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THE WALL STREET JOURNAL.

WSJ.com

INDIA NEWS | JULY 2, 2010, 5:56 A.M. ET

MAXIMUM MONEY

Indians Are Better Off than Americans

By SHEFALI ANAND

This July 4, Americans will have more than just their independence to celebrate – if all goes well, they will soon have a stronger financial system which emphasizes consumer protection and reduces risky investing by Wall Street thanks to a new law.

But the recent economic downturn has shown that individual Americans, too, will have to learn something about financial prudence. For that, they could look to the world's largest democracy -- India.



Shefali Anand

A [recent study](#) by economists at the Federal Reserve Bank of Chicago found that Indians are more focused on education and savings than Americans. (The study looked at people in the top third of India's economic class.) Among Indians who responded to a basic survey of financial literacy, 80% got the right answers, while in a comparable study in the U.S., only 60% of Americans got the answers right.

At the risk of making my American friends a little peeved, I decided to use this opportunity to look at ways in which Indians are better off than Americans and how we can keep it that way.

Savers...No, Huge Savers!

We have always been raised to save but did you know that on average Indians are saving as much as 62% of their salary?

Those are the findings of a recent survey of 2,500 individuals or families conducted by financial website InvestmentYogi.com. The data was analyzed by Sumit Agarwal, a senior financial economist at the Federal Reserve Bank of Chicago and a visiting faculty member at the Indian School of Business in Hyderabad.

"Because there is no social safety network in India...you have to save on your own," says Mr. Agarwal.

In contrast, the typical American saves anywhere from 10% of his salary to negative 5% (meaning he or she is in debt), says Mr. Agarwal. Americans feel they can count on government-provided social security, healthcare and unemployment benefits so they don't worry about saving for most of their lives.

But when the time comes, they often find that these government benefits are not enough maintain their existing standard of living. "Empirical evidence shows that people's consumption drops at retirement," says Mr. Agarwal.

While he has not seen comparable data in India, he suspects that isn't the case in India because of the high savings and support of the extended family. However, as nuclear families become more and more common in India, it's important that we don't lose sight of the need to save.

Low Debt

In India, there's a saying: Don't stretch your legs more than the length of your sheet. We tend to follow this rule pretty religiously, by sticking within our means.

"It's almost taboo to have a loan on your personal self," says Puneet Matta, head of wealth management for Credit Suisse in India.

That mentality has been changing in recent years, as more banks have been aggressively lending to individuals. Mr. Agarwal's study found that loans taken by individuals in his sample study were primarily to buy a home or a car – arguably "good loans" because they help build assets. Meanwhile, credit card debt and personal loans, which carry steep interest rates, were a much smaller part of the individuals' overall liabilities.

In contrast, hundreds of thousands of Americans are reeling under credit card debt because they've grown up following the motto: consume today, not tomorrow. Last year, the U.S. government passed a sweeping law that restricted fees and increased transparency about costs involved in credit cards in an effort to make consumer habits more prudent.

We can hardly be complacent in India. Mr. Agarwal found that younger Indians (less than 30 years old), had debt levels that were two to three times higher than older Indians, and their default rates were also higher. While these are not at alarming rates yet, "in the future, that is something we have to be careful about," he says.

Investor-Friendly Regulator

India's capital markets regulator, the Securities & Exchange Board of India, has in recent years taken several proactive steps to make investment products friendlier for individual investors. Its boldest step came last year when it banned upfront sales commissions on mutual funds. Consumer activists in America, the largest mutual fund market in the world, have not been able to achieve this feat.

"Rest of the world is looking at India and saying, 'Wow, this is pretty ground-breaking,'" says Ariadne Horstman, a financial planner with InvestmentYogi.

Still, a lot more needs to be done. Like the rest of the world, Indian investors often get pushed into buying unsuitable products because it serves the sales agent or the financial advisers. All the more reason for us to stay alert.

Few Exotic Financial Products

So far at least, the India has not been flooded with exotic investment products of the type that have hurt thousands of individuals in the U.S.

One of the most infamous of these is the "adjustable-rate mortgage," which is a type of home loan in which the interest rates go up or down depending on changes in an index. Hundreds of thousands of Americans who had taken these loans between 2004 and 2007, when interest rates were low, were unable to repay their loans after rates went up in 2007. They lost their homes and contributed to the U.S. economic collapse. These consumers said they didn't understand the terms of these

products.

The typical Indian so far is exposed to mostly traditional investments, like stocks, bonds, gold etc., and banks in general have been prudent about their loans products. But as Wall Street firms make their way to India, and competition increases domestically, it's only a matter of time before exotic financial products are made available to us. When that happens, try to avoid the ones that can explode.

In the meantime, I'm looking forward to hearing another type of explosion (on YouTube?) – July 4 fireworks!

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