Emerging Opportunities for Savings and Investment

Atul Kumar Goel*

Savings provide the necessary funds for investment, which in turn drives economic growth by increasing the capital stock and improving productivity. In case of India, which recorded growth of 8.2% in FY 2023-24 this relationship has proven to be particularly significant. India's saving rate has been relatively high compared to many other countries, which has supported robust investment levels. India's per capita GDP has been on a constant uptrend which has supported growth in household savings. Higher savings have generated demand for newer avenues of investment. Consequently, product differentiation in the saving and investment space has taken place to attract greater number of investors.

In India, citizens have started gradually moving away from traditional modes of saving and investment such as investing in gold, post office savings schemes, fixed deposits, recurring deposits, life insurance policies, etc. However, these traditional methods remain widely used, particularly in rural areas and among the older population, owing to their simplicity and familiarity.

India's economic reforms for e.g. liberalisation, introduction of GST, Insolvency and Bankruptcy Code etc., aimed at improving resource efficiency through market-oriented policies, have positively impacted savings and investment rates. These reforms have led to impressive trends and constantly emerging new opportunities in savings and investment, particularly when compared to other developing countries. These opportunities stem from technological advancements, evolving consumer behaviour and shifting market trends.

In recent years, households have begun shifting from traditional savings instruments to investing in mutual funds as well as directly in the stock market. These are becoming increasingly attractive especially for younger investors. The mutual fund industry is consistently coming up with newer and innovative products with varying risk and returns to cater to different investor appetite.

The mutual fund industry in India has emerged as a powerhouse, attracting a surge of investors seeking avenues for wealth creation and financial growth. The industry achieved a significant milestone when its Assets Under Management (AUM) crossed Rs. 10 trillion for the first time in May 2014. The AUM of the mutual fund industry has become 6 times to reach 61.33 trillion in June 2024. Investor's interest in Systematic Investment Plans (SIPs) of Mutual Fund has grown manifold. With the total outstanding number of SIP accounts in FY21 at 37.3 million, same has grown to 84.0 million by end of FY24 witnessing a Compound Annual Growth Rate (CAGR) of 31%. In contrast, trend of deposit growth graph of Scheduled Commercial Banks (SCBs) is on a declining.

Emerging Trends and Opportunities in the Saving and Investment Space

Sustainable Investing has evolved from a niche sector to a mainstream investment strategy. Investors are increasingly driven by the desire to align their

*Managing Director & Chief Executive Officer, Punjab National Bank and President, IIBF.

portfolios with their personal values and contribute to broader societal goals. This shift is evident from the growing number of investment products and funds that focus on Environmental, Social and Governance (ESG) criteria. One prominent example of this trend is the surge in ESG-focused mutual funds and Exchange-Traded Funds (ETFs). Globally too, Assets Under Management (AUM) in sustainable funds reached $3.4 trillion by the end of 2023 vs. $1.4 trillion from 2018, reflecting a significant increase from previous years. On the sustainability front, banks in India also has something new to offer with the Reserve Bank of India (RBI) introducing a framework for green deposits in April 2023. These financial instruments extend beyond the ordinary; they represent a dedication to environmental preservation, providing investors with a distinctive combination of financial stability and ethical investment opportunities.

Government incentives and subsidies for renewable energy projects are further supporting growth in this sector. For instance, the Electric Vehicle (EV) market is expanding rapidly, driven by advancements in battery technology and increasing consumer demand for eco-friendly transportation. The rise of EV infrastructure, such as charging networks, also presents investment opportunities in supporting technologies and services. Further, green bonds are also gaining traction among retail investors and financial institutions are increasingly re-orienting their portfolios by funding more of environment friendly projects. India too introduced the concept and recently Government has planned to accumulate Rs. 20,000 crore through Sovereign Green Bond during H2 FY25.

Impact Investing goes a step further by targeting investments that aim to generate measurable social or environmental impact alongside financial returns. The Global Impact Investing Network (GIIN) provides a platform for investors to explore opportunities in this space. Through impact investments, investors can support initiatives such as clean water access, renewable energy projects and affordable housing, contributing to positive societal changes while pursuing financial returns.

