



“Handling The Unexpected” A Proposed Study On Financial Management By Middle Income Group For An Unexpected Expenditure

Author: Mrs. R. Ramalakshmi, Research Scholar, Department of CS and AF, Faculty of Science and Humanities, SRMIST, KTR.

Co-author: Dr. R. Sridharan, Research Scholar and Head, Department of CS and AF, Faculty of Science and Humanities SRMIST, KTR

Abstract

Money management is a crucial task, especially for the lower and middle income group of people. The control over their money, must be in a most effective way for accomplishing their desired financial goals. But, sometimes, things may exceed such control, due to some unpredicted commitments or at times of emergency. Managing all such things, speaks the financial strength of that family. This study focuses on the financial management steps adopted by the middle income family during the happening of a huge unexpected expenditure.

Key words: Financial management; handling the unexpected; middle income group;

1. Introduction

Out of 140 crore Indians, 35 crores are middle income earners. One out of three Indians is in middle class. Income group who are neither rich nor poor. They are the key engine drivers of any vast economy, especially in India and are the key economic developers. Their purchasing power become more instrumental and has brought exponential powers to the country's economic growth. It is their savings which brings the ripple effects in the economy as they save and in turn make investments. Apart from this, they are the largest human chunk in India, who paves way for entrepreneurs in production to consumption. This Great Indian Middle class people, on the other side struggling for betterment, after the lay-off situation due to pandemic 2019. Even after things got better, they are about to strive in an unexpected sudden expenditure, especially when it is huge. These group had to forgive or postpone in alternate to meet that unexpected one. This study proposes to find the steps adopted by them during such an unpredicted expenditure.

1.1 Objectives

- To identify the financial management practices adopted by the middle income group of people.
- To categorize the steps taken by them during an unpredicted huge expenditure
- To know about their back up plan during a medical emergency

1.2 Scope

- The study examines the steps taken by the middle income group to handle an unpredicted expenditure
- It also tries to find the commitments that are forgiven or postponed for meeting the sudden huge expenditure.
- It discusses the feeling of middle income group on their financial responsibility
- The study also examines the preparedness for meeting the unexpected
- The study is carried out with 153 respondents in total with reference to various parts of Chennai.

2. Methodology

2.1 Population: Middle income group of people

2.2 Method of Sampling: Purposive and snowball sampling

2.3 Data collection: Primary data collection method was used in which questionnaire were used to collect responses from the respondents and secondary data were collected for the research content.

3. Theoretical Background

Investment objectives of middle income group investors: A comparison of north and south India (Dr. Geetu Yadav and Dr. Mohit Kumar Ojia in 2020): In a people resource rich country like India, the main objective of investment, is for future security followed by Tax shelter, return yield and capital appreciation. The study also adds middle income group of investors prefer investment as a second source of income.

Borrowing and selling to pay for Health care in Low and Middle income countries (Maegaret E. Kruk, Emily Goldmann, and Sandro Galea in 2009): Discuss in their studies, One in four families across forty developing countries, borrowing or selling assets or both, to afford health care. The study claims, those low and middle income countries failed to have a good health care strategy to protect people from their potential economic hardship. Through national studies, it also reveals that in developing countries, there is an indication of higher rates of borrowing and selling by the household, to cope up with financial shocks, due to medical bills.

Rising prices and financial management practices of Urban families in India (Suramaya Joshi in 2007): This study is objective towards finding the financial management practices adopted by different income groups on account of rising prices. This study signifies through its results, that low income family suffer to handle their actual incurred expenditure than planned expenditure due to hike in prices and also couldn't apportion any separate fund for their health care expenditure.

What is the middle income trap, why do countries fall into it, and how it can be avoided? (Homi Kharas and Harinder Kohli in 2011): This study discusses on a most important phase of economic transition that is the middle income trap. It also provides that the reason behind it for a country to get trap in, is the ineffective economic strategy. The study lists down three critical transitions for avoiding the trap, i) from diversification to specialization in production ii) from physical accumulation of factors to productivity led growth iii) from centralized to decentralized economic management.

3.1 Middle income family group in India

According to economic times, middle income group in India is classified into 3 levels, where, a household that earns between Rs.1,00,000 and Rs. 2,00,000 is the lower middle class, household that earns between Rs. 2,00,000 to Rs.5,00,000 is the middle income class and those who earns between Rs. 5,00,000 to Rs.10,00,000 is upper middle class.

