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Bank & Company Fixed Deposits: Awareness analysis of investors

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Abstract

Indians are conventionally known for their preference for safe investments. The people in general, are risk avert and are interested in saving money and investing in low risk investments. The aim of this research is to analyse awareness, perception & behaviour of people towards low risk investments.

Purpose: The main objective of the study is to understand the popularity of Bank Fixed Deposits and Company Fixed Deposits as a safe investment avenue. The paper therefore targets to make a comparative analysis on the awareness of Bank Fixed Deposits and Company Fixed Deposits.

Design and methodology: Both primary and secondary data are utilized for the study. Primary Data is collected by 20 respondents who invest in Fixed Deposits. Convenience sampling method is used to collect the data from the identified respondents. The study is based on the data collected from individual investors in Mumbai and Lucknow cities. Primary data from the respondent investors was collected through a structured questionnaire with closed ended questions. Non-parametric test - Mann Whitney U Test is applied for testing the hypothesis of this study.

Findings: The findings of the study are that low risk investments are still a popular choice among investors. But there is a difference in the awareness about investment in Bank Fixed Deposits and Company Fixed Deposits.

Practical implications: The study is relevant to understand the awareness and investment preferences of investors. The research paper will provide a helping hand to the researchers for further studies in their respective area.

Keywords: Low risk investments, Bank Fixed Deposits, Company Fixed Deposits

1. Introduction

India is a developing country with nearly 55% of the Indian population is expected to join the ranks of the middle class¹¹. The people in general, are risk avert and are interested in saving money and investing in low risk investments. Investment involves allocating capital in the expectation of a potential gain. In finance, the reward of an investment is called as return. Investors generally make investment decisions based on their risk bearing capacity. These investments are categorized into different levels of risk, which include low risk, medium risk and high risk.

Low-risk investments are instruments that pay a fixed return, regardless of market or economy movements. The group covers bonds, debentures and fixed deposit. Specific investment schemes such as PPF, EPF and other small Post Office schemes are provided for specific purposes by a government are often low risk and have guarantee on returns. The returns are fixed, and periodic. Fixed Deposit is one of the very few low-risk investments offering secured, high returns and instant liquidity. These are the safest investment where there is assured fixed interest at fixed time intervals. It offers investment options, and payment flexibility. Banks, Companies and NBFCs offer Fixed Deposits. Investing in a fixed deposit has always been among the preferred options for Indians.

Banks are pioneer in providing fixed deposits. They are popular because come in the purview of RBI. Companies or corporates also provide fixed return deposits but are comparatively less popular. Mutual funds and other investment avenues have further reduced the interest of investors in it.

1.1 Bank Fixed Deposits – In India, Bank Fixed Deposits are the most popular instrument to save money. In a fixed deposit a lump sum money is invested for a fixed tenure at an agreed rate of interest. At the end of the tenure, principal amount and compound interest is received. Fixed Deposits are also called term deposits. A fixed deposit offers guaranteed returns. Therefore these are risk averse investments and provides more liquidity. Banks offer fixed deposit in flexible tenures ranging from 7 days to 10 years. A loan can be taken against a Bank Fixed Deposit in the form of an overdraft against FD amount. The benefit is that the FD continues to earn interest, without premature withdrawal⁹.

1.2 Company Fixed Deposits - Company Fixed Deposit (corporate FD) is a term deposit which is held over fixed period at fixed rates of interest. Company Fixed Deposits are offered by Financial and Non-Banking financial companies (NBFCs) in India and are unsecured investments with higher risk. Company Fixed Deposits are rated by ICRA, CRISIL etc. It offers higher interest rate as compared to Banks Fixed Deposits. The interest rate and tenure differs from company to company. There are two types of fixed deposits offered – cumulative and non-cumulative. In a cumulative fixed deposit scheme, the interest received on the principal is accumulated quarterly and is payable along with the principal sum by the time the fixed deposit matures. In a non-cumulative fixed-deposit scheme, the interest received on the principal sum is payable on a monthly / quarterly / semi-annually basis depending on the investor's convenience and preferences. A loan can be taken against it¹⁰.

2. Review of literature

The research study relates to the Bank and Company Fixed Deposits in India therefore the literature review is done on research papers published on investment avenues of middle income group in India.

A study on ‘Preferred investment avenues among salaried people with reference to Pune’ analysed that salaried employees consider the safety as well as good return on investment on regular basis in a variety of investment options available such as bank, gold, real estate, post services, mutual funds & like. The study also found out that females are less aware about the investment avenues (Sonali Patil, Dr.Kalpna Nandawar (2014))¹.

