

INVESTMENT PATTERN AND SPENDING PATTERN OF INDIANS AND SINGAPOREANS – A COMPARATIVE STUDY

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Abstract

The aim of this research was to understand the investment and spending patterns of Indians and Singaporeans from 2010 to till date. The objective is to understand the reason behind the nature of investment and spending behaviour of the people who work in IT industry which made a major difference in the income of people in the last 10 years. India having strong roots of saving habit is now transforming to spending habit when the income increases rather than increase in the saving percentage. Since the nature of spending has transformed to that of a developed country, the pattern has been compared to the investment and spending pattern of Singapore.

Keywords: Investment Pattern, Spending Pattern, Gold investment, Fixed deposits, Mutual Funds

INTRODUCTION:

Savings and investments are imperative for accelerating economic growth and taking India to greater heights. In order to devise appropriate strategies for capital formation and economic growth, the financial planners should be well equipped with in-depth understanding of saving and spending behavior of individuals. IT sector plays a vital role in its contribution towards India's GDP. The rationale behind choosing the IT professionals is that, they have gained attention of economists but there still remains untapped potential of their income. Being a savings cultured nation, India experiences a large share of income goes to their consumption expenditure in the last decade and a very negligible share of per capita earning goes to savings which is alike as spending culture in Singapore. So this research paper sheds ample light on spending patterns and investing motives of Indian and Singaporean. Most of the empirical literature that analysed cross-country savings behaviour concentrated on aggregate savings due to the lack of consistent information on household behaviour and possible differences in the household savings in developing versus developed countries were disregarded. This study aims at examining the differences in household savings and spending behaviour in developing and developed countries from a cross-country perspective.

REVIEW OF LITERATURE:

Empirical studies estimated savings behavior either for a single country ORTMAYER, D. L. (1985) or a group of countries. These studies, using cross sectional data, concentrated on either developing countries Koskela, E., and Viren, M (1982), MIKESSELL, R., and ZINSER, J. (1973) or industrial countries KAUFFMANN, B (1990). When we consider the country choices in these previous studies, it is clear that the savings behavior was estimated for selected samples without any comparison with countries at different levels of development.

Chen, Guo, and Zhang (2010) on the effects of wealth on consumption spending of the people reveals that there is a longterm relationship between disposable income and consumption expenditure. In addition, revenue and assets increased consumption, with revenue being the largest contributor to the increase in consumption.

AVENUES OF INVESTMENT AND SPENDING:

Housing:

The first investment every Singaporean aspire is, to buy an own house. Housing Development Board houses in Singapore are only 99 years government lease and hence people normally don't rely on inheritance. For the down payment, the amount will be deducted from their CPF account which will be opened on the first day of their birth. And the home loan interest is very minimum (1%) which makes it even more easier. Normally, the next generation doesn't want to continue in the inherited property even for the left out few years unless necessarily needed since their lifestyle is different. The taste of interiors, needs and wants inside the house, are very different from one generation to another. So there is a need for Singaporeans to buy at least one home individually even though their parents own a property. Indians, definitely wanted to buy a home as their first investment as well. But, people should be ready with the down payment and should be eligible to get home loans for the balance amount. Since most of the 80s and 90s born are first time home buyers in their family, it makes them difficult to accumulate the down payment and people who earn well, only can afford to pay EMI on a regular basis. But once a property is owned, it will pass through the next to next generations unless the chain is broken by someone voluntarily who is inherited.

Private property (For rental income):

After satisfying the need of buying a basic home, the first investment for most of the Singaporeans will be a private property with all the other amenities like swimming pool, club house, gym, etc., since one person can't hold two HDBs at the same time. The first 'other income' will start from the rent of this second property. In India, IT people in urban areas prefer to reside mostly in flats for safety and security reasons where they won't have an option to build extra floors also. Nowadays people consider other type of investments for their 'other income' rather than buying a second property unless the person has a steady income for the next 20 years (until the EMI gets over).

Mutual funds and bonds:

In Singapore after buying the first property, purchasing a million dollar private property won't be affordable for all. The bank deposit (FD) interest rate is less than 1%. So they prefer to take risks for higher profits depending on the knowledge level of the individual and go for mutual funds and bonds which will yield higher profits compared to other investments. For Indians, next to house, the priority is to save money for children's education, lifestyle and retirement. So they prefer secured investments such as FD, PPF, NPS etc. Mutual funds are for the people who can afford to take risks after their needs are taken care of.

Retirement Savings:

For most of the Singaporeans, the CPF will take care of their basic needs throughout their retirement period. For some, added to the CPF, their other investments (second property, mutual funds, etc..) will be paying off for their wants. Indians simply invest in real estate and gold for their retirement income. Few people rely on Fixed deposits, NSC, PPF contributions and other liquid investments.

Gold:

Singaporeans don't prefer to invest in Gold since they don't have the custom of giving gold to groom or bride during wedding. Also gold is not considered as a status symbol. So, only few people invest in gold for security and emergency purposes. People tend to invest in gold certificates, Gold ETFs etc rather than securing the physical gold. Indians consider gold as an important investment for marriage and emergency purposes to get immediate liquidity. During wedding, Gold plays an important role and it is considered as a status symbol.

