ISSN: 2395-1664 (ONLINE)
DOI: 10.21917/ijms.2020.0157

A COMPARATIVE ANALYSIS OF RECURRING SCHEME OF STATE BANK OF INDIA AND SYSTEMATIC INVESTMENT PLAN OF SBI AMC

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Abstract

Setting aside a fixed amount of money every month specifically for savings or investment is the best way for wealth maximization. If the question where to invest arises, then everybody probably recommend Recurring Deposits (RD) of banks. For people willing to invest a fixed amount every month rather than a making a single time investment of a huge amount, there are many alternatives with potentially higher returns are available. One such alternative is the Systematic Investment Plan (SIP) which is offered by mutual fund houses. The product works same as bank Recurring Deposits, the difference being, SIPs invest in capital markets which include equity and debt instruments. SIP and RD serve the purpose of long-term wealth creation, and are popular savings plans among retail investors. But, the question here is which of the two modes of investment is better than the other? RD or SIP? This question necessitates the need to compare the benefits of RD and SIP to help the investors to evaluate the differences and make a prudent decision in opting for the investment solution that would best suit their interest. Thus, the primary interest of this paper is to shed light on the differences between the systematic investment plan and recurring deposit, and to help people achieve their long term financial goals and maximize their wealth.

Keywords:

Systematic Investment Plan, Mutual Fund, Recurring Deposit, Mutual Fund Houses, Wealth maximization.

1. INTRODUCTION

Investments are the best way to maximize returns. Investment involves employment of funds with the aim of achieving additional income or growth in values. The mutual fund is the vehicle for investing in a diverse pool of assets. People focus mostly on risk free investments such as PPF, Bank Deposits, Insurance policies, Real estate etc. But relying too much on fixed income options is just as risky as equity investments. The mutual fund option is a safer option for them. SIP is the best for those who are interested in long term regular investments [1]-[3].

Savings is also important as investments. It is the safest way to accumulate money. The ability to save money is the cornerstone of building wealth. It's also essential for one's sense of security. The deposit is a safe way to save money for unexpected expenses. The first and probably most important savings goal you need to consider is building up an emergency fund. You cannot always predict what life has in store for you. A financial emergency may take the form of a job loss, significant medical or dental expense, unexpected home or auto repairs or something unexpected etc. There are mainly four types of deposit accounts. They are: 1) Fixed Deposit, 2) Savings, 3) Recurring, and 4) Current accounts. Among them Recurring Deposit is more suitable for those who are interested in long term regular deposit [4]-[6].

1.1 MUTUAL FUND

A mutual fund is a tool that collects money from a number of investors who have a common Investment objective. Then they invest the money in equities, bonds, money market instruments or other securities. Each investor owns units which represent a portion of the holdings of the fund. The income generated from this investment is distributed among the investors after deducting certain expenses by calculating a schemes NAV. This fund is managed by a professional fund manager of the asset management company [7].

1.2 SYSTEMATIC INVESTMENT PLAN

A systematic investment plan is also commonly referred to as SIP. It’s a plan that allows investors to make regular equal payments into mutual funds, trading accounts, or retirement accounts. Aside from these, one can also benefit from the long-term advantages of dollar-cost averaging (DCA). Dollar-cost averaging involves buying a fixed-dollar amount of a security no matter what the price might be. Keep in mind that shares can be bought at varying prices. This then means that the average cost per share of a security has the potential to decrease over time. Additionally, the risk of investing a large amount of money also decreases. Most often, liquid accounts such as money market accounts are used for funding payments. They can also be used for buying shares that go into a systematic investment plan. Additionally, most investors decide to reinvest dividends received from their holdings back into purchasing more stocks. Such actions are referred to as dividend reinvestment plans [8].

1.3 ADVANTAGES OF SIP

- Management of the fund by the professionals or experts.
- Enjoy the benefits of diversification.
- The mutual fund industry is well regulated both by SEBI and AMFI.
- Market timing becomes irrelevant.
- It makes investing easier as it does not strain our monthly finances.
- Reduces the average cost.
- Result in large wealth and help fulfil dreams and aspirations of investors.

