STUDY ON CONSUMER ATTITUDE TOWARDS FIXED DEPOSITS AS AN INVESTMENT OPTION IN LOW RATE ENVIRONMENT

Vikrant Patil & Rohan Parikh

Abstract

With the improvements in the technology and exposure of different perspectives it has enabled us to come across many different types of saving instruments and we can come with different options and analyze them so that we make great profits in the future. It has become more of a concern because the market has become highly unpredictable and therefore it's important to analyze that which instrument will be beneficial in the future. Therefore we have undertaken this research to find out that how the Fixed Deposits have become effective in the low interest rate environment.

INTRODUCTION

A fixed deposit is a financial instrument provided by the banks which provides investors with high rate of interest than a regular saving account, until the given maturity date. It may or may not require separate account. It is known as a term deposits or time deposits and in India it is known as bond. The main criteria of fixed deposit are money cannot be withdrawn from fixed deposit as compared to a recurring deposit or a demand deposit before maturity period. Some Banks may offer additional services to fixed deposit holder such as loans against fixed deposit Certificate at competitive interest rates. It is important to note that bank may offer lesser interest rates under uncertain economic Conditions. The interest rate varies up to 4 to 11 percent. They are considered to be safe Investments. These investments are safer than Post Office Schemes as they are covered by the Deposit Insurance and Credit Guarantee Corporation Many banks offer the facility of automatic Renewal of fixed deposit where the customers do give new instructions for the matured deposit. On the date of maturity, such deposits are renewed for a similar term as that of the original Deposit at the rate prevailing on the date of renewal. Customers can avail loans against fds up to 80 to 90 percent of the value of deposits. The rate of interest on the loan could be 1 to 2 percent over the rate offered on the deposit one of the main reasons for investment in fixed deposits is safety and security. Deposit Insurance & Credit Guarantee Scheme of India guarantees your investment and the RBI monitors it closely. These features ensure that your money is in safe hands. Through Fixed deposit Investment; you can manage the risk as they are associated with fixed returns. As one requires to deposit a certain amount of money while investing in fixed deposits, they Always have something kept in store and can count it as their savings.

These were certain benefits of investment in fixed deposits. However, before making any Decision about investing in something makes sure you consider your expectations and the risk it Carries. So, make a smart investment and keep saving. Interest rates over past two years have been declining with a bank fixed deposit rates it has fallen Around 2 percentage points and counting. This has translated in to lower interest income on fixed Deposits for many individuals, particularly making the situation difficult for people who are Dependent on interest income. Nowadays it’s very difficult to make an option that were money should be invested many various Options are as follows SIP, Mutual funds, property, gold, and equity, bonds, and government security. Consumer is based on age gender male members between 35 to 40yrs are
investing in fixed Deposit comparatively well. Female are investing very low wrong investments are done by Females. Fixed deposit is good for senior citizens they have high rate of interest and if he/she is Staff member of the bank they get addition percentage of interest. It is not that easy, especially when so many types of investment options are there and try to lure you. Risk plays important role in any investment.

**RESEARCH OBJECTIVE**

A Study on consumer attitude towards fixed deposits as an investment option in low rate environment. The main objective of this research paper is to understand the impact of low interest rate on consumer behavior towards fixed deposits.

**RESEARCH METHODOLOGY**

The research was quantitative in nature and secondary data (internet) was collected from established sources.
Measurement Technique Used:
1. Excel based technique is used to come up with the solution.
2. p-test and chi-squared test are used to test the hypothesis

**Sample size**

Our research is based around 400 respondents which represents the entire population Selection of sample

Selection of sample units is based on easy availability and accessibility, thus it is Non-probabilistic Convenience sampling. The research contains responses from different age groups, gender, occupation, annual income, family type, and Investment instruments.
Analysis Tools:
The various analysis tools used for this research are:
1. Test of proportions.
2. Chi-squared test

**Charts about the sample profile based on**

1. **Gender & Age**
2. Marital status & Years of work experience

Marital Status
- Single: 45%
- Married: 54%

Years of Work Experience
- 0-5 Years: 47%
- 5-10 Years: 20%
- More than 15 Years: 23%
- 10-15 Years: 8%

