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INSIGHTS INTO AWARENESS LEVEL AND INVESTMENT BEHAVIOUR OF SALARIED INDIVIDUALS TOWARDS FINANCIAL PRODUCTS

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Abstract: Diverse financial products have been introduced these days in Indian market. Each of these financial products offer a range of benefits and varying options with respect to interest rates, exposure to risk, time period of the contract, fees etc. Most of the individuals are not able to take advantage of higher returns offered by these products due to lack of financial awareness. Thus they must be made aware about risk and return characteristics of these products by designing an appropriate financial education program so that people can invest in these financial products. For designing an effective financial education program, current awareness level as well as investment behavior of individuals towards financial products must be known. This paper examines the awareness level and investment behavior of salaried individuals towards financial products. Results of the study suggest that respondents are quite aware about traditional and safe financial products whereas awareness level of new age financial products among the population is low. Also majority of the respondents park their money in traditional and safe investment avenues.

Keywords: Financial products, financial literacy, investment preferences, awareness level.

I. INTRODUCTION

These days a plethora of new age financial products are available in the market. Each of these financial products offer a range of benefits and varying options with respect to interest rates, exposure to risk, time period of the contract, fees etc. Due to this increased complexity of financial products and services, individuals find it difficult and cumbersome to take financial decisions. In order to understand the features and characteristics of these products, an individual must be financially literate. Financially literate individuals can make effective use of these financial products and services by evaluating associated risks and returns and finally choosing those products which are best suited to them.

India has one of the highest savings rate in the world which shows that Indians are having a high propensity to save. But most of the savings made by Indian households is in the form of bank deposits, thus the allocation of savings is a great cause for concern. Reserve Bank of India in its report has mentioned that only 1.4% of Indian households' savings was invested in equity, mutual funds and debentures in 2003-2004. Another survey (Shukla, 2009) has found that over 80% of Indians save but 36% of the Indian households keep their savings at home. 51% households keep their savings in bank deposits whereas stock and insurance accounted for only 3% of estimated household savings in 2007-2008, which is very less. Indians by investing their money in low yielding instruments and traditional financial products are not able to take advantage of new age financial products which have the potential to generate higher returns. The main reason behind this is low financial literacy (Bhushan and Medury, 2013). It is very important that investors should become more financially aware so that our country of savers can get converted into a country of investors. For the development of financial markets, it is important that in addition to safe and traditional financial products available in the market, people also invest in new and innovative financial products which have the potential to provide higher returns to investors. It is also important from the viewpoint of financial service providers to gain an insight into awareness level and investment preferences of individuals so that accordingly financial products can be developed. For improving financial literacy of individual's there lies a need for financial education. For designing an effective financial education program, current awareness level as well as investment behavior of individuals towards financial products must be known. This paper is an attempt to examine the awareness level of salaried individuals about various financial products as well as to find out the investment preference of salaried individuals towards various financial products.

II. LITERATURE REVIEW

A number of research studies have been undertaken in India and abroad to identify the investment behaviour of retail investors and households. Gupta et al. (2001) studied the Indian household investors' preferences, future intentions and experiences and found that bonds were regarded as an investment for the retired people but that did not have much appeal for young people. The market penetration achieved by mutual funds was found to be

much lower than equity shares for all age classes. Gupta and Jain (2008) on the basis of an all-India survey of 1463 households found the preferences of investors among the major categories of financial assets, such as investment in shares, indirect investment through various types of mutual fund schemes, other investment types such as exchange-traded gold fund, bank fixed deposits and government savings schemes. The study provides interesting information about how the investors' attitude towards various investment types are related to their income and age, their portfolio diversification practices, and the over-all quality of market regulation as viewed by the investors themselves.

Verma (2008) studied the effect of demographics and personality on investment choice among Indian investors and found that mutual funds were popular amongst professionals, students and the self employed. Retirees displayed their risk aversion by not investing in mutual funds and equity shares. It was also found that higher the education, higher was the level of understanding of investment complexities. Graduates and above in qualification preferred to invest in equity shares as well as mutual funds. Davar and Gill (2009) investigated the underlying dimensions in the selection of different investment avenues for the households. The results of the study revealed emphasis on familiarity, satisfaction, opinion and demographic dimensions for all investment avenues. Geetha and Ramesh (2011) studied the Indian's behaviour about investment preferences. The data for their study was collected with the help of questionnaire and their total sample size was 210 respondents. They studied the effect of demographic variables on investment preferences. The study found that people were not aware about all the investment options available to them and they lack knowledge about securities.