1.4 RECURRING DEPOSIT

Recurring deposit is one of the most preferred investment schemes available in India. Risk averse investors looking for a promising investment scheme with good returns choose Recurring Deposit because it is simple and is a straightforward financial product. In a recurring deposit scheme, the investor deposits a set amount every month over a predefined tenure, which generally varies between one and five years. The recurring deposit scheme has one major differentiating point when compared to fixed deposits - in a fixed deposit scheme, the investor has to deposit a lump sum once and leave it untouched for a period of time. So, people who do not have a lump sum or people who are looking to invest a set amount every month usually prefer Recurring Deposits. The principal amount deposited is returned at the end of tenure along with the interest. Normally, the interest is calculated on a quarterly compounding basis for recurring deposits [9].

1.5 OBJECTIVES OF THE STUDY

The objective of this study is to compare recurring schemes in bank deposits and Systematic Investment Plan of mutual funds. To get more clarity here comparison is done with the recurring scheme of the State Bank of India and Systematic Investment Plan of SBI Asset Management Companies.

The main objectives are:

- To give a brief idea about SIP and RD scheme of the State Bank of India
- To know which one will give better returns SIP or RD
- To study the role of investment in wealth maximization

The overall objective of this project is to compare SIP and RD schemes and also calculate their returns from last 10 years. So this study will definitely help the investors who are interested in long term regular investments.

1.6 SIGNIFICANCE OF THE STUDY

The comparison between Systematic Investment Plan and Recurring Deposit provide greater interest to several market participants as it gives valuable information about the relative performance of the SIP and RD and helps in efficient allocation of money for the investors. This study would also help the fund managers to examine their forecasting ability and revise their asset allocation decisions. It also helps the people to achieve their long term financial goals and wealth [10].

1.7 SCOPE OF THE STUDY

The study mainly focuses on analyzing Systematic Investment Plan and Recurring Deposit schemes. It also concentrates on factors affecting the investment decision of the investors for the purpose of the present study, recurring scheme of the State Bank of India and systematic investment plan of SBI asset management companies.

1.8 LIMITATIONS OF THE STUDY

The scope of the project is limited as the survey is conducted with shortage of time, and is based on secondary data. So there is a lag in publication of the up-to-date information on various websites, journals, etc. The banks were not disclosing their exact portfolio because they have a fear that it will affect the reliability of their schemes among investors.

2. REVIEW OF LITERATURE

A.K. Singh and K.V. Singh [10] concludes that the most vital problem spotted is of ignorance. Investors should be made aware of the benefits. Nobody will invest until and unless the person is fully convinced. Investors should be made to realize that ignorance is no longer bliss and what they are losing by not investing.

1. Mutual funds offer a lot of benefits which no other investment option could offer. But most of the people are not even aware of what actually a mutual fund is. Young investors as well as persons at the height of their career would like to go for advisors due to lack of expertise and time.
2. Younger people aged below 35 will be a key new customer group in the future. So, making greater efforts with younger customers with interest in investing should pay off.
3. It is easier to sell to customers who are graduates and there is a large untapped market there. To succeed, however, advisors must provide sound advice of high-quality.

In [11], the authors revealed in the study that many people invest in recurring deposit to meet the future plans of their children. The study also suggested that adopting an advertisement strategy will increase the number of deposits.

In [7], the author has identified that medium and small investors have a clear perception towards post office schemes. The study also recommends that an essential strategic planning is necessary to compete with private institutions and to create awareness about the financial schemes in post offices.

Aruna and Senthamil [8] have observed that private employees prefer to invest more than others. More than female respondents, male respondents preferred to invest in a systematic investment plan of a mutual fund. From the perspective education, respondents who were graduates have the intension to nurture saving habits. Of the respondents, 54.7% were between the annual income range between INR 100000 and INR 300000, while 92.7% of respondents were aware of SIP. The analysis revealed that 47.3% of the respondents preferred to invest in tax savings scheme of a mutual fund, 34.7% of respondents were willing to invest a sum from INR 5000 to INR 10000 every month, and 34.7% of respondents considered safety as a top priority. From the regression analysis it is revealed that there is a relationship between age and opinion regarding investment. The investments should be in such a way that it should match the Inflation.