3. Family type & Occupation

Family Type
- Nuclear: 50%
- Joint Family: 43%
- Living alone: 7%

Occupation
- Salaried: 70%
- Retired: 3%
- Professional: 15%
- Business: 15%
- Housewife: 4%

4. Annual income & Qualification

Annual Income
- More than 10 Lacs: 10%
- Less than 3 Lacs: 32%
- 3-5 Lacs: 33%
- 5-8 Lacs: 18%
- 8-10 Lacs: 5%

Qualification
- Commerical: 32%
- Engineer: 14%
- Master: 20%
- Professionals: 15%
- Undergraduate: 17%
5. No. of children & No. of earnings family members

No. of children

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<thead>
<tr>
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<th>Percentage</th>
</tr>
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<tr>
<td>Two</td>
<td>19%</td>
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<td>Three</td>
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No. of earning family member

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<td>11%</td>
</tr>
<tr>
<td>Two</td>
<td>19%</td>
</tr>
<tr>
<td>One</td>
<td>35%</td>
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Proposed Hypothesis

1. Less than 30% of respondents were neutral about importance of interest rates while investing in fixed deposits.
2. More than 50% of respondents invest less than Rs.1 lac in fixed deposits.
3. Less than 50% of people investing in fixed deposits have an annual income of Rs.3 lac p.a. to 5 lacs per annum.
4. Investing in Fixed deposits is independent of age.
5. Investment in Fixed deposits is independent on occupation of respondents.
6. The Proportion of female who invest in fixed deposits is less than 55%.

LITERATURE REVIEW

As Hoose says this paper reviews academic studies of bank capital regulation in an effort to evaluate the intellectual foundation for the imposition of the Basel I and Basel II systems of risk-based capital requirements. The theoretical literature yields general agreement about the immediate effects of capital requirements on bank lending and loan rates and the longer-term impacts on bank ratios of equity to total or risk-adjusted assets. This literature produces highly mixed predictions, however, regarding the effects of capital regulation on asset risk and overall safety and soundness for the banking system as a whole. Thus, the intellectual foundation for the present capital-regulation regime is not particularly strong. The mixed conclusions in the academic literature on banking certainly do not provide unqualified support for moving to an even more stringent and costly system of capital requirements. These widely ambiguous results do suggest, however, that assessing the implications of capital regulation for balance-sheet risk and monitoring effort in diverse banking systems is an important agenda for future theoretical research in the banking area.

As Keeley says a fixed rate deposit insurance system provides a moral hazard for excessive risk talking and is not viable absent regulation. Although the deposit insurance system appears to have worked remarkably well over most of its 50 year history, major problems began to appear in the early 1980s. This paper tests the hypothesis that increases in competition caused
bank charter values to decline, which in turn caused banks to increase default risk through increases in asset risk and reductions in capital.

As Boyd says there is a large body of literature that concludes that when confronted with increased competition banks rationally choose more risky portfolios. We argue that this literature has had a significant influence on regulators and central bankers. We review the empirical literature and conclude that the evidence is best described as mixed. We can show that existing theoretical analyses of this topic are fragile, since there exist fundamental risk incentive mechanism that operate in exactly the opposite direction, causing banks to become more risky as their markets become more concentrated. These mechanisms should be essential ingredients of models of bank competition.

DATA ANALYSIS

Hypothesis 1: Test of Independence (Chi-Squared test)

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</tr>
<tr>
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<td><strong>116</strong></td>
<td><strong>409</strong></td>
<td><strong>100%</strong></td>
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</table>

<table>
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<tr>
<td>Master</td>
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<td>75</td>
</tr>
<tr>
<td>Professionals</td>
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<td>28</td>
<td>18</td>
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<td><strong>Grand Total</strong></td>
<td><strong>111</strong></td>
<td><strong>182</strong></td>
<td><strong>116</strong></td>
<td><strong>409</strong></td>
</tr>
</tbody>
</table>

(fo-fe)^2/fe

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</tr>
<tr>
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<td>0</td>
</tr>
<tr>
<td>Master</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Professionals</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>0</td>
<td>0</td>
<td>1</td>
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<tr>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>111</strong></td>
<td><strong>182</strong></td>
<td><strong>116</strong></td>
</tr>
</tbody>
</table>
Observation-
The test proves that investment in fixed deposit is independent on occupation of Respondents.

