

Investing in Financial Assets - Reluctance of Indians

Why in news?

\n\n

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

\n\n

What are the findings?

\n\n

\n

- "Expert committee on household finances", commissioned by the RBI had recently published its findings.

\n

- It has discovered that Indian households across the spectrum avoid financial products and sit on unproductive physical assets due to cultural reasons.

\n

- 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.

\n

- It has also been established that this doesn't materially change with affluence or age.

\n

- Also, very few Indians are investing towards retirement, with 77% of the households failing to plan for pension.

\n

- These findings call for a reboot in the current policy approach towards savings and investment products.

\n

\n\n

What is the status of the current efforts in this regard?

\n\n

- \n
- 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.
- \n
- This is majorly due to the high transaction costs, unpredictable income streams of the majority and lack of trust.
- \n
- Hence, most households still lean on informal sources for emergency loans at high costs.
- \n

\n\n

What are some solutions given by the report?

\n\n

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

\n\n

What are the challenges?

\n\n

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

and insurance has been hanging fire for many years now.

\n

- Financial firms also seem quite content to cater to affluent, repeat customers, rather than tap the bottom of the pyramid.

\n

- Poor internet connectivity and low digital literacy have proven impediments to going paperless.

\n

\n\n

How does the future look?

\n\n

\n

- As the working age population is projected to swell over the next decade, higher demand for both housing and gold is expected.

\n

- Also, we are staring at a pension crisis with the elderly cohort touted to expand by 75% in the next 15 years.

\n

- Identifying the problem is half the solution, and this report does just that.

\n

\n\n

\n\n

Source: Businessline

\n