Unnamalai [12] noted that nowadays investors prefer to diversify their risks and the returns should be higher, tax exemptions, etc. Today many institutions are busy in providing wealth management services to its investors. But these services are very costly. Due to this reason, the mutual fund industry is gaining importance and attracts more investors. The present study analyses the mutual fund investments in relation to investors' awareness. This study, in addition to creating awareness about investment schemes, strives to discover the various investments options other than mutual funds. Nearly 75% of the investors are having investments other than mutual funds. The study also reveals the opinion of the Investors by learning their perception on various issues like type of mutual fund scheme, main objective behind investing in mutual fund scheme, level of satisfaction, role of financial advisors and brokers, investors' opinion relating to factors that attract them to invest in mutual funds, sources of information, deficiencies in the services provided by the mutual fund managers, challenges before the Indian mutual fund industry etc. The study reveals that there is a positive growth in their investments and majority of them expects safety, diversification of their risks, high returns etc. Majority of them expects the agents to be subjected to regular awareness campaigns so that they can give up-to-date and relevant advice to the investors. Such activities will win the confidence of the investors.

Confidence level of investors was analysed by Mane [12], in which she took 30 investors of Aurangabad city. The objective is to study the investors' view on mutual fund as per the sample size and test which is applied to the study. She found that the investors are not choosing or feeling confident in investing in mutual fund because they think that mutual fund is riskier than other investment options. The awareness level of mutual fund among the investors is very low, and this partial knowledge prevents them from investing in mutual fund to avoid the risk of losing money. Investors mostly prefer Fixed Deposit because they feel that it is the safest and that the returns are fixed. Apart from this it is realized that the investors are facing various problems in selecting mutual fund as an investment option due to the uncertainties and risks associated with it. Hence, Investors avoid investing in mutual funds.

3. RESEARCH METHODOLOGY

Research methodology is a science of studying how research is done scientifically. The study is conducted in the following manner:

3.1 COLLECTION OF DATA

This is a descriptive study conducted by using secondary data. The secondary data is collected from the websites of SBI and SBI AMC.

3.2 METHOD OF ANALYSIS

The general information about SIP and RD are collected from the website of SBI and Various websites of AMCs.

3.3 TOOLS OF ANALYSIS

The tool applied for data analysis is Compound Interest and Paired Samples Test. The study used necessary graphs and diagrams wherever necessary.

4. ANALYSIS AND INTERPRETATION

Table.1. SIP Returns

Year	Expected Rate of Return	Investment Amount (Rs.)	Maturity Value (Rs.)
1	12%	12000	12809.33
2	12%	24000	27243.20
3	12%	36000	43507.65
4	12%	48000	61834.83
5	12%	60000	82486.37
6	12%	72000	105757.03
7	12%	84000	131979
8	12%	96000	161526.57
9	12%	108000	194821.51
10	12%	120000	232339.08

Table.2. Recurring Deposit Returns

Year	Invest ment (Rs.)	Interest Rate for general public	Maturity value for general public (Rs.)	Interest rate for senior citizen	Maturity value for senior citizen (Rs.)
1	12000	6.40	12442	6.90	12457
2	24000	6.40	25658	6.90	25795
3	36000	6.25	39668	6.75	39980
4	48000	6.25	54618	6.75	55193
5	60000	6.25	70527	6.75	71459
6	72000	6.25	87451	6.75	88850
7	84000	6.25	105458	6.75	107446
8	96000	6.25	124617	6.75	127331
9	108000	6.25	145001	6.75	148590
10	120000	6.25	166690	6.75	171322

From Table.2, following inferences are reported below:

- For 1 year, SIP was making a return of Rs. 12809.33, but RD was only generating a return of Rs. 12442 in case of general public and Rs. 12457 in case of senior citizen.
- For 2 years, SIP made a return of Rs. 27243.20, but RD was only generating a return of Rs. 25658 in case of general public and Rs. 25795 in case of senior citizen.
- For 3 years, SIP made a return of Rs. 43507.65, but RD was only generating a return of Rs. 39668 in case of general public and Rs. 39980 in case of senior citizen.
- For 4 years, SIP made a return of Rs. 61834.83, but RD was only generating a return of Rs. 55618 in case of general public and Rs. 55193 in case of senior citizen.
- For 5 years, SIP made a return of Rs. 82486.37, but RD was only generating a return of Rs. 70527 in case of general public and Rs. 71459 in case of senior citizen.
- For 6 years, SIP made a return of Rs. 105757.03, but RD was only generating a return of Rs. 87451 in case of general public and Rs. 88850 in case of senior citizen.
- For 7 years, SIP was making a return of Rs. 131979, but RD was only generating a return of Rs. 105458 in case of general public and Rs. 107446 in case of senior citizen.
- For 8 years, SIP made a return of Rs. 161526.57, but RD was only generating a return of Rs. 124617 in case of general public and Rs. 127331 in case of senior citizen.
- For 9 years, SIP made a return of Rs. 194821.51, but RD was only generating a return of Rs. 145001 in case of general public and Rs. 148590 in case of senior citizen.
- For 10 years, SIP made a maturity value of Rs. 232339.08, but RD was only generating a maturity value of Rs. 166690

in case of general public and Rs. 171322 in case of senior citizen.

4.1 PAIRED SAMPLES TEST

Table.3. Comparison between Investment and Return towards General Public and Senior Citizens

Pairs	Investment Type	Mean	Std. Deviation	*t*	Df	Sig
Pair 1	Investment - Interest Rate	6.59	36331.84	5.74	9	.000
Pair 2	Investment - Maturity value for general public	-1.721	15899.97	-3.42	9	.008
Pair 3	Investment - Interest rate for senior citizen	6.599	36331.84	5.74	9	.000
Pair 4	Investment - Maturity value for senior citizen	-1.884	17476.21	-3.40	9	.008

The Table.3 depicts that there is a relationship between investment made by the respondents and the maturity value among general public and senior citizens as the level of significance is less than 0.05.

Table.4. Comparison between Investment Amount and Maturity Value with reference to SIP Returns

Pair	Investment type	Mean	Std. Deviation	Std. Error Mean	*t*	Df	Sig
Pair 1	Investment Amount - Maturity Value	-3.94	38166.68	12069.36	-3.267	9	.010

The Table.4 depicts the investment amount with SIP have an impact towards maturity value with reference to SIP returns.

5. FINDINGS

From the analysis, it can be clearly understood that SIP is better as compared to RD in terms of returns.

- The study found that the return on SIP is not assured, but it is good if investment is done for long periods. Return on RD is fixed and it is less risky and safest form of savings.
- The RD is opted by the investor only when investors wish to reduce the risk. As the risk is reduced the return also will be low.
- There is a relationship between the investment made by the respondents and the maturity value among general public and senior citizens.
- Investment amount with SIP has an impact on maturity value with reference to SIP returns.

6. SUGGESTIONS

Investors should invest in mutual funds and recurring deposits to allow money to grow. They can invest in these tools to get good returns, based on their risk appetite. Once the investment plan is decided, it is advisable to read the fine print thoroughly to understand the product.

The companies should dispatch their annual report in time to their investors so that the investors are informed about the company's financial position. This will help the investor to know the status of their investment.

Strict regulations should be enforced by SEBI with regard to Corporate Governance. SEBI should enforce strict regulations on mutual fund companies where frauds are committed. There has been a conflict of personal interest of fund managers in the past. SEBI should enforce, strict regulations, so that other mutual fund companies will be deterred from committing frauds in future.

Investors should make investments by considering their risk appetite in order to allow their investments to grow and generate better returns. It is recommended, to consult and keep in touch with a qualified advisor or firm before taking a decision about investments.

7. CONCLUSION

Systematic Investment Plans are market linked. Its returns are not guaranteed. Recurring Deposits are one of the safest investment options. So the returns are guaranteed at a fixed interest rate. SIP gives us good returns on long term investment options. In case of RD, as the investment is in bank deposits, the Investors are interested in going for it. It could change over time. Likewise the return on SIP depends on market and can vary across schemes and market conditions. The major disadvantage of a Recurring Deposit is that it is not tax efficient. TDS (Tax Deducted at Source) is applicable on the interest income from RD.

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