Another study entitled 'Engineering faculty perception towards investment avenues in Godavari districts of Andhra Pradesh' observed that the faculty preferred bank deposits as a first future saving alternative and it was followed by company shares and debentures and mutual fund schemes (Dr. B. Kishore Babu ,Vanama Sri Harshini, A. Madhavi (2017))².

A study on 'Investors' perception towards various investment avenues – a study in Vijayawada city of Andhra Pradesh' concluded that investors do investments in various investment avenues with the expectation of capital appreciation and both short term and long term earnings. (G. C. Venkataiah, Prof. B. K. Surya Prakasha Rao (2018))³.

Another study on 'Attitude of middle-class investors towards various investment avenues in Western Region' found that middle-class investors mostly preferred mutual funds, life insurance, public provident fund, fixed deposits and savings account. The main objective of doing investment is to meet future expenses, return on investment and tax saving purpose. This study concluded that respondents mostly preferred low risk and safe avenues (Dr. Bhumiya Chouhan, Prof. Sheenam Gogia (2019))⁴.

A study entitled 'Investment pattern of salaried class of Somnath (Daman) –A study of various investment options available' perceived that bank deposit and insurance policies still remains the most preferred investment avenues. The study also reveals that salaried people's preference for investment is dependent on age (Zankhana Atodaria, Ronikadevi Sharma (2019))⁵.

Another study on 'Preferred investment avenues among salaried people' found that in Tamil Nadu respondents were less aware about stock market, equity, bond and debentures. All the age groups prefer to invest in insurance and bank deposit (C. Geetha, Dr. M. Marimuthu (2019))⁶.

In a study on 'Investment pattern of employees with special reference to Chennai City' revealed that much more awareness has to be created to reduce the fear of risk as most people are risk-averse and not risk seekers (K. Kiran Durga Priyadarshini (2020))⁷.

3. Research gap

From the analysis of earlier literature in relation to present topic it is found that these studies mainly focused on studying perception and preference of investors towards various investment avenues. The present study intends to make a comparative analysis on the awareness of these two low risk investments.

4. Statement of the problem

Low risk investments pay a fixed return. These are the safest investment where there is assured fixed interest at fixed time intervals. But many times the awareness of these two forms of investment differ. This research paper is an attempt to make a comparative study of the two forms of low risk investment Bank Fixed Deposits and Company Fixed Deposits.

5. Relevance of the study

The study is relevant to understand the awareness of people for these risk free investments. It will help to understand the investment preferences of investors. The study will also throw light on the awareness of

the investors in these two low risk investments. The research paper will provide a helping hand to the researchers for further studies in their respective area.

6. Objectives of the study

1. To understand the popularity of Bank Fixed Deposits and Company Fixed Deposits.
2. To make a comparative analysis on the awareness of Bank Fixed Deposits and Company Fixed Deposits.

7. Hypothesis of the study

H₀: There is no difference in the awareness about Bank Fixed Deposits and Company Fixed Deposits.

H₁: There is difference in the awareness about Bank Fixed Deposits and Company Fixed Deposits.

8. Research methodology

Descriptive research design is adopted to conduct this research. Both primary and secondary data are utilized for the study.

8.1 Primary data

1. The study includes primary data of 20 respondents who invest in Fixed Deposits.
2. Convenience sampling method is used to collect the data from the identified respondents.
3. The study is based on the data collected from individual investors in Mumbai and Lucknow cities.
4. Primary data from the respondent investors was collected through a structured questionnaire with closed ended questions.
5. The questionnaire is divided into three sections. The first section deals with the socio-economic aspects of the respondents. The second section contains the questions related to awareness about Bank Fixed Deposits with 12 close ended questions. The third section includes questions related to awareness about Company Fixed Deposits with 10 close ended questions.

8.2 Secondary data

The study also uses secondary data available in books, journals, research reports and websites.

8.3 Data analysis

As the data is categorical and does not fulfill the assumptions of the parametric test, a non-parametric test is applied for the study. A popular nonparametric test to compare outcomes between two independent groups is the Mann Whitney U test⁸. This test is used to test if two samples are likely to derive from the same population. In the study two samples are Bank Fixed Deposits and Company Fixed Deposits on which the respondents are asked questions to understand their awareness on it. Therefore, Mann Whitney U test has been applied.

9. Limitations of the study

1. The study includes limited number of respondents.
2. The study is limited to respondents from Mumbai and Lucknow cities.

