Saikat edit

Mutual funds and insurance investments up, gold down

Historically, the Indian household's fascination with gold has always been a sore point with economic planners, given how gold imports have wreaked havoc with the current account deficit. All this, however, is changing, and fast, with households now saving a lot more in 'financial' assets and less in 'physical' ones like land and gold. The process started a few years ago, but has got a real fillip in recent years, partly fuelled by the much greater returns financial assets are giving—though there is no concrete evidence, it is also possible that, as more black money came into the formal economy after demonetisation, this may have given a further push.

Between FY12 and FY16, overall household savings fell from 23.6% of GDP to 19.1% of GDP but, within this, that saved in physical assets fell from 67.4% to 56.5%—within just four years, that is a big shift. Though there is no RBI estimate after FY16, data from other sources suggests the trend has accentuated dramatically. In FY16, a total of Rs 1.4 lakh crore was invested by households in 'first year premium' of insurance firms—if that was a 22.3% jump over the previous year, this rose by 26.2% in FY17 to Rs 1.8 lakh crore; to put this in perspective, that's 1.2% of FY17 GDP being put into 'first year premium'. An even bigger jump was seen in mutual funds where the 'assets under management'—AUM comprises the stock of investments, their appreciation as well as new flows—rose a whopping 42.3% in FY17 to cross Rs 17.5 lakh crore. And in the first four months of FY18, this rose by nearly 14%, to Rs 20 lakh crore. If you strip out the stock and just look at fresh inflows into debt and equity mutual funds, this was Rs 106,000 crore in FY16 and then jumped 2.7 times to Rs 283,000 crore in FY17—in the first four months of FY18, mutual fund inflows are over Rs 1.4 lakh crore. As a proportion of GDP, this means fresh flows rose from 0.8% in FY16 to 2.1% in FY17 to 2.5% in the first four months of FY18. While this can change if stock-market returns dip, the fact that households are looking at relative returns is a positive. And keep in mind that while retail investor portfolios dropped to around 41.4 million in March 2013, they rose to 52.3 million in March 2017 and also the fact that AUM growth in B-15 cities (beyond the Top 15) is higher than in the T-15. Indian households appear to have come of age when it comes to choosing their savings instruments.