Fixed Deposits:

The interest rates for FDs are only 0.05% in Singapore and there are no tax. So people don't prefer any accumulation of such cash investments. Indians have the basic habit of saving in FDs irrespective of interest rates for emergency, tax reliefs, future expenses like wedding, health management etc. It gives immediate liquidity compared to other investments.

Provident Fund:

Every Singaporean new born will have PF account in which the government will deposit \$4000 grant as an initial payment and continue to contribute every dollar to dollar until the child turns 12. After that, the government will deposit yearly grants and other cash benefits periodically for the welfare of the child. When they start to earn, they can utilize this amount for buying houses, manage health expenses, higher education and also for retirement benefits. Since government put every dollar for a dollar, unknowingly they accumulate a lot of money for all the benefits. Indians will have EPF and PPF accounts which most of them will consider as a retirement benefit. Very few utilise it for buying houses as well. Most of the Indians will have these just for tax benefits.

Emergency fund:

Normally Singaporeans don't save money for emergencies, since most of their emergencies will be taken care of from CPF. Few will have medical insurance for health emergencies. Indians normally have a prepared mindset for emergencies. Health insurance are getting popular nowadays among Indians due to higher medical expenses. For liquidity, they depend on FDs and gold.

Loans:

To manage the peer pressure Singaporeans tend to buy car (3% rate), costly electronics like latest gadgets, big television, home interiors, unnecessary kitchen equipment, etc. These are not affordable for many people. So they tend to take personal loans (8% rate) and use credit cards extensively which gives the pressure and stress to earn more and consistently. Home loan is common in India. Nowadays car and bike has become a need rather than want. Unaffordable people tend to take vehicle loan (10% rate). Also those who can't manage the down payment for house, tend to go for personal loan (12% rate) as well.

Food and Beverages:

Singaporeans have a habit of eating out on a daily basis rather than spending time on cooking. Since the food is available at an equal price to that of home cooking food. In working parents culture, people won't have time to buy ingredients and cook. In India, food is not available at the same cost as the home cooking food and restaurants are also not 24/7. Eating out is for entertainment only but now it is becoming a regular and costly spending habit.

Transportation Expenses:

Singapore has a well-connected MRT and bus system where most of the people use public transportation as it is comfortable and affordable. No need to buy any personal vehicles in Singapore unless really required. Even though the fuel price is only \$2, the parking charges & ERP (electronic road pricing) are very expensive on weekends. Car is the first dream of Indian men. Most of them wish to purchase it from their first earning even though it is not a necessity. Indians spend exorbitant amount on cars even if its purchase demands a loan or crashing savings. The fuel charges, parking charges, maintenance charges altogether make Indians tend to spend a lot under transportation expenses.

Holiday Travel:

Air travel has become more affordable as budget and full-service carriers compete for the pie. Singaporeans see travel as part of their lifestyle and are more likely to take spontaneous trips over long weekends. Singaporeans prefer to enjoy the present and love to spend for experiences. According to SOTC India Holiday Report 2019, Indians are increasingly opting for multiple short breaks rather than the traditional single long annual vacation. Indians spending capacity on holidays has increased.

Peer pressure spending:

In Singapore, having seen a friends with one, the non-possession almost seems inferior. Tablets, mobile phones, laptops, play station are the modern era measures to check the worthiness into a specific peer group. Singaporeans spend a lot because of peer pressure, like buying a car, organising social gatherings, costly home interiors, etc. All these involves a lot of spending which ends people to become debt. Since loan is available for almost everything, people don't hesitate to consume anything. Indians are not exempted for peer pressure. At the time when the current earnings are comparatively high, the peer pressure becomes much more. People see the outside world through internet and know almost everything happening around which pulls them into the peer pressure. People spent for foreign travel, luxury cars, costly apparels, hosting expensive functions, dressed in designer clothes, etc.,

Education:

Singaporeans get a very quality education in government schools at almost free of cost. Even their higher education is also subsidized and if necessary they can utilize the amount from CPF. Indians tend to spend a lot of money for education, since the education has become very costlier. People prefer private schools to government schools. Private schools utilize this as a very good opportunity and earn a lot of money. For higher education, there is a necessity for them to save ample amount to avoid the education loans.

CONCLUSION:

After globalization, IT industry boomed in India and people started to earn immensely. Having the strong saving habit root, Indians should had lot of savings in the last 10 years. But on the contrary, spending culture has increased because of easy availability of credit, inflation, peer pressure which altogether has increased the cost of living. People started to spend more for their wants rather than strengthening on their needs for the future longevity of their life in the name of 'higher standard of living'. Developed countries like Singapore is taking care of their people needs (housing, retirement, health, etc..) so that people are spending for their wants. The wants and needs will differ from one person to another, but if we didn't prioritize our needs and discipline our wants, as Warren Buffett quotes, "If you buy things you don't need, soon you will have to sell things you need".

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