10. Results & Discussion

The following results has been derived from the primary data.

10.1 Analysis & Interpretation of Socio- Economic Data

Table 1: Demographic Profile of the Respondents

Gender	%	Age Group	%
Males	50	30 to 45 years	40
Females	50	46 to 60 years	40
		Above 60 years	20
Profession	%	Monthly Income	%
Government employee	30	Up to Rs 50,000	10
Private sector employee	30	Rs. 50,001 to 1,00,000	40
Professional	30	Rs. 1,00,001 to 1,50,000	30
Business	10	Above Rs. 1,50,000	20

Compiled from primary data

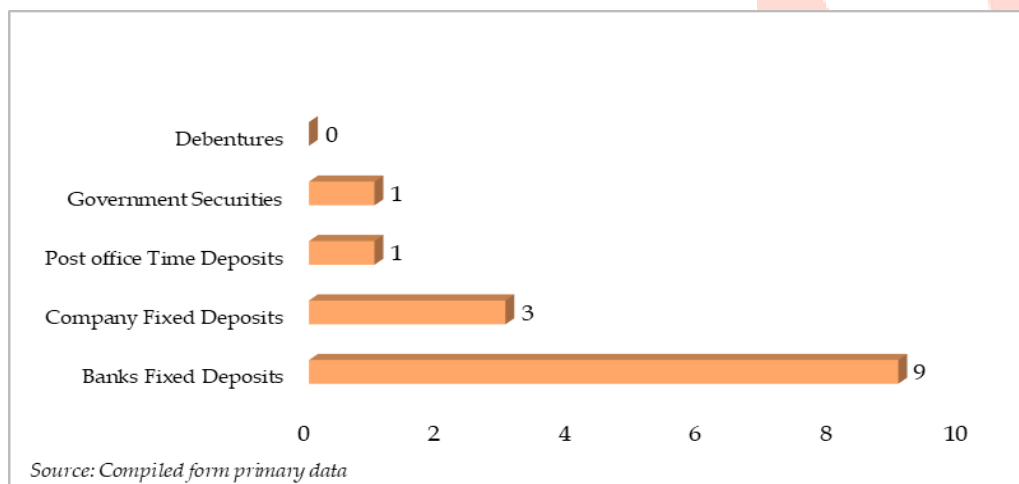


Figure 1: Investment in Fixed Return Avenues

Figure 1 represents the investment of respondents. Bank Fixed Deposits are popular choice of investment followed by Company Fixed Deposits.

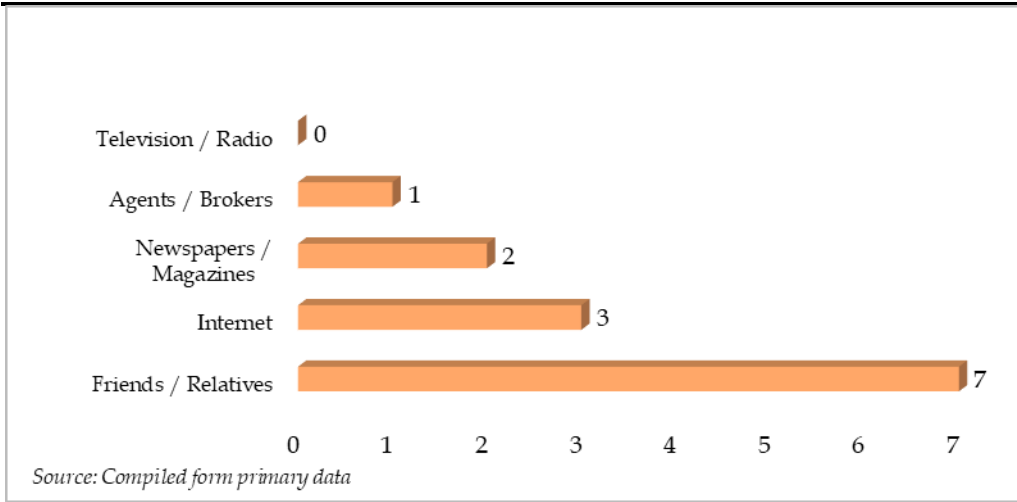


Figure 2: Sources of Awareness

Figure 2 shows the major source of awareness for respondents is friends and relatives followed by internet.

