Investing in Financial Assets – Reluctance of Indians

Why in news?

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A new RBI study has elaborated on India’s inertia to move towards investments in financial assets.

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What are the findings?

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- “Expert committee on household finances”, commissioned by the RBI had recently published its findings.
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- It has discovered that Indian households across the spectrum avoid financial products and sit on unproductive physical assets due to cultural reasons.
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- Indians have 95% of their wealth parked in physical assets (77% in property, 7% in durables and 11% in gold), with only 5% in financial products.
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- It has also been established that this doesn’t materially change with affluence or age.
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- Also, very few Indians are investing towards retirement, with 77% of the households failing to plan for pension.
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- These findings call for a reboot in the current policy approach towards savings and investment products.
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What is the status of the current efforts in this regard?

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- Even with vastly improved access to financial products under the PM Jan Dhan Yojana, Jeevan Jyoti Yojana and the Atal Pension Yojana, savers shy away from financial products.
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- This is majorly due to the high transaction costs, unpredictable income streams of the majority and lack of trust.
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- Hence, most households still lean on informal sources for emergency loans at high costs.
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What are some solutions given by the report?

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- Creation of a unified financial regulator
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- Aadhaar-based unified eKYC for easy on-boarding to schemes
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- Promotion of no-frills general insurance
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- Easier terms for gold monetisation and reverse mortgage
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- Use of technology for financial advice and
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- Removal of tax breaks on property investments (to discourage physical investments)
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What are the challenges?

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- While these recommendations are sensible, their implementation is unlikely to prove easy.
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- The idea of an umbrella financial regulator has been gathering dust as individual regulators have been reluctant to cede turf.
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- A unified KYC and a common demat account across stocks, mutual funds

and insurance has been hanging fire for many years now.
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- Financial firms also seem quite content to cater to affluent, repeat customers, rather than tap the bottom of the pyramid.
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- Poor internet connectivity and low digital literacy have proven impediments to going paperless.
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How does the future look?

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- As the working age population is projected to swell over the next decade, higher demand for both housing and gold is expected.
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- Also, we are staring at a pension crisis with the elderly cohort touted to expand by 75% in the next 15 years.
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- Identifying the problem is half the solution, and this report does just that.
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Source: Businessline

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