Saving and Investment (PUN014)

Understanding the difference between saving and investing is essential to ensure financial security and a bright future. Though these terms are sometimes used interchangeably, it is important to note that they are very different. Both savings and investing are critical elements of personal finance, and starting early is a great way to set oneself up for long-term financial stability. In this article, we will cover what saving is, what investing is, and the pros and cons of each, along with examples to help understand these concepts better.

Investment: Investing is a way to grow your money over time by putting it to work in financial instruments such as stocks, bonds, and mutual funds. Unlike saving, investing involves taking on some risk, but it also has the potential to earn higher returns over the long term. Investing is a way to reach long-term financial goals, such as saving for college, a down payment on a house, or retirement. Because investing involves taking on some risk, it's essential to choose investments that align with your goals, risk tolerance, and time horizon. In general, the longer you can invest, the more risk you can take on, because you have more time to ride out the ups and downs of the stock market, for instance, let's say you want to invest in a company like Apple. By buying shares of its stock, you own a tiny piece of the company and can benefit from its growth and profits. If Apple performs well, the value of its stock could increase over time, allowing you to sell it for a profit. One important thing to remember is that investing comes with no guarantees, and there is always the risk of losing money. For example, if Apple were to go bankrupt, your investment could be almost worthless. That's why it's essential to diversify your portfolio by investing in different companies and industries to reduce your risk.

One of the most common questions that people ask is whether they should save or invest their money. The answer to this question will depend on your particular financial situation, goals, and risk tolerance. When you are young, you may have limited income and expenses, but it's never too early to start thinking about saving and investing. In fact, starting early can give you a significant advantage in building wealth over time. Investing can help you fulfil long-term goals, such as saving for college or retirement. As a young person, you have time on your side, which means you can take more risks and invest in riskier assets. Even if you suffer losses in the short-term, you have more flexibility to recover and benefit from the positive effects of long-term investing. In other words, by investing early and regularly, you can take advantage of the power of compounding, which means your money can grow exponentially over time. As you get older and have a shorter time horizon, experts recommend shifting out of riskier assets like stocks and into more conservative ones like bonds and cash. This is because short-term volatility is more of a potential risk if the market crashes just as you're about to retire. Even for younger individuals, saving is generally a good idea if you have short-term goals, such as saving for a new phone, laptop, or a vacation. Saving means putting your money into a safe and low-risk account, such as a savings account, money market account, or a certificate of deposit (CD). Savings products generally offer low returns but they also come with low risk. They are a good option if you need to access your money in the near future and can't afford to lose any of it. Some people may choose to save rather than invest for a variety of reasons. Some people prefer the sense of security of having more money set aside in a savings account for unexpected expenses or emergencies. Others may have a larger number of short-term financial goals, such as saving for a vacation or the down payment on a house, and prefer to keep the money in a low-risk savings account. Additionally, some people may not have the knowledge or expertise to invest, or they may not feel comfortable with the level of risk associated with investing due to having a low risk tolerance. Finally, some people may simply not have enough money to invest after covering their essential expenses. The amount of money that should be invested versus saved depends on one's individual financial goals, risk tolerance, and personal circumstances. A good rule of thumb is to save enough to cover three to six months of living expenses in an emergency fund; a savings account, with enough to cover short-term obligations like bills, and then invest the rest. The specific amount that should be invested versus saved will thus vary depending on factors such as age, income, existing debt, and long-term financial goals. There are several reasons why people may struggle with investing. One common reason is a lack of knowledge or experience, which can lead to poor investment decisions. Additionally, emotional biases, such as fear or greed, can cause investors to make impulsive or irrational decisions that may result in losses. Successful investing requires a long-term perspective, discipline, and patience - and it can be difficult to stay the course during periods of market volatility.

Saving and investing are both important components of a healthy financial plan. Saving provides a safety net and a way to achieve short-term goals, while investing has the potential for higher long-term returns and can help achieve long-term financial goals. However, investing also comes with the risk of losing money. Each approach has its own pros and cons, and it's important to find the right balance that works for your financial situation and goals. Ultimately, a well-rounded approach that includes both saving and investing can help build wealth, protect against financial shocks, and provide a solid foundation for a more secure financial future.

