

CHAPTER-X

SAVINGS AND INVESTMENT

10. INTRODUCTION

From the previous chapter you have come to know about 'Income' and also about Income Management. Most of you have receive pocket money from your guardian and when you use them, you may keep aside certain amount from the total amount, why? Reason may be either to use for difficult days or to purchase some personal items on to give gift to your friend etc. Is not it? In the same way, when family's income is used, certain portions are kept aside for future use and this is termed as 'saving'. After going through this chapter you will be able to know the following.

- Meaning of saving.
- Needs of saving
- Concept of Investment

10. (i) MEANING OF SAVINGS :

The term 'saving' means 'keeping aside a part of income for future use'. Usually people use income to meet daily needs and set aside certain portion from the income to meet future needs. The portion which is kept for future use is called savings.

It also means 'refraining from spending for present consumption needs to meet future needs. has defined 'saving'

as abstinence from present consumption for the purpose of future consumption'. It is the difference between income and expenditure, which can be expressed in the following way:

$$\text{Saving} = \text{Income} - \text{Expenditure.}$$

Lets give an example- Suppose your family's monthly income is Rs. 25,000/- and expenditure is Rs. 22,700/- and remaining Rs. 2,300 keep aside for future use then the monthly savings of your family is Rs. 2300/-. This amount may vary from month to month.

From all these, we can define 'saving' as- the amount kept aside from present income to meet emergency, needs and demand of the family.

Now, let us see how it helps a family in different time and situation.

10.(ii) IMPORTANCE OF SAVINGS:

Saving plays an important role in enhancement of financial position of family. It helps the family in the following way.

i) Saving provides economic security to the family :

The feeling of security help the family for all round development as well as to lead a comfortable life. Moreover we never know what will happen in the next

moment or about our future. In emergency, saving helps the family to meet the emergency situation.

Sometimes, certain situation arises due to loss of employment, loss of business or closure of business etc., when income of the family drop suddenly, in such circumstances saving is of great help. In absence of saving, one can take loan to meet the situation, it may lead to economic crisis. Here is an example, suppose your friend Rani's father has lost his job because of closure of the firm where he works. As a result, it brings financial crisis to her family, if her father has savings, then there won't be any problem to meet the situation.

It is a well known fact that a person can work up to a certain age and after that he retires. At this retirement stage a person gets about half (50%) of his pay as pension. He may find it difficult to meet or to fulfil the needs. In this situation saving helps a lot. Thus, savings provides security during old age.

ii) For fulfilling needs of the family : Each and every family has certain needs in order to meet these needs, a good amount of money is required which is possible, only through savings. For example, if one of the needs of your family is to provide higher education to all the children of your family, which requires lot of money and that can be possible through savings.

iii) Maintenance of Standard of Living :

Families have their own standard to live and they like to maintain a good standard, which is possible through possession of certain assets. Acquisition of these assets requires a lot of money which can be achieved through saving.

iv) Enhancement of economic condition of family : Saving plays a great role in improvement of economic condition of the family. It can be done with regular saving and proper investment of saving account. Your friend Rita's father is a state government employee, who has limited income. Rita's mother has the habit of saving and she saved certain amount regularly after meeting the family's expenses. She put that savings amount under certain scheme at a regular interval which increases capital and earn interest.

v) Cut down unnecessary expenditure:

If we have the habit of saving we never go for unnecessary item and spend huge amount on it. On the other hand, if we do not have that habit, we may buy unnecessarily or spend haphazardly. Thus, with the help of saving we can prevent it.

vi) Others : Saving always help in repayment of old debt of the family and fulfilling long and short term goals.

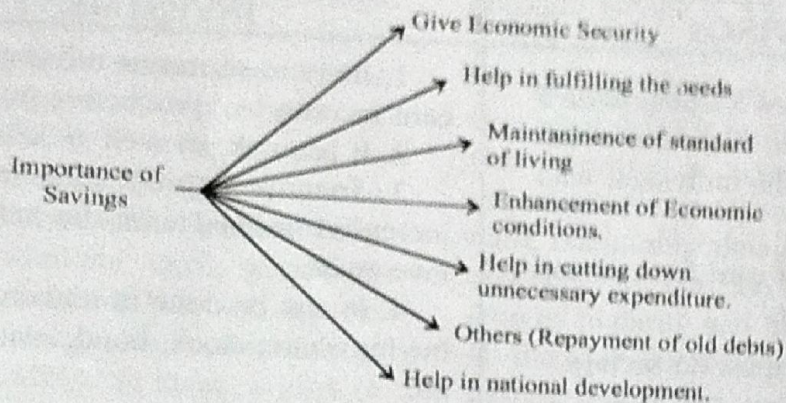
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vii) **Contribution for National Development :** Individual savings helps in development of the nation, as these savings are invested in developmental plan of the nation. Nation also used saving for its defence.

of 7% per annum she will get Rs 10,700/- after one year.

