The Investor Dynamics in the Avenues Offered by The Indian Financial System

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Abstract

The Indian financial services industry has taken a major leap with the gradual opening up of the economy. The growth in this industry is predicted by the width and depth of the products offered by it. The industry has brought out numerous innovative products. However the extent to which these products are successful depends on the investors/ customers. Hence the providers of financial products have to be extremely careful in marketing their products. The expectations of the investors, their perception towards various products/ investment avenues, their current pattern of investment have to be understood to serve them well and also to offer better products.Hence this study has been done with an objective to find out the investment pattern of investors in various investment avenues offered in the Indian financial system. The findings of the study are that the investors are aware of different modes of investment but the prime motive for investment is tax benefit. The study shows that the investor's current preference of investments is in the order of life insurance policy, bank deposits, investments in shares and national savings certificates. The future investments are in areas of mutual funds schemes.

Introduction

The Indian financial services industry has taken a major leap with the gradual opening up of the economy. The growth in this industry is predicted by the width and depth of the products offered by it. The industry has brought out numerous innovative products. However the extent to which these products are successful depends on the investors/ customers. The expectation of the investor of a financial product is different from that of a customer of other products. The

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uniqueness is due to the commitment of investment for a certain period of time, return and the risk involved. Gaining investor confidence is increasingly becoming difficult in the wake of the many institutional and corporate scandals that have rocked the markets in recent years (Parry.et.al, 2004). Hence the providers of financial products have to be extremely careful in marketing their products. The expectations of the investors, their perception towards various products/ investment avenues, their current pattern of investment have to be understood to serve them well and also to offer better products. There is a need to stay tuned with investor attitude to maximize on the effect of marketing efforts.

The survey conducted in a study by Kruger (1997) found that the professional's expectations of *investor behavior were different from reality.* It is therefore suggested by Mcinish (1991) to study the personality characteristics associated with ownership of various assets so that firms could market different types of assets to better target potential clients. Further types of assets that are owned by individuals with similar personality profiles might also be identified. These profiles could then be used to suggest various types of assets that would appeal to new investors. Such a psychological approach could provide an alternative to inferring risk tolerance in designing *investor* portfolios. Parry,et.al (2004) found the Asian investors to be very knowledgeable of markets and instruments and willing to try new things unlike their European counterparts who were willing to hand over responsibility for asset management entirely to a fund or portfolio manager.

Review of Literature and Objectives

Mcinish, (1991) using data from more than 500 investors showed that propensity to seek novelty and avoid ill-defined and risky situations differed between investors who owned or did not own a wide variety of types of assets. Using Change Scale from 'The Adjective Check List" (ACL) developed by Gough and Heilbrun (1980) they found significantly different scores for both the groups even after controlling for demographic variables (age, sex, marital status, educational level and income group). Their study suggests identifying personality characteristics associated with ownership/ nonownership of various assets that could allow firms marketing different types of assets to better target potential clients. And also to identify types of assets that are owned by individuals with similar personality profiles so that those profiles could be used to suggest various types of assets that would appeal to new investors. Such a psychological approach is suggested as an alternative to infer risk tolerance in designing *investor* portfolios.

Jagannathan, Kocherlakota (1996) used standard economic models of investor behavior to evaluate explanations given by financial planners for the advise given to their clients to shift their investments away from stocks and toward bonds as they grow older and found the low long-term risk of stocks explanation and the targeting explanation to have little validity. The only explanation that was held good was the fact that younger people had many years of wages available to them while older people did not.

Kruger (1997) presents the results of Marcia Selz's an executive of Marketing Matrix Inc. who has studied the attitudes of mutual fund investors. The study stresses on the importance of staying tuned with investor attitude to maximize on the effect of marketing efforts. A telephonic survey on a sample of 450 fund industry participants showed attitudinal gaps between fund professionals expectations of investor behavior and the reality. About half of the investors were found to be following the performance of their funds regularly on a daily or weekly basis which was in contrast to the belief of 42% of fund managers who thought the investors checked their accounts once every three months or even less.