3.2 Financial management in middle income group

Financial management refers to managing funds with regard to expenses, savings and investment. Ahead of all such factors that creates price hike, managing the income so received, is not an easy task for the low and middle income group. It is purely based on controlled spending and planned saving strategy, that makes any income group financially viable.

Controlled spending are done through planning and budgeting of every income received, monitoring and recording every expense, acquiring credit only if it is needed and also involving family decisions at any spending.

While, Planned saving will be wiser, when such savings serve some sort of income or appreciation in value like bank interest, post office savings, investing in bonds, buying a gold jewelry or investing in land, property, etc., Also, investing in mutual funds, stock market, etc., is done based on the risk bearing capability of the household.

3.3 Unpredicted expenditure

Any expenditure that is to be met unplanned or unexpected is an unpredicted expenditure. Managing such unpredicted expense is a great hurdle for this income group, especially when the amount is huge. Some of those are emergency medical expenses, sudden unavoidable repair cost for house or automobile, sudden loss of income, commitment to be fulfilled for any other occasions like marriage or funeral, shifting of house or place of work, etc., Any of these unforeseen huge expenditures can be managed either through savings or sale of any asset or through debt.

4. Analysis and discussion

4.1. Demographic profile of Middle Income Group Respondents:

The demographic profile of the middle income group was the subject of the first segment of the study. The information gathered from MIG respondents were from various parts of Chennai. The study concentrated on the demographic profile because it is so crucial in analysing the steps taken by them for managing the sudden situation of huge spending. The following is a blue print of the demographic distribution of the respondents, shown in table 1.1 below:

Table 1.1 showing demographic details of respondents

Gender	Count	Percentage
Male	72	47.4
Female	80	52.6
Age	Count	Percentage
18 to 30	44	28.9
30 to 50	76	50
50 and above	32	21.1
Educational Qualification	Count	Percentage
Schooling	48	31.6
Under- Graduation	44	28.9
Post- Graduation	52	34.2

Others	8	5.3
Occupation	Count	Percentage
Agriculture	3	2
Self- employment	1	.7
Private employment	84	55.3
Govt employment	20	13.2
Others	44	28.9
Annual income	Count	Percentage
1,00,000 – 2,00,000	76	50
2,00,000 – 5,00,000	36	23.7
5,00,000 – 10,00,000	40	26.3
No. of persons earning	Count	Percentage
1	80	52.6
2	56	36.8
3	16	10.5
4 and more	0	0
*Percentage are accurate upto two decimals		
Source: responses from Questionnaire		

4.2. Satisfaction on Credit management of MIG in their Financial responsibilities:

Financial Condition:

As shown in table 1.2, out of total sample of 153 MIG respondents, 13.2% (20 of the total respondents) were extremely satisfied, 71.1% (108 of total respondents) were moderately satisfied and 15.8% (24 of the total respondents) were not at all satisfied on their current financial condition.

Financial Responsibility:

As shown in table 1.2, out of total sample of 153 MIG respondents, 26.3% (40 of the total respondents) were satisfied on their financial responsibility, 50% (76 of total respondents) were moderately satisfied and 23.7% (36 of the total respondents) were not at all satisfied and feeling burdened on their current financial responsibility.

Difficulty in paying bills

As shown in table 1.2, out of total sample of 153 MIG respondents, 10.5% (16 of the total respondents) found no difficulty in paying their bills, 84.2% (128 of total respondents) found it difficult but manageable and 5.3% (8 of the total respondents) feel extremely difficult in paying their regular bills.

Investment goals

As shown in table 1.2, out of total sample of 153 MIG respondents, 31.6% (48 of the total respondents) meets their investment demands, 34.2% (52 of total respondents) does not meet and 34.2% (52 of the total respondents) were moderately satisfied in meeting their investment demands.