Financial Technology (FinTech) is revolutionizing how individuals and businesses manage their finances. Innovations in fintech are creating new opportunities for savings and investment, making financial services more accessible and efficient. **Robo-advisors** are automated platforms that provide investment advice and portfolio management services using algorithms. These platforms democratize access to professional financial advice and help investors manage their portfolios with minimal effort. **Peer-to-Peer (P2P)** lending platforms connect borrowers directly with individual investors, bypassing traditional financial institutions. P2P lending offers opportunities for diversification and potentially higher returns compared to traditional savings accounts, though it also involves credit risk and requires careful evaluation of borrower profiles. RBI has come up with guidelines for P2P lending aimed at providing an environment of transparency and protection to both stakeholders while managing risks. **Crowdfunding platforms** have also gained traction recently allowing investors to support innovative ideas and potentially benefit from early-stage equity investments or rewards.

The **real estate sector** is also experiencing significant changes due to technological advancements. Online property platforms have transformed the real estate buying and selling process. Additionally, Real Estate Investment Trusts (REITs) offer a way to invest in real estate without directly owning properties, thereby, facilitating small-value investors to invest in these. According to a recent report by CBRE South Asia Pvt. Ltd (Indian Real Estate consulting firm), the potential market size for Small and Medium REITs (SM REITs) in India is expected to exceed $60 billion by 2026. The rise of specialized REITs, such as those focused on data centres or healthcare facilities, offers further diversification opportunities.

Digital gold investments represent a significant advancement in traditional gold investing, leveraging technology to improve accessibility and flexibility for modern investors. This approach combines the benefits of conventional gold investment with the convenience of digital solutions, allowing individuals to own gold in a digital format that is securely tied to physical gold stored in vaults. Additionally, digital gold can be easily integrated with a range of financial products, such as robo-advisors, savings accounts and investment portfolios, providing a holistic approach to wealth management. Orderly digital gold market growth is crucial to protect savings, ensure transparency and deter misuse. Implementation of guidelines and oversight aligned with the broader digital asset agenda is the call of the hour.

Round-up investing represents an emerging trend in savings technology that streamlines the investment process through small, incremental contributions aimed at constructing investment portfolios. This financial strategy automatically allocates the spare change from routine transactions into a savings or investment account. The method entails rounding each purchase to the nearest dollar (or another predetermined increment) and transferring the resulting difference into an investment account. This approach to investing simplifies the saving and investment process by automating contributions, thereby, relieving users from the need to actively manage their investments or remember to make regular deposits. By consistently investing modest amounts, users can gradually accumulate wealth without placing a significant strain on their daily budgets. This method is especially advantageous for individuals who struggle to save substantial sums at once and can assist users in cultivating regular saving habits. Furthermore, platforms leverage artificial intelligence and data analytics to deliver insights into user behaviour, refine investment strategies and provide tailored recommendations based on spending habits and financial objectives.

Save Now, Buy Later (SNBL) represents a novel approach in savings technology designed to assist individuals in systematically saving for future purchases. This financial strategy enables users to allocate funds in advance for designated purchases or financial objectives, leveraging technology to streamline and oversee their savings efforts. The primary goal is to foster consistent saving behaviour by regularly setting aside modest amounts until the desired total is achieved, thereby, empowering individuals to make purchases or investments without any dependence on credit. General financial regulations and consumer protection laws would apply to SNBL services offered by financial institutions and fintech companies in India.

India's fintech revolution is reshaping the landscape of personal savings, introducing innovative technologies that make saving money more accessible, engaging and rewarding for millions of users. At the forefront of this transformation are digital savings accounts offered by neobanks like Jupiter, Fi and Niyo, which provide higher interest rates than traditional banks, seamless mobile-based account opening and advanced budgeting tools. These digital-first platforms are complemented by micro-savings apps such as Jar and Spenny, which leverage behavioural economics principles to encourage saving habits by rounding up transactions and automatically investing the difference.

The concept of community savings has also gone digital, with platforms offering modern versions of traditional rotating savings groups, peer-to-peer savings challenges and social features that allow users to share progress and motivate each other. Additionally, hybrid savings-investment products are emerging, automatically investing a portion of savings in low-risk mutual funds while allowing users to adjust their savings-to-investment ratio based on individual risk appetites. These technological innovations are not only making saving more convenient and engaging but also more inclusive, reaching previously underserved populations and promoting financial literacy.