Insights-
Many male and female members are investing in fixed deposit. The level of Risk is very less. Various schemes are launched by banks so that more people are Motivated to invest in fixed deposits. Low returns as compared to low risk.
Hypothesis 2: Test of Proportion

Ho: More than 30% of respondents were neutral about importance of interest rates while investing in Fixed deposits.
Ha: Less than 30% of respondents were neutral about importance of interest rates while investing in Fixed deposits.

H₀ : p > 30%
Hₐ : p < 30%
Test of Proportion
Left-tailed Test
Alpha = 0.1
Probability = 0.1
Critical value = (1.28)
Calculating Observed Value
x = 49
n = 182
p' = 27%
p = 30%
q = 70%
p'-p = -3%
\sqrt{p*q}/n = 0.21
p'-p
\sqrt{p*q}/n = (0.91)
Observed Value = (0.91)
p-value = 0.18
Alpha = 0.1
p-value>Alpha
We fail reject the null

Observation-
Preference of fixed deposit is independent of gender is neutral. Fixed deposit is prepared as an investment option by both men and women the test proves that fixed deposit is preferred less than 30% of respondent were neutral.

Insights-
This means that less respondents are interested in investing in fixed deposit. Therefore nationalize banks and co-operative banks need to target the behavior of youth. Typically most bank fixed deposit saving ads are targeted at senior citizen So bank manager could explore how to target youth women and men through their fixed deposits savings advertisement. It has been observed that private sector also provide type of fixed deposit but at high interest rate. But risk level is high. This trend could also be indicate of the fact that male and female both can invest In fixed deposit as it a safe option. For example, Bank of Baroda, Hdfc bank.
Hypothesis 3: Test of Proportion

Ho: Less than 50% of respondents invest less than Rs.1 lac in Fixed deposits.
Ha: More than 50% of respondents invest less than Rs.1 lac in Fixed deposits.

<table>
<thead>
<tr>
<th>Count of Timestamp</th>
<th>Nil 31%</th>
<th>Less than 50,000 40%</th>
<th>More than 50,000 1%</th>
<th>2,50,000 to 5,00,000 5%</th>
<th>1,00,000 to 2,50,000 3%</th>
<th>More than 2,50,000 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count of Timestamp</td>
<td>268</td>
<td>171</td>
<td>17</td>
<td>30</td>
<td>10</td>
<td>2</td>
</tr>
</tbody>
</table>

Preference of fixed deposit is growing as more than 50% of male and female are investing less than 1 lac Rs. It is for long term benefits. Fixed deposit is best saving option for youth and senior citizens. The test proves that more than people at a age of 35yrs are starting to invest in fixed deposit. Respondents of age are neutral opinion on Investment.

Insights-
Investment attracts all people irrespective of their occupation, educational and social status. Women also involves in investment activities. Females with income of Rs 50,000 to 100,000 invest in fixed deposit but the ratio is comparatively low as compared to number male. External sources are responsible for creating modifying and shaping investment. Decision of investors. Television, radio, print media, personal consultation for expert, relatives, and friends are responsible in making deposit in fixed deposit.

Hypothesis 4: Test of Proportion

<table>
<thead>
<tr>
<th>Count of Timestamp</th>
<th>Nil 31%</th>
<th>Less than 50,000 40%</th>
<th>More than 50,000 1%</th>
<th>2,50,000 to 5,00,000 5%</th>
<th>1,00,000 to 2,50,000 3%</th>
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<td>268</td>
<td>171</td>
<td>17</td>
<td>30</td>
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</table>
Ho: More than 50% of people investing in Fixed deposits have an annual income of Rs.3 lac p.a. To 5 lacs per annum.
Ha: Less than 50% of people investing in Fixed deposits have an annual income of Rs.3 lac p.a. To 5 lacs per annum.

Observation-
The test proves that less than 505 of people investing in fixed deposit have an annual income of Rs 3 lac per annum to 5 lacs per annum.