10.2 Analysis & Interpretation of Responses of the Respondents

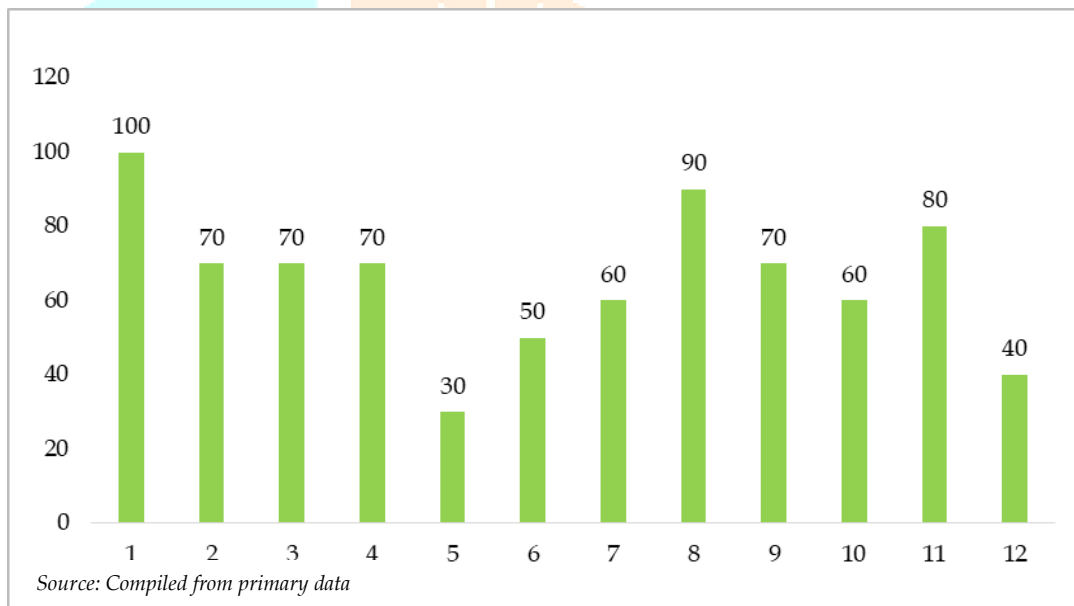


Figure 7: Bank Fixed Deposits

Figure 3: Awareness about Bank Fixed Deposits

Figure 3 depicts the awareness of respondents about Bank Fixed Deposits. 100% respondents are aware that these are risk averse investments. 90% are aware that rate of interest on Banks Fixed Deposits is taxable. 80% are aware that there is a penalty for premature withdrawal of Bank Fixed Deposits. 70% are aware about its liquidity, no limit on investment, flexibility in tenure and tax exemption under 80CC. 60% of the respondents are aware about benefits for senior citizens and flexi fixed deposits. Only 50% are aware about annual compounding of rate of interest. Very less respondents are aware about loan overdraft facility against Bank Fixed Deposits and the tenure of 7 days to 10 years.

