Democratizing Investments: A New Era for Savings and Investments

Baskar Babu Ramachandran*

Savings and investments are going through a transformative phase. The instruments that were available to only a select population are now widely accessible and tokenized to serve at any ticket size. The wide adoption of technology and intelligence is making a paradigm shift in the way savings and investments are done.

There are six key underlying themes:

I. Digital First: Comprehensive Transformation in Banking

The wide adoption of digital is fundamentally redefining the banking landscape in India, accelerating a more inclusive and efficient financial ecosystem. Innovations such as Video KYC (VKYC) have drastically shortened the onboarding process, allowing new customers to open accounts in a few minutes in any nook and corner of the country. VKYC has contributed to a 30% increase in account openings, particularly in underserved regions where access to traditional banking is limited.

Beyond VKYC, the rise of mobile banking applications has enabled users to manage their finances with unparalleled convenience. With the wider proliferation of payment instruments, India accounts for 48% of digital payments in the world, with 80% of digital payments from Unified Payments Interface (UPI) and total digital payments grew 20 times in 12 years. More than three-fourth of the users are actively using mobile internet banking services and about one-third are investing through mobile platforms, accessing a variety of products, including equity mutual funds, Systematic Investment Plans (SIPs) and Public Provident Fund (PPF). Payment instruments are widely used to make it easy to access and move money.

Artificial Intelligence (AI)-driven chatbots and virtual assistants are now common, providing 24/7 customer support and personalized services.

India, is the highest digital transacting country in the world, in September 2024, UPI transactions grew 42% year on year on volume and 31% of the value at 15bn transactions and Rs. 20tn.

II. Low-Cost, Customer-Centric Banking Model

The low-cost, customer-centric banking model is increasingly vital in meeting the diverse needs of the Indian population. With around half of households still underbanked, financial institutions have a substantial opportunity to provide affordable and accessible services. The key is to solve the unit operating model on the lines of Telecom and FMCG to serve the masses with micro-banking services.

With a high penetration of low-cost smartphones, 100% digital identity and one of the lowest per-GB costs of 4G, India is uniquely positioned to build and serve financial services at a sachet scale.

Financial service provides widely adapted digital services and offers innovative low-cost channels to

*Managing Director & Chief Executive Officer, Suryoday Small Finance Bank.

create accounts, monitor, transact and seamlessly shift. Customer service has become a click of a button and is available across multiple channels.

With the wider reach of social media and communication channels, Financial literacy is soon shifting towards understanding and availing advanced instruments. Physical instruments are being turned into digital and made widely accessible.

III. Rise of low & middle income and NRI-OCI umbilical cord

The rise of low-income and middle-income groups in India, including Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs) from their household and otherwise, is fundamentally transforming the nation's economic landscape, particularly in terms of savings and investment opportunities.

About 5% of the households have more than Rs. 30 lakhs of annual income, 25% have Rs. 7-30 lakhs, 35% have Rs. 3-7 lakhs and 35% are in the less than Rs. 3 lakhs. In the next decade, 85% of the country is expected to move up at least one slab, with less than 15% of households holding sub Rs. 3 lakhs income.

Savings rose significantly and have started moving to multiple investment beyond the banking deposits. The mutual fund Industry's Assets Under Management (AUM) has increased from Rs. 10 trillion in 2014 to Rs. 30 trillion in 2020 and Rs. 67 trillion as of September 2024. The multifold growth is primarily attributed to the wider participation of retail and is expected to continue as discretionary income rises.

NRIs and OCIs play a critical role in this evolving landscape. With an estimated 31 million NRIs and OCIs worldwide, their remittances are vital to India's economy.

India topped the world in remittances received, at $120bn in 2023, nearly equal to the following three countries put together. NRIs and OCIs continue to have a deep-rooted family system.

Remittances nearly doubled in the past decade. With 2.5 million Indians migrating to other countries every year, the remittances are expected to continue growing at a healthy pace.

