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URBAN INDIA'S RICH BET ON THE STOCK MARKET

For the urban rich, post office savings schemes are passé; they would rather put their money on the stock market. According to the India Invest Incomes and Savings Survey 2007 of IIMS Dataworks, a Noida-based retail finance research firm, 50% of those in the high disposable income group from the metros invest in mutual funds, 35% in equities; postal savings are less attractive to this group. In contrast, nearly 36% of the rural rich still prefer to invest in gold and about 18% in post office schemes. >Page8

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INDIA UNVEILED

Cash-rich Indians invest in equities, mutual funds

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Conspicuous consumption: *With the economy growing at a rapid pace, there has been a steady rise in the disposable incomes of the urban rich. Their savings behaviour is different from those who live in the villages.*

Half of the urban rich invest in mutual funds and 35% in equities; postal savings are less attractive to this group

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NEW DELHI

They live in swanky houses, drive hot rods and enjoy the good life. For them, post office savings schemes are passé; they would rather throw in their lot in the topsy-turvy world of the stock market.

We are talking about the financial creamy layer, which includes 8.87 lakh people earning more than Rs10 lakh a year, that is riding high on the 9% growth rate that India is enjoying. But before we get too heady, here's a reality check. India's population is above one billion, according to the latest census, and out of that, only 0.3% of salaried people earn that kind of money. And most of these high-wage earners—82%—live in big cities.

In fact, according to India Invest Incomes and Savings Survey 2007 by IIMS Dataworks, a Noida-based retail finance research firm, the high-disposable-income group from the big metros has radically different saving behaviour compared with people who live in India's villages.

"With the Indian economy growing at a rapid pace, the incomes of the salaried urban class has increased multiple times," says B. Gopkumar, senior vice-president of financial planning group, **Kotak Securities Ltd.** "Their savings habits differ from their rural counterparts because they have a better knowledge of the stock markets and tend to invest more in equities and mutual funds."

The IIMS survey states that 50% of the urban rich invest in mutual funds and 35% in equities and postal savings are less attractive to this group. "However, most are keeping their powder dry for the moment, as fewer than 10% of investors in either case have definitely decided to increase their holdings in mutual funds and equities during the coming year," the IIMS report states. In contrast, nearly 36% of the rural rich still prefer to invest in gold and about 18% in post office schemes.

"Investment in postal savings by urban affluent class has reduced considerably," says Himanshu Kohli, founder director of Client Associates, a Gurgaon-based financial planning company, which also has offices in Mumbai and Bangalore. "Most of our high-networth clients live in urban cities. They actively invest in equities and mutual funds because recent double-digit returns from equity markets have made postal savings less popular among this group."

Tejinder Kaur, a 26-year-old New Delhi-based chartered accountant, agrees. "I used to invest in postal savings but have now started investing in funds and equities given their high returns," he says.

Far from metro cities, Anurag Garg, an Aligarh, Uttar Pradesh-based businessman, says he doesn't invest in markets or any other saving schemes. "My business can give me more returns than any of the saving instruments," he says. "Moreover, I don't have much knowledge about the markets to invest in equities or mutual funds."

This goes to suggest that wealth managers have, so far, not been able to reach out to the rich class of small cities. Given the large base of rich customers in those smaller towns, they soon plan to tap this market. "We are planning aggressively to reach out to them," says Kotak Securities's Gopkumar. "They have a lot of potential customers who can increase our business manifold."

The IIMS report says perceived risk in equity investment is the largest deterrent to potential investors. More than 50% of the non-investors say they are averse to the risk associated with equities. In addition, 47% of the high-income group say the market is too volatile and that they would like to invest should it settle down and achieves some kind of stability.

There is one common ground for these two classes of investors—urban and rural. They both understand the importance of protecting their wealth and have taken good insurance cover. The survey states that more than 91% have life insurance policies. In addition, almost all members of the group have bank accounts but it's not a popular choice because of low interest rates. "I took out a life insurance policy and opened a bank account because they are indispensable part of your life," Garg says. "You need a bank account to keep a tab on your day-to-day finances, while life insurance protects the future of your family."

So, while the number of high-income people has increased exponentially both in urban and rural India, the risk-averse psyche of most Indians has been a damper on long-term investment schemes such as mutual funds and equities.

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