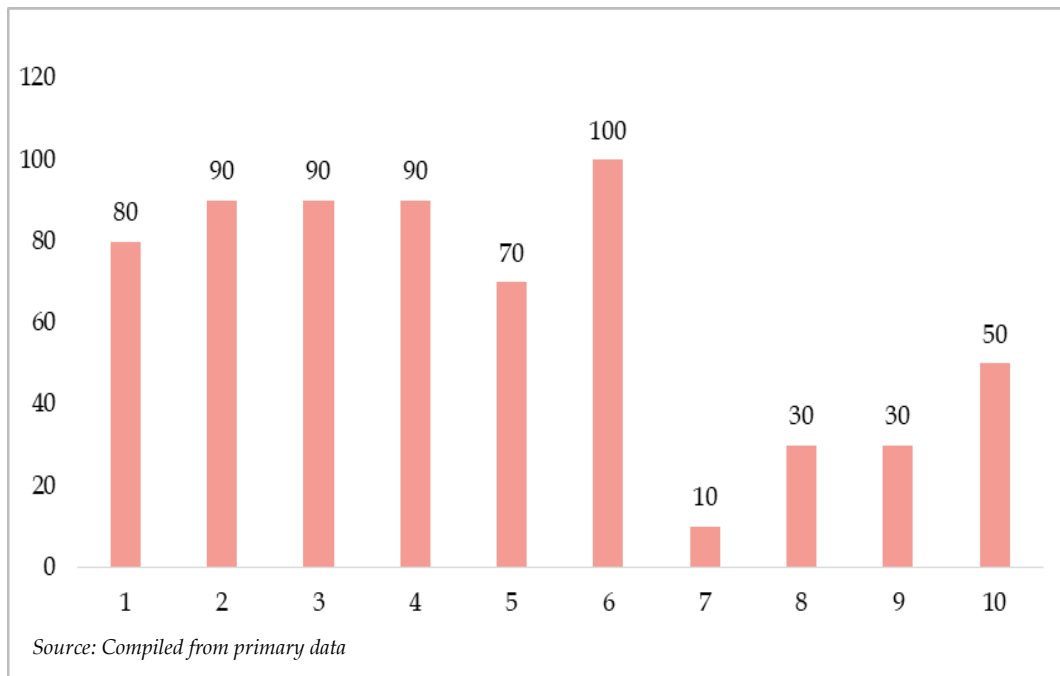


Figure 8: Company Fixed Deposits

Figure 4: Awareness about Company Fixed Deposits

Figure 4 shows the awareness of respondents about Company Fixed Deposits. 100% respondents are aware that Company Fixed Deposits offer higher interest rate as compared to Banks Fixed Deposits. 90% are aware that Company Fixed Deposits are unsecured investments with higher risk, are rated by ICRA, CRISIL etc. and are of cumulative and unclumulative nature. 80% respondents are aware that Company Fixed Deposits are offered by finance companies and NBFCs. 70% are aware about minimum investment limit of Rs. 5000 - 25000. 50% of the respondents are aware that upto 75% of Company Fixed Deposits amount can be taken as a loan. Only 30% are aware that Company Fixed Deposits is treated under Tax Deducted at Source (TDS) if the interest income exceeds Rs. 5000 and premature withdrawal is not allowed before completion of 3 months from the date of deposit. Very less respondents are aware that in Company Fixed Deposits, senior citizens have a rate of interest higher than general citizens by 0.25%.

10.3 Testing of Hypothesis by applying Mann Whitney U Test

Type of Fixed Deposits	Score	Rank
Bank FD	10	2.5
Bank FD	10	2.5
Bank FD	10	2.5
Bank FD	10	2.5
Bank FD	9	5
Bank FD	8	7.5
Bank FD	8	7.5
Company FD	8	7.5
Company FD	8	7.5
Company FD	7	11
Company FD	7	11
Company FD	7	11
Bank FD	6	15
Company FD	6	15
Company FD	6	15
Company FD	6	15
Company FD	6	15
Bank FD	5	18
Bank FD	3	19.5
Company FD	3	19.5

Table: 2 Score and Ranks

Respondents	Bank FD	Rank	Company FD	Rank
1	8	7.5	7	11
2	10	2.5	6	15
3	5	18	6	15
4	10	2.5	6	15
5	10	2.5	8	7.5
6	10	2.5	6	15
7	8	7.5	7	11
8	9	5	3	19.5
9	3	19.5	8	7.5
10	6	15	7	11
Sum		82.5		127.5
Median	8.5		6.5	

Table: 3 Correct responses by Respondents & their assigned Ranks

The median value of test score in Bank Fixed Deposits = 8.5 out of 12 = 71%

The median value of test score in Company Fixed Deposits = 6.5 out of 10 = 65%

Sum of ranks of Bank Fixed Deposits = 82.5

Sum of ranks of Company Fixed Deposits = 127.5

$$U \text{ stat} = \frac{\text{Rank Sum} - \frac{n(n+1)}{2}}$$

$$\begin{aligned} U \text{ stat of Bank FD} &= \frac{82.5 - \frac{10(10+1)}{2}}{2} \\ &= \frac{82.5 - 55}{2} \\ &= 27.5 \end{aligned}$$

$$\begin{aligned} U \text{ stat of Company FD} &= \frac{127.5 - \frac{10(10+1)}{2}}{2} \\ &= \frac{127.5 - 55}{2} \\ &= 72.5 \end{aligned}$$

The smaller of the two values is taken as U stat value i.e. 27.5. U critical value for two tailed test is 29 at 0.05 level of significance. If U stat value is less than the U critical value, then null hypothesis is rejected. This means that there is difference in awareness about investment in Bank Fixed Deposits and Company Fixed Deposits.

11. Conclusion

Based on the findings of the study, it can be concluded that low risk investments are still a popular choice among investors. But there is a difference in the awareness about investment in Bank Fixed Deposits and Company Fixed Deposits. The awareness about Bank Fixed Deposits is more than Company Fixed Deposits.

The confidence of investors is more in Bank Fixed Deposits therefore more popular. Company Fixed Deposits can be popularised if the government regularises it rather than just be rated by rating agencies.

The study can be extended to other forms of low risk investments and comparison to medium and high risk investment as further research.

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