Money can be invested in number of ways, in financial institutions like Bank, post office, Insurance corporation etc. You have heard about these institutions



10.3 (i) INVESTMENT :

It is the process of using savings with the expectation of the security of principal and to receive return from it. This 'return' is the 'income' from the savings and it can be in the form of profit, dividend, interest, rent etc.

Investment can be defined as 'the process of utilising savings to earn income'. This earning may be regular or receive at one time. Let us see one example- your mother has Rs. 10,000/-, if she keeps it with her it will not bring any income, but if she invests, she may earn profit, like if she invest at the rate

and some of you have the experience of transaction or operation of these institutions. All these institutions have lots of schemes and these schemes keeps changing from time to time. Investor should have proper knowledge about these schemes before investing their capital.

Besides financial institutions, investment can be done with some other ways like by buying shares, stock, bond, gold, farm, real estate, movable properties, etc. Out of all these if you invest in real estate and buying gold, you may get profit. The prices of gold use to

change too frequently (Last year 10 gm of gold price was Rs. 16,000, but it has increased to 20,000 to Rs. 21,000 per 10 gm.) So, those who have interest in investing in gold, they can earn good amount of income.

10.(iii) DIFFERENCE BETWEEN SAVING AND INVESTMENT :

Saving and investment, both the terms are used together, they are complementary but have certain differences. They are—

SAVINGS	INVESTMENT
<ol style="list-style-type: none"> 1. Saving means keeping aside a part of income for future use which give security to the individual who does it. 2. Income that earn from saving is less but regular. 3. Institutions must do savings. 	<ol style="list-style-type: none"> 1. Investment means utilising savings to earn income i.e., productive purpose. 2. It has risk, as well as it is uncertain. 3. Income capital can be grown or increased or sped with the help of proper investment. 4. In can be done in numerous way like buying share, stock, bond, real estate, gold etc.

10.4. INSTITUTIONS FOR SAVINGS AND INVESTMENT

Saving and investment can be done with the help of the following institution; These are—

10.4 (i) Bank : Bank is an organized financial institution, where a person can deposit his savings and withdraw, as and when he requires it. Bank pays interest to the depositor against deposited amount. Interest may be paid either quarterly, half yearly or annually. Depositing money in the bank have certain advantages. They are —

- i) It gives the feeling of security to the depositor as there is no possibility

of theft of the money kept in the bank.

- ii) It pays interest to the depositor on money deposited.
- iii) As the depositor earn income from his deposit, he tries to refrain from unnecessary expenditure and form the habit of saving.
- iv) There is no risk of carrying money as, one can withdraw money from the bank at the time of need.
- v) Depositor can avail different facilities like locker to keep valuables etc. offered by the bank.

10.4 (i)A. METHODS OF DEPOSITING MONEY IN THE BANK :

There are different methods of depositing money in the bank-

Current account.

Saving account

Fixed deposit account

Recurring deposit account.

Most of you have heard about these and some of you have kept your savings under these account. People who have not visited or have no account in the bank, should know how to open an account in the bank. In order to open an account in the bank, the first task is to fill up certain forms with documents like photograph, identity card, proof of residence, and identification by an account holder along with certain amount of money. In addition to these, a card of specimen signature has to be submitted. After opening an account, the account holder will receive account number, passbook, cheque book, depositor slip etc. from the bank.

a) Saving Account : Any individual can open this account with minimum amount of Rs. 5000/-. This account can be single or joint. The depositor has the freedom of depositing any amount at any time during the working hours. But the number of withdrawal is limited and it can be done either through cheque or through withdrawal slip. The rate of interest paid against this account is low.

b) Current Account : It is a type of account in which the account holder is

provided with the facility to deposit and withdraw the money as and when desired. No interest is paid to the account holder against his current account deposit. Depositor should have some amount of money in his account.

c) Fixed Deposit Account : In this account, money is deposited for a fixed period of time. This period varies from 45 days to 5 years and the rate of interest is more than the saving account. On opening a fixed deposit, the depositor receives a certificate from the bank containing details of the amount deposited, the duration of the deposit, the date of maturity and the rate of interest. If the depositor wants to withdraw money before the maturity date of the fixed period, he will not get the full amount of interest. And he may also avail loan upto 75% on the deposited amount. The account is also known as term account or term deposit.

d) Recurring Deposit : In this scheme, depositor can deposit a fixed amount regularly (every month) for a period of minimum 12 months upto 120 months. The investment period is agreed initially and the depositor gets the capital money along with the interest at the end of the term. This scheme is suitable to those having regular income and it is meant to inculcate regular saving habits among people.

