Keynote address in the session on "*From a Nation of Savers to a Nation of Investors: The Transition*"[1]

I thank CII for this opportunity to be in the midst of such distinguished gathering. The topic '*Transition from a Nation of Savers to Investors'* straddles economic and financial fabric of our country. The transition that we are evidencing is not just a change in financial behaviour of the people, rather a shift in belief of how we are viewing wealth, economic growth and financial wellbeing.

Traditionally, households save a part of their income to meet tomorrow's unforeseen expenditure and a part in physical assets such as gold and house, so to leave those behind for the next generation. In the 1970s, unwinding from the informal financial sector, citizens reposed faith in government-owned banks, financial institutions and insurance companies for depositing their savings which offered decent returns. These savings would then get deployed in the productive sectors for economic activity. Stock markets were perceived as a place for traders dealing with speculation and not as a common man's platform for making investments. However, financial attitude seems to be changing.

Components of household gross financial assets indicate that during the years 2000-16, on an average 81 percent of the financial assets were held in cash and bank deposits with investment in bond and equity averaging 3 percent. In more recent years, 2017-22, the share of cash and bank deposits has declined to 46 percent and that of bond and equity has risen to 7 percent. Financial saving for social security such as in insurance, pension and small savings has shown a steady increase.

As we aspire to be a high–income country over the next 25-years we need to be growing on an average around 8.0 percent per annum. This will require commensurate levels of investment. In this context, efficient conversion of savings to capital formation is crucial. For instance, to achieve an annual GDP growth rate of 8 percent, we need an investment rate of around 36 percentage of GDP per annum, assuming a capital output ratio of 4.5. This has to largely emanate from domestic saving. Of course, we can afford capital from abroad, which we have been doing for years, but there is a limit as it has an implication for our external balance.

[1] Keynote address by Dr. Deepak Mohanty, Chairperson, Pension Fund Regulatory and Development Authority (PFRDA) at CII – Financing 3.0 Summit – Preparing for Viksit Bharat, 2nd - 3rd Sept 2024 at Mumbai, September 03, 2024.

The economic and financial liberalization initiated in the early 1990s was the turning point for opening up the economy and positioning India as an investment-friendly destination. We saw emergence of private sector banks, financial institutions, private sector insurance, development of capital markets, exchanges and mutual funds. Financial system underwent technological modernisation, anonymous electronic trading and fund transfers, strengthening of regulatory frameworks for good governance practices, transparency and investor protection.

The institutional foundations of the financial markets were reinforced with regulators in capital market, insurance, competition, pension, insolvency, and Companies Act in 2013 - strengthening corporate governance, transparency and accountability for companies. The widening of investment opportunities in a trusted regulatory environment offered citizens to earn returns commensurate to their risk appetite and diversify their investments across instruments and sectors.

This secured environment in addition, facilitated demand for long-term debt instruments and in particular from insurance and pension entities. Currently the retirement-savings sector investment is around Rs 50 lakh crore, over 16 percent of GDP. The pension sector that we regulate, covering NPS and APY, has investment of Rs 13 lakh crore, out of which infrastructure investments is about Rs 2 lakh crore and equity investment is about Rs 2.6 lakh crore. As our income levels rise, this sector is poised for growth as in advance countries such as in OECD countries, pension assets average about 87 percent of their total GDP.

The financial inclusion drive of the Governments played a pivotal role in making formal finance accessible to all, as reflected in 53.20 crore Jan Dhan bank accounts of low income and underprivileged people with deposits of Rs 2.3 lakh crore. It also helped to improve financial literacy.

Technology lowered the barrier to entry to financial markets and reduced costs. Urge to earn better returns over traditional deposits, fuelled with smartphone usage, households owning smartphones increased from 36 percent in 2018 to 74 percent in 2022, and rise of Fintech, facilitating easier access to financial information, investment opportunities and artificial intelligence driven portfolio management tools, the avenues of investments have expanded with increased affordability.

The change in financial behaviour and attitude, from safe or risk averse to taking risks for growth of wealth, is quite evident from the rise in Demat accounts holder (16.2 crore), MF SIP accounts (9.34 crore), emergence of a number of online equity trading platforms, share of retail investors in equity cash segment turnover rising to 36 percent in 2023-24 from 12 percent in 2013-14.

Appetite for newer instruments led to introduction of digital gold, Alternative Investment Fund (AIF), Real Estate Investment Trust (REITs), Infrastructure Investment Trusts (InVITs), Green Bonds, Exchange Traded Funds, Cryptocurrency, Crowdfunding / Peer to Peer lending etc. With focus on innovation and startup ecosystem, venture capital investments are attracting investors including individuals, willing to take higher risks for potentially higher returns, with the expectation that the startup upon turning 'unicorn' will provide substantial multiplier to the investment.

While the progress made so far and the journey of the average household in that has been impressive, there is need for greater depth in our financial sector to provide the scale and risk capital commensurate with our envisaged growth trajectory. Second, innovative mechanisms need to be developed to bridge the financing gaps in productive sectors such as small and medium scale enterprises. Third, as the conduct of finance is becoming increasingly digital so also the associated data privacy and cyber security risk which requires mitigating steps. Fourth, there is a need to make concerted effort to improve financial literacy including awareness of cyber risks of all sections of our population, so that individuals understand financial risks and make decisions commensurate with their risk bearing capacity. Fifth, for the regulators to have a robust mechanism for consumer protection becomes important.

Finally, this transition under way from a nation of savers to investors marks a paradigm shift in our economic and financial landscape. It reflects our growing confidence in the financial system and its regulatory underpinnings, improving financial literacy levels, and broader investment opportunities. It is incumbent on all the key stake holders to see that its progress is on prudent lines so that confidence is retained to best serve the real sector. By nurturing a culture of informed investing, we can build a stronger, more resilient economy that benefits all the segments of society.

Thank you.

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