Ormiston and Schlee (2001) studied the behaviour of risk averse investors on account of changes in return behavior. The study observed that investors would change their level of investment in risky assets as response to a change in the assets return distribution if only the change lowers both the mean and standard deviation of the return by the same percentage.

Parry, et.al (2004) focuses on the efforts of private bankers to adapt to the changing needs of investors. It is observed that investors are focusing increasingly on absolute returns instead of relative performance. They also found substantial difference in the characteristic of Asian and European clients.

Therefore it is essential to understand the attitude of the investor so that the marketing efforts could be tuned towards their preferences. The types of assets that are owned by individuals with similar personality profiles if identified could be used to suggest various types of assets that would appeal to new investors. Also Asian investors are found to be very knowledgeable of markets and instruments and willing to try new things. The role of India in the Asian continent is substantial and hence this study was taken up with an objective to find out in specific the investment pattern of investors in various investment avenues offered in the Indian financial system. The secondary objectives are to find out the motives of investment and proportion of future investment in various financial options.

Methodology

The study is conducted taking the investors of Coimbatore city as the population. The sampling technique used is the non-probability convenience sampling and the sample size is 205. The data is collected through a structured questionnaire from individual investors. Data with respect to investor profile, current investment pattern, and future plan for investment and motives for investments were collected and analyzed using percentages, cross tabs and K-S test.The factors that are rated by the respondents cannot be used directly for analysis; these rates are converted into ranks. The rates given by the respondents are converted into percentile positions using the formula:

$$P.P = \frac{100\,(R-0.5)}{N}$$

Where R denotes ranks and N the number of items.

These percentile positions indicate the percentile scores which enable the variable that gets the maximum score is given the first rank.

Analysis and Results

The first part analyses the demographic variables like age, education, employment and income level of the investors using simple percentages. The second part presents the cross tabulation between level of income and investments in various avenues and also motives for investment with employment and income. The third part analyses the investor's attitude towards selected options and their future investment using ranks.

Part I – Analysis of Demographic Variables

Age - Majority of the investors are in the age group of 31-40, followed by the 26-30 age groups. It is found that as the age increases the proportion of investments are also decreasing. The age of the sample investors ranged between 21and 60.

Education –All the investors had some kind of a formal education. It was observed that 49.3% are graduates, followed by 35.6 % of them who are post graduates and only about 15.1% of them had education below the graduation level.

Employment -The employment category consisted of 54% full time salaried investors, 33% self employed, 12% professional investors as against 2% of retired investors.

Income level – Majority (28%) of the investors were in the income group of Rs. 5000 – 10,000 followed by 25% in the group of Rs. 10,000 – 15,000. 21% of the investors were found to have income at Rs. 20,000 and above and 13 % each between Rs.15,000 and Rs.20,000 and below Rs.5000.

Part II – Investor Analysis

From Table 1 it can be inferred that the maximum level of investments are made by investors having a monthly income of Rs.20000 and above, and the maximum spread in this category is with respect to life insurance policy followed by bank Deposits. Investment in shares of companies and National savings certificate are the next preferred form of investments.

Table 1 : Investors Level of Income versus the Current Investment Held

	Life Insurance Policy	Shares	Convertible debentures	Non-convertible debentures	Company deposits	Bank fixed deposits	National Savings Certificates	National Savings Scheme	Total
Below Rs.5000	20	4	-	1	3	11	3	-	42
Rs. 5000 – Rs.10000	45	11	-	-	7	23	18	2	106
Rs. 10000 – Rs.15000	36	17	2	5	6	30	24	8	128

Rs.15000 – Rs.20000	19	17	3	2	5	14	12	9	81
Rs.20000 and above	40	29	5	3	20	28	17	9	151
Total	**160**	**78**	**10**	**11**	**41**	**106**	**74**	**28**	**508**

Table 2 : Investors Employment Category versus their Motives of Investment

	Tax saving benefit	High return low risk	High return moderate risk	Others	Total
Self Employed	18	31	15	4	68
Full-time Salaried	49	41	17	3	110
Professional	13	8	1	2	24
Retired	1	1	1	-	3
Total	**81**	**81**	**34**	**9**	**205**

Investors falling under the employment category of full time salaried were driven by the motive of tax benefits, followed by high return for the level of risk they were willing to take. The self employed investors went for high returns, low risk investments than for tax saving benefits. This could be attributed to reasons like self employed people are willing to take greater risk than salaried investors and also that their earnings levels are high compared to the full time salaried investors (Table 2).