The Indian real estate market has emerged as a particularly attractive option for NRIs and OCIs. Last year, NRIs invested about one-sixth of the entire real estate in the country, amounting to approximately ₹1.25 lakh crore. The surge in demand for quality housing, driven by rising urbanization and a growing middle class, has been a major catalyst for this trend. Government initiatives aimed at simplifying property purchases for NRIs have further encouraged investment flows into real estate, contributing to the overall economic stability.

The rise of low-income and middle-income groups, along with the increasing engagement of NRIs and OCIs, represents a significant opportunity for India's savings and investment ecosystem.

IV. Formalization of informal - Flow of savings money into investments

Formalization of informal: With 900mn debit cards and 340mn UPI QR codes, 9mn Point-of-Sale (PoS) machines and 700mn+ smartphones, we have appropriate infrastructure to further formalize. GST brings great simplicity and visibility to transactions and real estate registration; land records are completely digitized across the Local Governments. The Government subsidies and schemes are given directly to the beneficiary accounts, avoiding the pilferage and keeping the money in the formal system. Direct Benefit Transfer (DBT) scheme alone disbursed 3.5tn in 2023 coupled with each State Government's local schemes. GST collections nearly doubled in the last six years at Rs.13.3tn in FY24. All these cash flows migrated into formal saving/ investment instruments, creating higher velocity and multiplier value.

Flow of money from savings to investments is a pivotal mechanism driving economic growth in India. As individuals increasingly recognize the value of not just saving but actively investing their funds, the implications extend beyond individual wealth accumulation to broader economic metrics, such as the velocity of money and the money multiplier effect. This dynamic presents numerous emerging opportunities within the Indian financial landscape.

The current financial climate has prompted a paradigm shift with more individuals seeking avenues that offer higher yields and potential capital appreciation. When savings are effectively channeled into investments, the velocity of money—a measure of how quickly money circulates within the economy—tends to increase.

For instance, the SIP method gained traction, with monthly contributions reaching ₹13,000 crore in 2023. This increased participation enhances liquidity and stimulates economic activity as funds move rapidly through various sectors.

The relationship between savings, investments and the money multiplier effect is another critical aspect. As individuals converts their savings into investments, they contribute to this multiplier effect by enabling banks to lend more, which in turn fuels further economic growth. For instance, if ₹1 lakh crore of savings is mobilized into investments, it could generate approximately ₹4.5 lakh crore in lending capacity, significantly impacting infrastructure projects and business expansions.

The rise of fintech companies and digital platforms has further catalyzed this trend. As of 2023, India had over 10,000 fintech firms, making it the third-largest ecosystem in the world with second largest funding. These platforms offer user-friendly interfaces that make it easier for individuals to invest in diverse asset classes, from mutual funds to Government bonds.

V. Rising Alternative Avenues for Investments

Historically, investments were confined to fixed deposits, gold and real estate. However, the financial ecosystem is rapidly changing with a variety of options and access to the wider population.

Alternative investment options are gaining significant traction with a multitude of choices available to investors. Real Estate Investment Trusts (REITs) give retail investors access to participate in large real estate investments like the stock market. These trusts are gaining traction with small investors, who were once dominated by wealthy individuals or institutional investors. As of 2023, the Indian REIT market has surpassed ₹1 lakh crore in assets under management. This growth underscores a renewed confidence in real estate, particularly as urbanization fuels demand for both commercial and residential properties.

Another rapidly growing avenue is Peer-to-Peer (P2P) lending, which connects borrowers directly with investors, cutting out traditional banks. This model offers attractive returns, typically ranging from 10% to 15% per annum. The P2P lending market in India is projected to grow at a Compound Annual Growth Rate (CAGR) of 27% over the next five years, driven by an increasing demand for alternative financing solutions. This trend is significant for individuals and small businesses that face challenges in securing loans from conventional financial institutions.