Beside these, there are some other

accounts available in the bank.

In order to operate an account in the bank, certain tools are required like deposit slip, withdraw slip, cheque etc. Depositor slip is required to deposit money in the bank. Withdrawal slip is needed to withdraw money from the bank.

10.4 (i) B) Cheque : It is an instrument through which account holder transact money in the bank. In order to receive a cheque, bank account holder should have balance amount of Rs. 1000 in his account. A cheque is an unconditional written order of the account holder by which he can order the bank to pay the amount mentioned on the cheque, to the person whose name is written on the cheque or to his nominee or bearer of the cheque.

Cheques are of three types like-

- i) Bearer cheque.
- ii) Order cheque.
- iii) Crossed cheque.

i) Bearer cheque : It is a type of cheque in which, name of the person or 'bearer' is written and payment is made to any person bearing the cheque. If the person whose name is written on the cheque is not able to withdraw money from the bank, he can send any one to do so. But the disadvantage of this cheque is that any person can withdraw money from the bank ; In case of its loss or theft, the bank should be informed immediately to stop the payment against

the cheque. This type of cheque is unsafe. Hence should be handled carefully.

(ii) Order cheque : In this type of cheque, the word 'order' is written before making the payment. The payment is made to the same person whose name is written on the cheque or the person who has been nominated, at the back of the cheque. The bank verifies the signature of the person before making the payment and there will be change even if the cheque is lost.

(iii) Crossed Cheque : In this cheque, two parallel lines are drawn on the top left corner of the cheque. This cheque is quite safe, as it cannot be encashed, can only be deposited in the account of the drawer or his nominee.

Crossed cheque are of two types:

- a) Simple crossed cheque.
- b) Special crossed cheque.

a) Simple crossed cheque : In this type of cheque, two parallel lines are drawn at top left side of the cheque and 'Co' is written in between the two lines. Such cheque can be deposited in any bank.

b) Special crossed cheque : This type of cheque are more secure and safe and are of three types.

i) In the first type, 'payee A/c' or 'Not Negotiable' is written in between the parallel lines. This cheque can be deposited only in the account of the drawer.

ii) In the second type of cheque, the

name of the bank is written in between the parallel lines, so the cheque can be deposited in the bank, specified in the cheque.

iii) In the third category cheque, A/c payee or Not Negotiable are written in between the parallel lines along with the name of the bank. The drawer, can only deposit the cheque in his account and in the specified bank written on the cheque. This cheque cannot be deposited in any other account or any other bank of the depositor. So such cheques are the safest of all other cheque.

Besides these there are some other types of cheque. They are— Blank cheque, stale cheque, open cheque, postdated cheque etc. You must have heard about dishonoured cheque. What is it? Why has it happened? Cheque which cannot be encashed in the bank is called dishonoured cheque. This may be due to some reasons. These reasons are—

- i) If the cheque is postdated.
- ii) If there is insufficient amount of fund in the account of the person issuing the cheque.
- iii) If there are differences in amount that is written, (both in words and figures) in the cheque.
- iv) If there is any over writing, cutting without alteration by the issuing person or authority.
- v) If the signatures of the person, issuing the cheque differs from his specimen signature.

Therefore, one must be careful enough while issuing and writing cheque.

Besides cheque, one can withdraw money from bank through. A.T.M. (Automatic Teller Machine) facilities of the bank. You might have seen A.T.M of different banks in different areas like Market place, Patrol Depot, Shopping complex, near street, institution etc. Do you have the experience of withdrawing money through A.T.M.

Today, one need not carry money for shopping, travelling, visiting religious place, educational tour etc. Because if you have money in the bank, you can avail this facility and it is open for twenty four hours. But it requires A.T.M. card and Pin number. Depositor has some advantages of using ATM. Like at the time of emergency you can withdraw the required amount immediately. There is no risk of carrying money and can withdraw money at any time of the day. Card holder can also come to know about the status of the account.