Table 1.2 showing satisfaction on their credit management

Satisfaction on financial responsibility	Count	Percentage
Yes	20	13.2
Not Bad	108	71.1
Not enjoying and feeling burdened	24	15.8
Satisfaction on financial Condition	Count	Percentage
Extremely Satisfied	40	26.3
Moderately satisfied	76	50
Not satisfied	36	23.7
Investment meets demand	Count	Percentage
Yes	48	31.6
No	52	34.2
Not Bad	52	34.2
Difficulty in paying bills	Count	Percentage
Not at all difficult	16	10.5
Difficult but manageable	128	84.2
Extremely difficult	8	5.3

2.3 Financial Preparation:

Monitoring Expenses:

As shown in table 1.3, out of total sample of 153 MIG respondents, 31.6% (48 of the total respondents) keeps written records for all expenses, 65.8% (100 of total respondents) keeps an eye on all their expenses without written records and 2.6% (4 of the total respondents) does not monitor their expenses.

Medical Insurance coverage for Rs. 5,00,000:

As shown in table 1.3, out of total sample of 153 MIG respondents, 42.1% (64 of the total respondents) has full insurance coverage for medical expenses, 7.9% (12 of total respondents) has full self- coverage and not for family and 15.8% (24 of the total respondents) has insurance coverage but for less than Rs.5,00,000 and 34.2% (52 of the total respondents) does not have insurance coverage.

Fund for Emergency:

As shown in table 1.3, out of total sample of 153 MIG respondents, 47.4% (72 of the total respondents) maintains fund for emergency purposes, 52.6% (80 of total respondents) does not maintain any fund for the same.

Table 1.3 showing their preparation for an unexpected

Monitoring Expenses	Count	Expenses
Keeps written records for all expenses	48	31.6
Keeps an eye on all our expenses without keeping records	100	65.8
Does not monitor	4	2.6
Medical insurance coverage	Count	Percentage
Yes, coverage for full family	64	42.1
Yes, but coverage for self alone	12	7.9
Yes, but not fully covers Rs. 5,00,000	24	15.8
No Insurance policy maintained	52	34.2
Fund for Emergency	Count	Percentage
Yes	72	47.4

No	80	52.6
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2.4 Steps taken to handle the Unpredicted Expenditure:

From the below table, it can be examined that, the middle income group of people handle their unexpected expenditure, preferably through savings, followed by using credit cards and takes coverage from insurance. They prefer least to arrange funds through sale of assets, availing personal loans, helps from friends and relatives, loan from insurance, external debt or withdrawal from pension fund.

Table 1.4 showing the steps taken to handle the unexpected expenditure

Steps taken to meet the UE	Mean value	Rank
Manage from savings	66.7	1
Use credit card	51.97	2
Takes coverage from insurance	50.45	3
Sell or mortgage Assets/ gold	50.36	4
Avail personal loan	48.63	5
Take help from friends and relatives	47.71	6
Loan from Insurance	43.86	7
Avail credit from others	43.65	8
Withdraw Pension Fund	41.18	9

2.5 Commitments that MIG would forgive or postpone to meet the sudden expenditure:

From the below table 1.5, it can be examined that the most preferred commitments that MIG would postpone is Housing loan or rent followed by credit card payment and payment of insurance premium. The lesser preferred one is the on-going medical treatment, school or college fee, payment to loan or outsiders.

Table 1.5 showing commitments that MIG is most preferred to postpone or forgive to meet the unexpected

Commitments that are preferred to postpone or forgive	Mean value	Rank
Housing loan interest/ house rent	55.42	1
Credit card payment	54.52	2
Payment of insurance premiums	51.39	3
Payment for Outsiders	50.11	4
School fee/ college fee	49.55	5
Payment for Bank for loan availed (other than housing)	45.81	6
On-going Medical treatment	41.18	7

5. Limitations and suggestions

- The study is limited to 153 middle income respondents from various parts of Chennai, and so the results cannot be generalized
- The limitation with regard to gathering data was, the online questionnaire method. More appropriate data would have been collected when personal interview method was opted.
- The study suggests to examine the critical saving and investment patterns of the middle income people for better understanding

- The financial and digital literacy levels of people at different occupation categories can be studied for proper understanding of the personal finance behavior.

6. Conclusion:

Apart from all the situations that squeeze the middle income group of people, they do save a mere amount that could at least contribute some money in their unexpected emergencies. From the study it is clear that they prefer less to compromise their health and manages to cover the huge expenses from insurance and credit cards. It is also surprisingly true that they prefer very less on taking help from friends, relatives due to ethical values and banks due to higher rates of interest.

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