Deposit: A deposit is money held in a bank account or with another financial institution that requires a transfer from one party to another. A deposit can also be the amount of money used as security or collateral for delivery of goods or services. A deposit is essentially your money that you transfer to another party, such as when you move funds into a checking account at a bank or credit union. In the case of depositing money into a bank account, you can withdraw the money at any time, transfer it to another person's account, or use it to make purchases. Often, you must deposit a certain amount of money, called the "minimum deposit," to open a new bank account. Depositing money into a checking account qualifies as a transaction deposit, which means that the funds are immediately available and liquid, and you can withdraw them without delays. Some contracts require a percentage of funds paid before the delivery as an act of good faith. For example, brokerage firms often require traders to make an initial margin deposit to enter into a new futures contract. When you deposit money into some bank accounts, it can earn interest. This means that, at fixed intervals, a small percentage of the account's total is added to the amount of money already in the account. Interest can compound at different rates and frequencies, depending on the terms of the bank.

- A deposit generally refers to money held in a bank account.
- A deposit can also be the funds used as security or collateral for the delivery of goods or services.
- A demand deposit account is essentially a checking account in which you can withdraw funds at any time.
- A time deposit account usually requires that you hold your funds in the account a certain amount of time or face a fee for withdrawal.

Types of Deposits: There are two main types of deposits: demand and time.

- Demand deposit: A **demand deposit** is a conventional bank and savings account. You can withdraw the money anytime from a demand deposit account without advance notice.
- Time deposits: Time deposits are those with a fixed time and usually pay a fixed interest rate, like a **certificate of deposit** (CD). These interest-earning accounts offer higher rates than savings accounts. However, time deposit accounts require that money be kept in the account for a set period of time.

Deposits are often required on many large purchases, such as real estate or vehicles, for which sellers require payment plans. Financing companies typically set these deposits at a certain percentage of the full purchase price. A down payment on a home is essentially a deposit. You may have to pay a deposit in many rental scenarios, whether you are renting an apartment, car, or another product. The deposit is called the security deposit. A security deposit's function is to cover any costs associated with any potential damage done to the property or asset rented during the rental period. A partial or a total refund is applied after the property or the asset is verified at the end of the rental period. Not all deposits to bank account earn interest. Interest is determined by the terms of the account. Many checking accounts do not provide interest, while most savings accounts and certificates of deposit (CDs) do. The deposit may be returned if the item or space is returned in the same condition. For other items, a deposit may be used a partial payment on the balance due. A deposit in finance is typically when you transfer money to a bank account like a checking account for safekeeping. However, it can have other meanings as well. For example, you may need to place a deposit, or a certain amount of money, with a business to secure goods or services such as for a rental, are one of the best investment options for people who are looking for a stable and safe return on their investments. In Term Deposits, the sum of money is kept for a fixed maturity and the depositor is not allowed to withdraw this sum till the end of the maturity period. That is why they are called as Term Deposits because they are kept up to a particular term. But when it comes to Term Deposit, here's what you need to know.

In a **Recurring Deposit**, a fixed sum of money is invested at a fixed interval. In most cases, this interval is once a month. The investments earn interest on them till the maturity period. To put it simply, a Recurring Deposit is like opening several different Fixed Deposits, each with the same maturity period. Once the sum of money and the tenure of the Recurring Deposit is fixed, it cannot be changed. Premature withdrawal is possible, but there will be a penalty in the rate of interest that is given by the bank. The minimum Recurring Deposit amount is Rs. 1,000 and can be increased in multiples of Rs. 100. The minimum period of investment for a Recurring Deposit is 6 months and the maximum period is 10 years. The rate of interests on Recurring Deposit ranges between 7% to 9%. Some banks provide an option to convert a Recurring Deposit to a Fixed Deposit on the maturity.