Girdhari and Satya (2011) analysed the investment preferences of individuals in urban Orrisa (one of the states in India). Through their study they found that investment decisions and risk tolerance of investors depends on age, sex, income, marital status, education, family background and occupation. It was also found that male investors are more risk seekers as compared to female investors. Das (2011) analysed the preferred investment avenues of the households in Nagaon district of Assam. The findings of the study reveal that insurance products are the most preferred investment avenues of the households. For carrying out this study, a structured questionnaire was used. Education levels, awareness about the financial system, age of investors were found to be the significant factors while making investment decisions. Income level was also found to be the important factor which influences investment decisions. The results of the study shows that higher income group shows relatively high preference towards investment in share market, conversely lower and average income group shows keen preference towards insurance and banks as the most preferred investment avenues. Samudra and Burghate (2012) studied the investment behavior of the middle class households in Nagpur. Bank deposits were found to be the most popular instrument of investment followed by insurance. Small savings scheme such as PPF, Post office savings deposits are the third preferred investment option. Amongst the factors which influence the decision to invest in a particular instrument it was found that return from the investment ranks first.

Chaturvedi and Khare (2012) examined the investment pattern and awareness of the Indian investors about different investment instruments. The results suggest that age, education, occupation and income level of the individual affects their investment behaviour. Awareness of respondents towards traditional investment options is much higher than that for corporate securities, mutual funds, equity shares and preference shares. They also identified the factors which contribute to investor awareness. They found that occupation, education and income level affects the awareness level of investors towards various investment avenues. Jain and Mandot (2012) studied the impact of demographic factors on investment decisions of investors in Rajasthan, India. The questionnaire was developed for this study and total sample of 200 investors from different cities of Rajasthan has been taken for the purpose of the study. The study concludes that various demographic factors like age, marital status, gender, city, income level, market knowledge, occupation and educational qualifications have major impact on investment decision of investors in Rajasthan. Also it was found that gender and city have no impact on investment decision of investors.

Sood and Medury (2012) analysed the investment preferences of working adults in Delhi, Gurgaon and Noida. The results of their study showed that investment preferences are not affected by age, gender, income, marital status and employment status. Bashir et al (2013) studied the investmnent preferences and risk level of salaried individuals in Gujrat and Sialkot provinces of Pakistan. The results of the study suggests that females are more risk averse than males whereas young and educated people are attracted more towards new risky investment opportunities and want to invest money in these instruments but they hesitate because of limited resources and lack of investment opportunities as well as absence of investment rends. Bhushan and Medury (2013) analysed the gender differences in investment behavior of employees working in various universities of Himachal Pradesh. India. They found that employees working in various universities of Himachal Pradesh invest in almost all investment avenues available to them. There is an overall inclination of investing in safe investment instruments. Gender differences in investment preferences are significant for health insurance, fixed deposits and market investments.

After studying the literature on financial products it can be concluded that in India awareness towards traditional investment options is much higher than for corporate securities, mutual funds, equity shares and preference shares. Also the investment preference of individuals is more towards bank deposits and insurance products.

III. OBJECTIVES OF THE STUDY

1.   To examine the awareness level of salaried individuals about various financial products.
2.   To find out the investment preference of salaried individuals towards various financial products.

IV. METHODOLOGY

For this study, Himachal Pradesh (a state in India) is taken as an area of study. All those salaried individuals of Himachal Pradesh whether in government or non-government job were considered as the population for this study. Primary data from the respondents was collected by using a structured questionnaire. Multistage sampling has been adopted for collection of the data. There are total of twelve districts in Himachal Pradesh. Out of these three districts namely Shimla, Solan and Kangra were selected randomly (first stage). The selected districts are further divided on the basis of sub-divisions. In each of the selected districts further 2 sub-divisions were selected randomly (second stage). From each selected sub-division, the required number of salaried individuals was selected based on purposive sampling by using some criteria like place of work, occupational status and the attitude of the respondents to cooperate for the study, so as to get the representative sample of the population. Total sample of 516 respondents were used for the purpose of this study.

V. ANALYSIS AND DISCUSSION

Awareness regarding financial products

In order to find out the awareness level of respondents towards various financial products available in the market, responses were measured on a 5 point Likert scale, assigning 1 to 'very low' awareness level and 5 to 'very high' awareness level. From the collected responses weighted mean for each of the financial product was calculated . Based on the mean score, financial products were ranked giving 1st rank to the financial product whose mean score was highest and 14th rank to that product whose score was the least (Table 1). Results indicate that highest awareness is for bank fixed deposits followed by savings account, life insurance, post office savings, public provident fund, national savings certificate, kisan vikas patra, pension funds, mutual funds, stock market, bonds, debentures, commodity market and forex market. Thus it can be clearly seen that respondents are quite aware about traditional and safe financial products whereas awareness level of new age financial products among the population is low. This points out to the fact that due to low awareness level people are not able to take advantage of various financial products available in the market. Chaturvedi and Khare (2012) also found in their study on Indian investors that awareness of respondents towards traditional investment options is much higher than that for corporate securities, mutual funds, equity shares and preference shares.

