An Analysis of Savings and Investment among the IT Employees in Bengaluru, Karnataka

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ABSTRACT

I.T. Employees should start thinking and understanding the importance of money, savings and its investment aspect to avoid critical situations at any stage of their lives. They need to develop skills to plan for their financial needs. The financial position of a country largely depends on the inflation rate, foreign exchange rate, per capita Gross domestic product, etc. Savings from middle-class households also plays a vital role in improving the financial position of a country as it leads to more investments and capital formation in the economy. Savings and investments are directly proportionate to each other. Savings form the backbone for investments viz., higher savings lead to higher investments and vice versa following the general perception about the macroeconomic balance in national accounts. An economy can have different forms of savings of which household financial savings generally constitute the largest share in aggregate domestic savings. Other forms of savings comprise physical savings by households, savings by the private corporate sector and the public sector and foreign savings. (Himanshu Joshi Director Monetary Policy Department Reserve Bank of India, 2017).

Bengaluru is among the most significant technology clusters in the world. It is among the world's top 10 fastest growing cities. It is the headquarters for 80% of global I.T. companies and accounts for almost 34% of India's total I.T. exports. Out of the 871 multi-national companies, which have their (R&D) centers in India, 700 are in Bengaluru. It has 1.5 million employees in the I.T. and IT-enabled sectors, out of 4 million employees across the country. - (National Association of Software and Service Companies, 2014)

This study is a detailed analysis of the income and savings pattern of I.T employees in Bengaluru. This paper seeks to understand the salient factors that influence savings across this demographic.

Keywords

Savings, Investments, Financial Security, I.T. Employees, Economic Development, Bengaluru

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Introduction

Economic development is vital to transform a developing economy into a developed economy. Growth and development depend on physical capital, human resources, technology and natural resources. Training and Education will increase efficiency in the economy. Unskilled youth become a burden on the economy and it progresses to unemployment. There has been a steady increase in the Indian Youth Population. A young working and investing generation could be a boon for the nation. The Economy of a country guided through Investments leads to Capital Formation. It is Savings that lead to Investments. Countries want their households to save as personal saving forms the largest segment of national saving in most countries. Data from MOSPI shows that the decline in India’s savings rate is because of a decline in household savings. A sharp fall in savings of households since 2011-12 has led to a decline in the savings rate.

Bengaluru is among the most significant technology clusters in the world. It is among the world’s top 10 fastest growing cities with an average economic growth rate of 8.5 per cent. It is the headquarters for 80% of global IT companies and accounts for almost 34% of India’s total IT exports. Out of the 871 multi-national companies, which have their (R&D) centers in India, 700 are in Bengaluru. It has 1.5 million employees in the IT and IT-enabled sectors, out of 4 million employees across the country.

Research Objectives:

The primary objective of the research will be to study the Savings and Investment Patterns among the youth Employed in the I.T. Sector. The following objectives framed for this purpose

1) To understand the income and saving of I.T Employees

2) To explore the reasons behind savings

3) To identify factors that influence the amount of savings

4) To explore the diverse literature available worldwide for understanding the variables that govern an investor's decision to save and invest

Review of Literature

The literature reviewed theoretically, empirically, and thematically covers a holistic overview of various studies from countries both developed, developing, in Global and Indian contexts.

Review of Literature Worldwide:

Lewis's (1955), Harrod-Domar models specify domestic saving as an essential element of economic growth. Solow (1956) proposed an increase in saving rate boosts steady-state output by more than its direct impact on investment. Modigliani (1986) individuals smooth consumption over their lifetimes. They are savers during their working years and dis-savers during retirement. In the life-cycle model of saving, households save in one period based on expected future income. Utilize those savings in the second period when they retire from their income-generating work.

Deaton (1990) identified significant differences among cross countries saving behaviour. He proposed a theory of precautionary motives, especially for households in developing economies. Individuals in developing countries save more since their future income is uncertain. Uncertainty in income or unavailability of market credit or some unforeseen family emergency. Kimball (1990) relates it with ArrowPratt measure of risk aversion. Absolute risk aversion, lowers marginal propensity to consume, resulting in higher saving.

Loayza et al. (2000) private saving in 150 countries between (1965-1994) find macroeconomic policy variables determine private saving, domestic borrowing. Uncertainty in interest rate, the inflation rate, political instability, pension system, demographic variables as crucial factors.

Gina Chowa et al. (2012) study Youth saving, patterns and performance in Ghana. The study found that most youths in the sample set aside money regularly. They set aside money for short periods and use it for short-term consumptive purposes. The study concluded that the youth of a developing country has a high propensity to save. Lack of proper knowledge, information restricts the youth from formal savings and investments.

Review of Literature concerning India:

National Council of Applied Economic Research (1961) urban saving survey. Found irrespective of occupation, educational, age, households in each group saved for the future. The desire to save for emergencies, old age were the same across all occupational and educational groups.

McKinnon (1973) highlights the role of financial intermediaries. The level of financial deepening promoted by the government, RBI expansion of branches for unbanked areas urban and rural. Helps explains the rise of households' financial saving. Mukhi (1989) identifies that NSC has the most popular tax savings instruments. The major attraction of NSC is its simplicity. Even an average investor can understand their scheme.

Gavini and Athma (1999) study the perception of investors towards saving schemes. Identify post office schemes, recurring deposit account most popular. The reason for investing in these schemes was tax saving

Athukorala and Sen (2004) studying the time-series data of private savings in India for the period of (1954-1998). Find income growth, banking facilities, inflation, interest rate affect the rate of savings. Saptarshi Purkayastha (2008) finds younger investors, with higher income risk-seeking. People are risk-averse with investments when incomes are low.