10.4 (ii) Post Office : Post offices also work as a saving and investment institution for the public of our country. It helps to in calculate the habit of saving among the people. Post offices are situated in nook and corner of the country. It is suited to all individuals living even in distant, remote and hilly areas. Any one can open an account in the post office with minimum deposit and depositor get pass book at the time of

opening the account in which details of transactions are recorded. Depositor can withdraw money from post office using a prescribed form which has to be submitted with the pass book. At the time of withdrawing money, officials of the post office verify the signature of the person with specimen signatures. If the signature differs from specimen signature, the payment is not made, until and unless any other account holder signs or witness under the jurisdiction of main post office in that area and also deposit money in main post office even if the account is in a sub-post-office. In case of withdrawing money, it can be done from the post office or sub-post office where the account was opened.

The different schemes of post office are- Post office cumulative Fine Deposit scheme. Five year Post office Recurring Deposit Accounts. National saving certificate, Kisan Vikash Patra, Post office Monthly Income scheme etc.

10.4 (iii) Life Insurance : Government of India has created life Insurance co-operation of India for public to make compulsory savings. It provides financial security to the policy holder, even if he dies, the surviving family get the benefits from insurance company. In this type of saving, a contract has been made by an individual to save certain amount money from his income for a fixed period in a compulsory manner. The contract is

termed as policy and the amount is termed as 'premium' which is paid in regular intervals for a specific number of year. After its expiry date, the policy holder gets back his money along with bonus earned on it.

Insurance co-operation has number of scheme.

10.5. Basis for Selection of Methods of Investment :

You have gained knowledge of various methods of savings and investment. Now the question is how and where we can invest money to ensure profit and safety. Some schemes ensure good profit, risk factor is higher, in some investment and the procedure is complicated. Because of this, one must know the details of these investment and take suggestions from the person having proper knowledge and experiences in this field. There are some principle one should follow before investing, savings or making selection of investment scheme. They are-

a) Safety in Principal : The main aim of investing money is to earn profit or income for this principal amount should be secured. So, in ascertaining safety of investment, one must determine the nature of enterprise, investigate its history, profit trend in the past as well as future prospect etc. It is better to invest in a number of schemes rather than in one, and in government bond or securities ensured maximum safety though profit may be less than private company.

b) Income yield or Rate of Return : One should give due consideration to those which can ensure adequate return. The return should be certain and regular. Usually the return on investment is in proportion to the risk factors i.e. higher yield may carry greater risk.

c) Ease of Management : It is also an important factor that should be considered before investing money. Some schemes are simple, easy to manage but some other needs long time, procedure is also not very simple. So, the investor has to consider this point and select suitable one for him.

d) Liquidity : It refers to the possibility of selling investment and getting money back at the time of requirement. Principle of liquidity is very important for

the investor, because his need for money is uncertain. Money invested in bank under saving account can be withdrawn without any difficulty. One can purchase shares of reputed companies, as selling these shares are easy. So, investment should be made in such a way that it is easily available at a particular time like, N.S.C, P.P.F etc.

Besides these, one should consider other factors like tax relief, bonus etc. Such schemes should be considered which are exempted from income tax. For example investing in National saving certificate, life insurance policy etc. are beneficial as these are exempted from income tax.

So, it is wise to consider all these factors before investing money.

Summary

- Saving means setting aside a part of money for future use.
- Saving helps in fulfilling needs, achieving goals of the family.
- Investment means keeping of savings to earn income or yield return.
- Bank, Post office, Insurance co-operation are institutions for savings and investment.
- Investment can be made by purchasing company's share, land, gold and silver etc.

EXERCISE

1. Very short answer question.
 - a) Define savings and investment.
 - b) Name two saving institutions.
 - c) Mention two principles of investment.

- d) List out the types of cheque.
- e) Name three accounts of bank.
- f) What is A.T.M.?
- g) Name few schemes of investment in post office.

2. Short answer questions.

- a) Write in brief about importance of savings.
- b) What are the different schemes of insurance company?
- c) What are the reason of dishonoured cheque?
- d) Write differences of the following.
 - i) Savings and Investment.
 - ii) Order cheque and Bearer Cheque.
 - iii) Fixed deposit account and saving account.
 - iv) General Provident Fund and contributory Provident Fund.
- e) What are the process of opening a bank account?
- f) How will you withdraw money from bank?
- g) What is life insurance policy?
- h) Define units.
- i) Mention two advantages of buying life insurance policy.

3. Long answer questions.

- a) What are the importance of saving?
- b) What is investment? How it is different from savings?
- c) What are the different types of account in a bank? Mention the procedure of opening an account in a bank.
- d) What is cheque? What are the different types of cheque? Write in brief about crossed cheque.
- e) Write short notes on-
 - i) Life insurance
 - ii) Provident Fund
 - iii) Units.
 - iv) Post office.
 - v) Crossed cheque.
- f) Write about the basis for selection of method of investment.