Thus in order to strengthen our financial system, people must be made aware about the characteristics of new age financial products. They must be made aware about risk and return characteristics of these products so that people can invest in these financial products. This will strengthen our financial system. People will also get the opportunity to invest in different financial products thereby increasing their chances of earning more returns from their investments.

Table 1: Awareness of Financial Products

	Very Low		Low		Neutral		High		Very High		Mean	Rank
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent		
Savings Account	3	0.6	8	1.6	87	16.9	318	61.6	100	19.4	3.98	2
Bank Fixed Deposits	1	0.2	12	2.3	70	13.6	309	59.9	124	24.0	4.05	1
Public Provident Fund	13	2.5	46	8.9	196	38.0	177	34.3	84	16.3	3.53	5
Kisan Vikas Patra	17	3.3	111	21.5	196	38.0	135	26.2	57	11.0	3.20	7
National Savings Certificate	26	5.0	100	19.4	182	35.3	126	24.4	82	15.9	3.27	6
Post Office Savings	9	1.7	55	10.7	182	35.3	143	27.7	127	24.6	3.63	4
Pension Funds	25	4.8	156	30.2	142	27.5	110	21.3	83	16.1	3.14	8
Mutual Funds	52	10.1	109	21.1	193	37.4	124	24.0	38	7.4	2.97	9
Debentures	94	18.2	234	45.3	129	25.0	45	8.7	14	2.7	2.32	12
Bonds	89	17.2	209	40.5	135	26.2	67	13.0	16	3.1	2.44	11
Life insurance	13	2.5	26	5.0	94	18.2	291	56.4	92	17.8	3.82	3
Stock market	93	18.0	186	36.0	123	23.8	98	19.0	16	3.1	2.53	10
Commodity Market	238	46.1	190	36.8	42	8.1	36	7.0	10	1.9	1.82	13
Forex market	280	54.3	162	31.4	37	7.2	32	6.2	5	1.0	1.68	14

Source: Primary Data

Investment preferences

Respondents have been asked to provide information about all those financial products where they have invested their money. From their responses, it can be said that almost 95% of the respondents invest their money in bank fixed deposits followed by 77.7% of respondents who invest in life insurance. 59.3% of respondents invest in post office savings and almost 52.9% respondents invest in mutual funds (Table 2). Only 1.2 respondents invest in commodity market and no respondent invests in forex market. The results are in line with Samudra and Burghate (2012). In their study on investment behavior of the middle class households in Nagpur, bank deposits were found to be the most popular investment instrument followed by insurance. Das (2011) found that insurance products are the most preferred investment avenues of the households.

Table 2: Investment in Financial Products

Financial Products	Frequency	Percent of cases
Bank Deposits	490	95.0
Post Office Savings	306	59.3
Mutual Funds	273	52.9
Stock Market	159	30.8
Debentures	11	2.1
Life Insurance	401	77.7
Public Provident Fund	202	39.1
Pension Funds	127	24.6
Bonds	52	10.1
Commodity Market	6	1.2
Total Respondents	516	

Source: Primary Data

From the analysis of the results it is clear that majority of the respondents park their money in traditional and safe investment avenues. More people invest in mutual funds as compared to stock market. Results also indicate that very few people invest their money in debentures as well as commodity market. Investment behaviour of respondents investing in traditional investment avenues can be attributed to the fact that they are not aware about the characteristics of new financial products, thereby loosing good investment opportunities. Results also point out to the fact that only 24.6% respondents have invested in pension funds, which means most of the people do not plan for retirement which is not a very healthy sign. Also 77.7% people have invested in life insurance which means that people are aware about the importance of life insurance. Results also indicate that only 39.1% respondents invest in public provident fund. This means that despite being a very good investment option, only few people invest in public provident fund, this can be due to longer lock in period of public provident fund and low level of awareness associated with public provident fund.

VI. CONCLUSIONS

Respondents are quite aware about traditional and safe financial products whereas awareness level of new age financial products among the population is low. Majority of the respondents park their money in traditional and safe investment avenues. Overall results suggest that people must be made more aware about new investment opportunities available in the market. They must be properly educated about new financial products available in the market, so that they can get advantage of earning higher returns. Moreover they will not get cheated by sales personnel as they will have knowledge regarding the charges levied by a company selling financial products and they will invest in financial products only after weighing risk return characteristics of the financial products.

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