

What appeared as a truly competitive scenario changed dramatically with many NBFCs and nidhis and benefit funds included in the mortality list, largely their own making of imprudent lending, diversion of funds and willful default of borrowers .

While in the thick of business, most of these financial outfits were like the roadside tricksters - displaying their wares (deposit schemes) wrapped in attractive packages and luring the investing public to keep their savings with them. When they entered the business, it was to make an honest living by borrowing and lending. Gullible investors were queuing up before the NBFCs - higher interest rates, incentives, gifts etc. having won the confidence of the general public, many of the NBFCs ventured deep into risky lending and diversion of funds for personal enrichment by circumventing and violating the rules of the regulators. That triggered the collapse of several NBFCs, nidhis and benefit funds, not to mention the unincorporated firms.

After the event of large scale default and failure of NBFCs, the question that is being debated is 'who is to be blamed- unscrupulous NBFCs, greedy investors or inadequate regulations?' It needs emphasis that the failure of NBFCs was not because of the Darwinian principle of the Survival of the Fittest, existing on account of the heat of competition but the survival of the honest. Those who played to the rules of the game have survived and are flourishing. It was the game where the dishonest players were weeded out. It is no longer competition among 40000 players, but among 10000 players.

Gullible investors are blaming everybody, excepting themselves, for their hasty and irrational investment in NBFCs of dubious credentials. Regulations become stringent when players are found flouting rules. More stringent regulations follow failures and failures will be few when regulations are enforced strictly. Investors cannot be protected in all cases of failures, as they ignored the investment mantra, 'High risk-High return'.

With limited number of players in the field, a stringent regulatory mechanism in place and investors having learnt their bitter lessons, the NBFCs in the new century will again become a vibrant sector. They were once branded as the para-banking sector. With professional management and companies committed to value based policies, a new era is emerging. The old order has changed, yielding place to new.

*Source - Mandate: MMA publication

*ANNEXURE-2***INVESTMENT OPTIONS**

Gone are the days when an investor used to wait for earning money to make various investments. This situation was due to availability of various avenues to investors. Earlier investor used to get good returns to meet his return expectations whether it is fixed deposit with Company or debentures or IPOs. Things have changed rapidly since globalisation and liberalisation. India is also trying to catch up with the rest of the world as far as interest rates are concerned. But today investors are wondering where to put in their savings since rate of interest has fallen sharply. In fact bank fixed deposit return which is considered to be the safest amongst the investments does not even meet the inflation rate of 6%. When this is the situation where will investor go to put in their money?

It is becoming increasingly difficult for an investor to take a decision on investments. On the one hand the return is becoming lesser and lesser for a common man as he/she depends on this income to meet their lively hood, on the other hand things are becoming as difficult as cost of essential commodities are on the rise. There were times when NBFCs were giving good consistent return to depositors. However RBI came down heavily when some NBFCs failed to meet their obligations, and this closed the avenue available for small investors.

Small investors used to save money for their future needs. The need arises on account of children's education, daughters' marriage, medical expenses etc. So investors used to park their funds in some companies and get interest either monthly/ quarterly/ Half Yearly on a regular basis. This was very popular in South India where savings were put in deposits to get regular returns. When investors become too greedy to get better and unrealistic returns, some Companies, individuals and unincorporated Companies took advantage of the situation and really destroyed the confidence of small investors. They exploited the greediness of depositors by offering unrealistic returns. Finally when many firms and unincorporated Companies could not give the interests agreed upon, there was a run on all the finance Companies which resulted in closure of Companies. Poor depositors lost their life savings in the process. Depositors have no clue even today whether they will get back their investments or not? Why this happened? Because, investors had forgotten the basic principle of safety and liquidity rule before investment was made and investors in the process lost their investments. It is sad that despite our repeated plea to the government we have not been able to introduce the deposit linked insurance scheme, till date.

Even the recent ICICI rumour of defaulting made headlines in the papers. Including the educated persons were at loss to understand why such a rumour had spread. Our investors follow herd mentally and they continue to react in a rash manner. But the whole question is how such a large bank like ICICI can get into problems due to same fake report in a newspaper? It only proves that there is nothing like loyalty and investors can be easily carried away by creating sensational news. Investors should know that all the scheduled banks have an insurance cover of Rs.1.00 Lac per person in the event of a default. So inbuilt safety is there for bank deposits up to Rs.1.00 Lac. There is no need to act in panic. If such a large bank like ICICI is going to collapse in India, then we can say the whole financial system has gone. Investors are getting into problems because of frequent scams and probably they must have thought one more scam has occurred.

Let us see what are the options investors have at present? After all they earn money and they need to invest their money in a savings scheme. Investing is an art. That is by putting our surplus money somewhere we make more money. If done nicely and wisely we can achieve our lifetime ambition of living happily apart from buying a house, car etc. investing small amounts at regular intervals over a period of time will give good returns. To know where to put our money, we need to know what are the options available and the risks associated with investors. One of the best routes everyone suggest is Post Office Monthly Scheme. It gives safety apart from steady monthly returns.

For aggressive investors, there is an opportunity to look at dividend yielding stocks. Dividend income is exempt from income tax in the hands of investors and that make equity investment an attractive option. We should select Companies which are strong, giving consistent dividend and finally where yield is good. This way we can get better return compared to bank rates. We have many stocks quoting at low PE's even now where we will find returns very attractive. Investors should do some homework before venturing into investment.

The budget has also provided that equities listed in the market and acquired on or after 1/03/2003 and held for 12 months there is no tax on capital gains if any. Investors should look at opportunities in the market and see if bottom fishing can be made. In this process investors can aim for tax free returns and also try to get tax free possible appreciation after 12 months. Equity cult has to be spread. Investors are shaken due to various scams. Still they can look for safe equity investments.

It would not be easy for the FIIs to move out of Software Stocks and move into old economy stocks. FIIs still believe that India is very competitive as far as Software industry concerned. We need to understand that our software Companies rely on global economy. If we want our Companies to perform better, the global economy should revive first. We have many positive news for FIIs to invest in India like the end Iraq war, reduction in crude prices, good foreign reserve position etc and added to settling the political situation is also stable. FIIs also have started investing in PSUs and banking shares. This should result in revaluation of banking stocks.

Finally investors need to reduce their portfolio to minimum to keep a close watch. Investments should be spread like PPF, Post office deposit, LIC, equity etc. Investors have to be careful and watchful before committing their funds. If the principle of safety and liquidity is adhered to by investors certainly investments made will be fruitful.

*Source: From the Editor's Pen
A.K. NARAYAN
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