Government and Municipal bonds are also gaining popularity as secure investment options. Government bonds provide fixed returns with low risk. Retail investors started actively participating in these instruments. RBI also started offering direct investment options. Municipal bonds, which finance public infrastructure projects are yet to gather momentum. This trend reflects a growing interest among investors in fixed-income securities with low risk.

Sovereign Gold Bonds (SGBs) have emerged as a popular choice for those seeking to invest in gold without the complexities of physical storage. With subscriptions exceeding ₹30,000 crore since their launch, SGBs highlight the importance of gold as a stable asset in an investor's portfolio.

The startup ecosystem in India presents another lucrative opportunity. Venture Capital (VC) funding has skyrocketed, with annual investments to the tune of Rs. 2.5 lakh crores. High-Net-worth Individuals (HNIs) and ultra-high-net-worth individuals increasingly engage in startup funding, especially in the seed stage, for high returns. The proliferation of incubators and accelerators supports this trend, allowing investors to back up innovative businesses across various sectors.

The rise of fintech companies has democratized investing, providing tools that empower individuals to manage their own strategies effectively.

As we look to the future, these alternative avenues are poised to play an increasingly vital role in wealth management strategies, shaping the way individuals invest and grow their wealth in an ever-evolving financial ecosystem.

VI. Risks and guard rails

With the increasing access to advanced instruments, there is a kind of Euphoria to get rich quickly. Demat accounts grew at a frantic pace from 4 crore in 2020 to 17 crore in 2024. According to Bank of America research – the value of options of the Nifty 50 index averaged \$1.64tn per day in 2024, surpassing the daily average daily volumes of \$1.44tn S&P 500 index. With the lure of hero-to-zero trades and the mass propaganda of a few millionaires on options, millions of masses are attracted to this and ~92% of retail traders lose money. First-time stock investors entering the market after COVID-19 have seen only upside returns. Nifty 50 nearly tripled from COVID-19 lows and the new investors were simply riding the wave, thinking that they were skilled investors.

Innovative products from discount brokerage and exchanges propelled the adoption. With the weekly option expiry, practically every day, there is a zero-to-hero game retail traders play and they have turned the market into a casino, betting on all their hard-earned savings. Continuous growth in the market with no major correction over the past four years made the reluctant ones to join in with the (Fear of Missing Out) FOMO. Chinese market corrected massively, resulting in a mass exodus of wealth for retail investors. After a three-decade bull run, the Japanese market corrected and gave near-zero returns for the next few decades.

Indian retail investors, especially the newer ones, are yet to go through a reality check of the stock market. Similarly, the market continues to grow on real estate, with cities like Mumbai, Delhi and Bangalore running into per square feet rates comparable to New York, London and Tokyo and giving rental yields significantly lower than their global counterparts. Commercial real estate is the only instrument that gives positive returns on inflation and residential property yield is significantly low, ranging from 1-2.5%, creating net negative value over time. The only reason it continues to attract is the capital appreciation due to speculation.

Gen Z and Gen X are more speculation-friendly than the prior generation. India, in spite of being a developing country, tops the world with a number of Crypto owners at 93 million, whereas, China and the US got 59 & 52 million respectively.

Rise of gambling - Though gambling is officially prohibited in India, it is rediscovered in various avatars through crypto, stock, commodity, currency option trading, to gaming, all positioned on the platform of skill & knowledge.

Cyber fraud increased multifold from 26,049 recorded incidents in 2019 to 1.5 million in 2023 at a 60-fold growth and the first four months of 2024 grew at a run rate of 1.5 times above 2023. It adversely impacts people across age groups and socio-economic segments of society.

Conclusion

To conclude, we are in the midst of a transformative journey and it is critical that we safeguard our people from potential risks, nudge them to consider the stability of investment returns and then ride the volatility and speculation. We must build deep relationships and trust with customers and protect their long-term interests and the well-being of the ecosystem.