Opportunities in the Existing Savings and Investment Space

The scope of savings technology in India is vast and multifaceted, presenting significant opportunities for innovation and growth. The potential market spans from urban professionals to rural farmers, each segment presenting unique needs. Savings tech can revolutionize how Indians manage their finances, from basic savings accounts to more complex investment products. Mobile-based platforms have the potential to reach millions of unbanked individuals, offering them secure and convenient ways to save money. For the tech-savvy middle class, Artificial Intelligence (AI)-driven savings apps can provide personalized financial advice and automated savings plans. In the realm of micro-savings, technology can enable people to save small amounts frequently, accumulating substantial savings over time.

Pradhan Mantri Jan Dhan Yojana (PMJDY): An integration of savings tech with Government initiatives like PM Jan Dhan Yojana (PMJDY) can further expand its reach. PMJDY has transformed the banking and financial landscape of the country over the past decade. Since its inception, more than 53.14 crore beneficiaries have been banked under PMJDY. Total deposit balance under PMJDY accounts has surpassed Rs. 2.3 lakh crore. From 15.67 crore in March 2015, the number of PMJDY accounts have grown to 53.14 crore (as on 14-08-2024) - growing by 3.6 times. Around 55.6% Jan-Dhan account holders are women and around 66.6% of Jan Dhan accounts are in rural and semi-urban areas. However, there is still scope for further inclusion, as per the Multiple Indicator Survey 2020-21 of Ministry of Statistics and Programme Implementation (MoSPI), there is roughly 10% which do not have a formal bank account. So going ahead, enhancements could include expanding high-speed internet access in rural areas, promoting mobile banking and integrating emerging technologies like blockchain and AI for transparency and personalized financial services. Additionally, comprehensive financial and digital literacy programs, incentives for digital transactions, special schemes for women and marginalized groups can further boost financial inclusion.

Future ready Microfinance Institutions (MFIs): The KPMG in India survey highlights the evolving microfinance sector with fintech partnerships. Nearly 75% of surveyed MFIs have fintech alliances and the rest are planning to explore them. A balance between technology and human touch is crucial, with fintech innovations like Machine Learning improving asset quality. Digital transformation will drive future microfinance, with connected enterprise architecture being key. For a future ready MFI integration with Account Aggregator platforms, workforce training and regulatory standardization are vital for efficiency. This approach can lead to more effective savings strategies. In India, Self-Help Groups (SHGs) have seen substantial growth and transformation mainly propelled by the schemes like Lakhpati Didi.

Improving Entrepreneurship: There are opportunities for startups established fintech companies and traditional banks to innovate in this space. India has the 3rd largest startup ecosystem in the world which is expected to witness consistent annual growth of 12-15% going ahead. Further, the Udyam Registration Portal, launched on July 1, 2020, has witnessed significant uptake. Udyam Portal is an online platform launched by the Government of India to facilitate the registration of Micro, Small and Medium Enterprises (MSMEs). The number of registrations over the years reflects a robust growth trajectory, with 2.49 crore MSMEs registered in the fiscal year 2023-24 alone. As of July 31, 2024, total number of MSME enterprises registered on the portal stands at 63.41 lakh.

Role of Banks: Banks are playing a crucial role in the backdrop of these emerging trends. They are embracing digital transformation by developing innovative financial products tailored to diverse customer needs. This includes creating user-friendly digital platforms for seamless banking experiences and offering personalized savings and investment solutions. Digital transformation has enabled the integration of advanced technologies like artificial intelligence and data analytics, enhancing customer insights and improving service delivery. Further, by leveraging fintech partnerships, banks are offering a wider range of products such as robo-advisors and mobile banking apps.

Financial Market: In recent years, there has been a retail equity revolution in India. The number of Demat accounts in India grew from 41 million in March 2020 to 154 million by April 2024 with a CAGR of 39%. This growth has been accompanied by a substantial rise in average daily turnover, which increased from INR 7 trillion in FY20 to INR 112 trillion in the first nine months of FY24. Further, the RBI's Retail Direct Scheme has improved access to Government securities for retail investors who are able to directly invest in Government securities (in both primary and secondary market). Since its inception in November 2021, total number of registrations under the scheme have crossed 2.06 lakh with more than 1.49 lakh accounts opened and the scheme is expected to gain greater traction in coming years.

As financial literacy improves and digital adoption increases, the demand for sophisticated savings products is likely to grow in the country. Moreover, the regulatory environment in India is increasingly becoming supportive of innovations, further broadening the scope for savings technology. As the regulatory environment adapts to these innovations, the future of savings in India looks increasingly digital, automated and tailored to individual needs and goals.