Fixed Deposits are deposits where a particular sum of money is invested for a fixed duration. The duration of Fixed Deposits is flexible. It can range from 7 days to 10 years. The rate of interest for the Fixed Deposit depends on the period for which the funds are locked in. Just like a Recurring Deposit, a Fixed Deposit amount cannot be withdrawn until the maturity period. Premature withdrawal is allowed after the bank charges a penalty in the rate of interest. The minimum amount of investment for a Fixed Deposit is Rs. 5,000. The rate of interest on the Fixed Deposit ranges from 4% to 7.5%. You can also calculate your rate of interest using the FD calculator.
Some banks provide the option of a sweep out facility where the amount above a particular balance in a Savings Account is automatically converted to a Fixed Deposit. This helps the Savings Account earn more interest. A bank's primary operations are lending and borrowing. To lend money to people in the form of loans such as Personal Loans, Home Loans, Car Loans, etc. a bank needs funds. It gathers these funds in the form of Term Deposits, Savings Accounts and Current Accounts.

Chit Funds: In 2019, Parliament passed the Chit Funds (Amendment) Bill, 2019. It streamlined operations of collective investment schemes or chit funds, with the aim to protect investors that primarily comprise economically weaker sections of society.

- Chit funds are a popular type of savings institutions in India. It is one of the main parts of the unorganised money market industry.
- It refers to an agreement arrived at by a group of individuals to invest a certain amount through periodic instalments over a specified period of time.
- The chit fund provides access to savings and borrowings for people with limited access to banking facilities.
- Chit funds in India are managed, conducted, and regulated according to Chit Funds Act of 1982.
- They are governed through central legislation while state governments are responsible for their administration.
- Chit funds are the Indian versions of Rotating Savings and Credit Associations found across the globe.

Rotating Savings and Credit Associations:

The low rate of interest on small saving provided by commercial banks are usually not coherent with the market rate, resulting in the middle-income group moving towards unregulated deposit schemes.

- Obtaining a formal loan still remains a huge task for a common man as banks, financial institution is plagued by stringent procedures.
- A less regulated regime at fairly competitive interest rates prevailing in the market makes these schemes easily accessible.
- Chit funds come handy to meet exigencies like death or ill-health as well as joyous occasions like marriages and childbirth in the family.
- These types of schemes promote savings culture as each member is supposed to contribute a fixed amount every month towards the fund.

The Existing Regulations:

- At present chit funds are governed by Chit Funds Act of 1962, Reserve Bank of India (RBI) Act of 1934, and Securities & Exchange Bond of India (SEBI) Act of 1992 etc.
- Under the Chit Fund Act of 1962, businesses can be registered and regulated only by the respective State Governments.
- Regulator of chit funds is the Registrar of Chits appointed by respective state governments under Section 61 of Chit Funds Act.
- Functionally, Chit funds are included in the definition of Non-Banking Financial Companies (NBFCs) by RBI under the sub-head Miscellaneous Non-Banking Company (MNBC).
- RBI, however, has not laid out any separate regulatory framework for them.

The Stricter Regulations:

- Fraudulent Companies: There have been rising instances of people in various parts of the country being defrauded by illicit deposit taking schemes such as the Saradha Chit Fund Scam, Rose Valley Scam, etc.
- Financial Illiteracy: Lack of financial literacy results in people getting duped as they are promised a huge return on their investment which has no substantial basis to fulfil.
- Despite the presence of staunch rules against scams by chit funds, a lot of these funds run Ponzi schemes and make away with a lot of people's money.
- Ponzi Schemes: Ponzi schemes are investment operations that pay returns to old investors from the money garnered from new investors.
- Non-Transparency: Chit funds, especially those catering to a large number of members, are opaque both in their operations and eliciting of bids.
- Administrative Loopholes: Companies running such schemes exploit existing regulatory gaps and lack of strict administrative measures to dupe poor and gullible people off their hard-earned savings.
- Lack of Accountability: There is no deposit insurance for investors. If a registered chit fund.

Thank You…