Deshpande & Zimmerman (2010) explore the potential of youth savings being vital in youth development. It finds the best way to encourage youth savings and asset accumulation is by offering incentives. Significant financial incentives needed to jump-start the savings process.

It will have positive effects on youth development and financial inclusion.

Geetha and Ramesh (2011) reveal that investors irrespective of age prefer to invest in insurance, post office, bank deposits. These are less risky avenues since people lack knowledge about securities, investment options.

Abhijeet & Umesh (2014) study the savings, spending habits of youth in Aurangabad. It found that spending habits of students belonging to different education levels vary. Youth spend a large part of the money on consumable goods due to lack of awareness. The amount of money saved or invested is very low.

Research Gap

Due to the dearth of studies relating to financial awareness, decisions of employees in the IT Sector, it is essential to understand the interplay of social-economic, cultural factors. This study has the potential to be used by policymakers, investors, financial institutions and the government.

In the Indian context, though empirical studies exist on the role of saving and investment in promoting economic growth, these provide only partial analysis. It appears that there is no comprehensive study available on the analysis of the interdependence between saving and investment of the household, private corporate and public sectors with that of economic growth. (Ramesh Jangili Research Officer Department of Statistics and Information Management, Reserve Bank of India, 2011)

Methodology

Primary data collected from respondents using a structured questionnaire. Descriptive analysis, Factor Analysis is used to analyze and interpret the data. Primary data is the source for this study it was taken through both interview and questionnaire methods.

Significance of the Study:

This study focuses on what is referred to as Financial Investment i.e., investment aimed primarily at earning income rather than enhancing production. By this, the words savings and investment come closer in meaning than traditionally seen. However, a slight difference remains which is that while savings is simply setting aside funds for the future, investment involves mobilizing them so that somebody else may use them for productive purposes. This study examines the savings and investment of IT Employees (Age: 21-35 years) in the city of Bengaluru who has just begun to earn. The study also looks into the financial literacy amongst the employees; a source of information on how they go about educating themselves, and how do they look at returns and various modes of investments.

Findings:

The model has a prediction accuracy of 73.7%. In the F-test, given that the Prob (F-statistic) is close to 0 and the F-statistic value is large, it can be said that there is a strong correlation between the features and the target variable. From the above results, we can disregard features with a high p-value while choosing the most relevant features that show a strong correlation with savings. It is evident that age, income and education have the lowest p-values and are the features that are strongly correlated with savings.

Gender Wise Trends of Respondents:

Female respondents were (50.5%) , Males (49.5%). Gender Wise Annual Savings shows two income brackets of (Rs 2-3 Lakhs), (< Rs 1 Lakh) being dominant. Gender Wise Annual Savings finds the majority of both genders save less than (Rs 1 Lakh), followed by those who save (Rs 1-2 Lakhs). Purpose of Investment reveals both genders save for future needs, child’s education and marriage. Choice of Investment reveals both genders prefer Bank Deposits, Women prefer Gold, Real Estate, while Men prefer Post office and Real Estate. Period of Investment shows the investment preferences of both genders are spread across different periods. Source of Information for Investments for both Genders are family, self and advertisements. The use of financial consultants was low.

Education Wise Trends of Respondents:

Education Wise Annual Income reveal postgraduates are paid more in comparison to others. Annual Savings reveal irrespective of education; savings were low. Purpose of Investment reveal irrespective of education; needs remain the same. Choice of Investment reveal irrespective of education; choices remain the same. Source of Investment reveals family, self and advertisements. The use of financial consultants was low.

Investment Trend of Respondents:

Choice of Investments shows that (50.5%) prefer Bank Deposits, (11%) Real Estate, (10.5%) Gold, (17.5%) Insurance Policies (7.5%) Post Office Savings. Period of Investments finds (28%) invest for the Long Run, (31%) Medium Term, (23.5%) Short Term and (17.5%) Very Short-time period.

Savings Trend of Respondents:

Annual Savings of the respondents found that (67%) of the respondents save less than Rs 1 Lakh, (20.5%) save around Rs 1-2 Lakh. Purpose of Savings shows that (56%) save keeping in mind their Future Needs, (16%) for their Children's Education, and (10%) for Marriages.

Implications of Research:

Government: The study provides insights into the financial behaviour of the youth in the IT sector. It is useful to the government to raise the share of the employee from IT and its related sectors into the economy. IT employees in India are close to 4 million and in Bengaluru about 1.5 million. There is excellent potential to create a virtuous cycle of saving, investments among them.

Financial Institutions: The study points out the current trend of savings and investment. The findings are beneficial to financial institutions in designing products for employees in the IT sector.

IT Sector: People in the IT sector benefit from the study since it identifies the actual financial behaviour of their colleagues. It helps them make an informed financial decision and rectify their mistakes. It helps familiarize themselves with the economy and their part in it.

Research Community: The ability of the IT sector to foster economic growth in India and Karnataka is a question that needs more research. The study is a useful source of information to future researchers working in the same sector.

Conclusion:

Bengaluru has 1.5 million employees in the IT and IT-enabled sectors. The study analyses the savings and investment of IT employees in Bengaluru, it seeks to help the country create domestic savings, investments align the mindset of employees and their financial decision with the goals of the nation in creating economic growth and development while securing their future.

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