Insights-
A fixed deposit is a financial instrument issued by banks which provides investors with a higher rate of interest than a regular savings account, until the given maturity date. It may or may not require the creation of a separate account usually it is associate with the saving account of fixed deposit Holder. Basically, it is known as a term deposit. Deposits Traditionally, Bank FDs have been the most preferred mode of investing one’s hard earned money.
Hypothesis 5: Test of Proportion

\[ H_0: \ p > 55\% \]
\[ H_a: \ p < 55\% \]

Test of Proportion
Left-tailed Test
Alpha = 0.1
Probability = 0.1

**Critical value = (1.28)**

Calculating Observed Value
\[ x = 59 \]
\[ n = 117 \]
\[ p' = 50\% \]
\[ p = 55\% \]
\[ q = 45\% \]
\[ p' - p = -5\% \]
\[ \frac{\sqrt{pq}}{n} = 0.25 \]
\[ p' - p \]
\[ \frac{\sqrt{pq}}{n} = (0.99) \]

Observed Value = (0.99)

\[ p-value = 0.16 \]
\[ Alpha = 0.1 \]

\[ p-value > Alpha \]

We fail to reject the null

**Observations**-
The test proves that proportion of female who invest in fixed deposits is less than 55\%. Waiting for the characteristics is the main reward of investing in fixed deposit. Fixed Deposit is a scheme in which a definite amount is invested for certain period.

**Insights**-
Perhaps features like a predetermined fixed rate of interest, convenience, safety of Investment & Bank assurance. Few people make this as ideal choice.
Hypothesis 6: Test of Independence (Chi-Squared test)

**Ho:** Investing in Fixed deposits is independent of age.

**Ha:** Investing in Fixed deposits is not independent of age.

<table>
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<th>Row Labels</th>
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<th>Fds</th>
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<th>(fo-fe)^2</th>
<th>(fo-fe)^2/fe</th>
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<td>Grand Total</td>
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<td>74</td>
<td></td>
<td>416</td>
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</tbody>
</table>

**Chi-square test**
- Right tailed test
- Alpha = 0.1
- Probability = 0.1
- Critical value = 9.24
- Observed value = 417
- P value = 0.00
- Alpha = 0.1
- 0.00 < 0.1
- Reject the null
Observation-
Preference of investing in fixed deposit is independent of age. To compensate for the low liquidity, Fixed deposit offer higher rates of interest than Saving accounts. The longest permissible term for fds is 10 years. Generally, the longer the term of deposit, higher is the rate of interest but a bank may offer lower rate of interest for a longer period if it expects interest rates, at which the Central Bank of a Nation lends to banks.

Insights-
Decision making process on saving and investment is affected by attitude of Respondent.it shows the level of attitude of male and female, female group are Not interested in investment. The most popular form of Term deposits are Fixed Deposits, while other forms of term Deposits are Recurring Deposit and Flexi Fixed Deposits. The latter is actually a Combination of Demand deposit and fixed deposit. The study states the household preferred investing in Bank deposits.

CONCLUSION

The present scenario says that it is very important that we come up with analysis and find out that what the best is saving instrument for us. Because the prevailing market says that there is basically a low return on even the best instrument. Hereby we have said here that yes it becomes important that fixed deposits deemed to be the best instrument in the market where the interest rate is so low and therefore our respondents are of a view that it is important that they secure their money by investing in the right areas which says that it becomes important that we analyze the market and our particular financial advisor do the required market research. Therefore, hereby I conclude it by saying that it is very important that all the investment decision to be taken only after a deep analysis because the market is highly unpredictable and money invested is for the future which means that the money is looked up for a certain time period and therefore it is necessary that the money should not be converted into bad debt. And we consider that the Fixed Deposit in such a low interest rate prevailing environment is the best for any investment seeker.

LIMITATIONS OF THE RESEARCH

The research activity is based on complete assumptions because we tend to assume certain important factors which are involved in research and then come up with the conclusion. If we take a look at what we have performed here we will come to know that research is borne to have certain limitations with it.

Broadly classifying it as it may be possible that the respondent may lack time and perform wrong response may give vague reasons. Possibilities prevail that the respondent may not get the question right and he may give wrong answer. There is a possibility that due to technical issues he may not only get the questionnaire and then the response may not be received only. There is a possibility that people in spite of getting the questionnaire may not answer it. Therefore we have to keep in considerations all this factors while working on our questionnaire and then work on our responses because we have to keep the aspect of assumption to a big extent.

So when we came across this research we could find out that many respondents have kept us in dilemma with their two way answers which has not lead us to come a single conclusion and
therefore we could make many assumptions and this is what we believe is the biggest limitation of our research.

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3. http://amj.aom.org/content/40/4/799.short