References

Saxena, S. P., & Fouzdar, A. S. (2020). Connection between saving, investment and economic growth of India. SCHOLEDGE International Journal of Business Policy & Governance, 7(4), 63-69.

Athukorala, P.-C., & Sen, K. (2004). Saving, investment and growth in India. The Economic Journal, 114(493), F166–F168. https://doi.org/10.1111/j/-13-0133.2004.191_14.x

Agrawal, R. (2024). India's Retail Equity Revolution. FLAME University. Retrieved from https://www.flame.edu.in/pdfs/fil/presentations/Indias-Retail-Equity-Revolution-Raamdeo-Agrawal-FIL-With-The-Masters-June-2024.pdf

Statista Research Department. (2024). ESG investing - statistics & facts. Statista. Retrieved from https://www.statista.com/topics/7463/esg-and-impact-investing/

Reserve Bank of India. (2023). Framework for acceptance of Green Deposits. RBI Notifications. Retrieved from https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12487

Riksbank. (2024). Testing phases of e-krona. Retrieved from https://www.riksbank.se/en-gb/payments--cash/e-krona/

Reserve Bank of India. (2024, April 5). Press Release on CBDC Retail Pilot. Retrieved from https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=54510

Reserve Bank of India. (2024). Review of Master Direction - Non-Banking Financial Company – Peer to Peer Lending Platform (Reserve Bank) Directions, 2017. Retrieved from https://www.rbi.org.in/Scripts/BS_NBFCNotificationView.aspx?Id=12721

Financial Express. (2024, March 5). Unlocking India's real estate potential: The rise of REITs. Retrieved from https://www.financialexpress.com/money/unlocking-indias-real-estate-potential-the-rise-of-reits-3354048/

CBRE South Asia Pvt. Ltd. (2024, September 5). Navigating the SM REIT Landscape - A Look at Regulations and Implications. Retrieved from https://www.cbre.co.in/press-releases/potential-market-value-of-sm-reit-in-india-likely-to-surpass-usd-60bn-by-2026

Press Information Bureau. (2024, September 26). Government's borrowing plan for the second half of FY 2024-25. Retrieved from https://pib.gov.in/PressReleasePage.aspx?PRID=2059143

Money Crashers. (2023). The Best Round-Up Savings Apps of 2024. Retrieved from https://www.moneycrashers.com/best-round-up-savings-app/

KPMG. (2021, March). Rejuvenating microfinance in India – embracing digital. Retrieved from https://assets.kpmg.com/content/dam/kpmg/in/pdf/2021/03/microfinance-digital-fintech-mfi-technology-finance.pdf

Invest India. (2024). The Rise of Digital Currencies: Opportunities for Economies. Retrieved from https://www.investindia.gov.in/team-india-blogs/rise-digital-currencies-opportunities-economies

Pradhan Mantri Jan Dhan Yojana (PMJDY) - national mission for financial inclusion - completes a decade of successful implementation. Press Information Bureau. (n.d.). https://pib.gov.in/PressReleasePage.aspx?PRID=2049231\

Indian Startup Ecosystem. (n.d.). Startup India. https://www.startupindia.gov.in/content/sih/en/international/go-to-market-guide/indian-startup-ecosystem.html

Etcfo. (2024, August 6). India sees surge in MSME registrations: 4.77 cr registrations on Udyam Portal as of July 2024. ETCFO.com. https://cfo.economictimes.indiatimes.com/news/india-sees-surge-in-msme-registrations-4-77-cr-registrations-on-udyam-portal-as-of-july-2024/112305059#:~:text=For%20the%20fiscal%20year%202024,2020%2C%20has%20seen%20significant%20uptake.

RBI Retail Direct. (n.d.). https://rbiretaildirect.org.in/#/about_scheme

RBI. (2024). RBI Retail Direct Statistics: Cumulative data as on 01st Jul 2024. https:// rbiretaildirect.org.in/ stats/RD%20Statistics% 2001072024.pdf

Ministry of Statistics and Programme Implementation. (n.d.). Multiple Indicator Survey in India. Retrieved from https://www.mospi.gov.in /sites/ default/files/ publication_reports/ MultipleIndicator Surveyin-Indiaf.pdf

☯

BANK QUEST THEME

The theme for Bank Quest, January - March, 2025 is identified as "Cyber Risk Management".