Table 3 : Investors Income Level versus their Motives to Investment

	Tax saving benefit	High return low risk	High return moderate risk	Others	Total
Below Rs. 5000	03	19	02	02	26
Rs. 5000 - Rs. 10000	24	23	07	04	58

Rs. 10000 - Rs. 15000	24	16	09	02	51
Rs. 15000 - Rs. 20000	10	05	12	-	27
Rs. 20000 and above	20	18	04	01	43
Total	**81**	**81**	**34**	**09**	**205**

From Table 3 it can be observed that the motive of investors having a monthly income level of Rs.5000-Rs.15000 was tax saving benefits. Investors in the monthly income level of Rs.15000-Rs.20000 prefer to take moderate risk for high returns on their investments. Those in the category of Rs.20000 and above prefer tax saving benefits and high returns-low risk as their motives to investment.

Table 4 : The Investors Opinion towards Investment In Various Options (In percentage)

Particulars	**Investment in IPO**	**Investment in shares (stock market)**	**Investment in Deben tures**	**Investment in Debent (stock ures Market)**	**Investment in Mutual funds**
Absolutely safe	19.00	8.30	8.80	5.30	15.10
Reasonably safe	33.20	22.50	41.50	20.00	19.00
Somewhat unsafe	30.20	39.50	29.30	42.00	34.10
Very unsafe	9.30	16.10	8.30	16.10	31.80
No opinion	8.30	13.60	12.10	16.60	
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

From Table 4 it can be observed that the investors are of the opinion that investment in Initial public offering were absolutely safe, followed by fresh issue of debentures. They were of the opinion that investments in the secondary market either in shares, debentures or mutual funds were unsafe.

Part III – Analysis of Investor Preferences

Table 5 : Ranking Analysis to Indicate the Investors Choice for their future Investments

RANK	1	2	3	4	5	6	7	8	9	10	11
Percentile Position	4.55	13.64	22.72	31.82	40.90	50.00	59.09	68.17	77.26	86.36	95.45
Percentile Scores	83	72	65	60	55	50	45	40	35	28	17

RANK	1	2	3	4	5	6	7	8	9	10	11	Total	Rank Secured
Percentile Score (X)	83	72	65	60	55	50	45	40	35	28	17		
Schemes of UTI Mutual Fund (f_1)	42	36	32	28	18	14	8	7	9	7	4	205	
X x f_1	3486	2592	2080	1680	990	700	360	280	315	196	68	**12747**	**3**
Schemes of other Mutual Funds(f_2)	40	38	22	18	18	16	15	11	11	9	7	205	
X x f_2	3320	2736	1430	1080	990	800	675	440	385	252	119	**12227**	**4**
Company shares or debentures (f_3)	7	14	20	34	30	22	17	22	16	12	11	205	

X x f_3	508	1008	1300	2040	1650	1100	765	880	560	336	187	**10407**	**5**
Public Provident fund (f_4)	6	12	16	10	32	32	19	25	23	14	16	205	
X x f_4	498	864	1040	600	1760	1600	855	1000	805	392	272	**9686**	**6**
National Savings Scheme (f_5)	2	7	9	15	16	18	25	28	21	21	43	205	
X x f_5	166	504	585	900	880	900	1125	1120	735	588	731	**8234**	**8**
National Savings Certificates(f_6)	3	11	11	7	16	27	26	27	32	27	18	205	
X x f_6	249	792	715	420	880	1350	1170	1080	1120	756	306	**8838**	**7**
Company Deposits (f_7)	3	9	10	6	4	10	25	30	35	35	38	205	
X x f_7	249	648	650	360	220	500	1125	1200	1225	980	646	**7803**	**9**
Bank Fixed Deposits(f_8)	45	32	38	35	18	8	9	13	2	3	2	205	
X x f_8	3735	2304	2470	2100	990	400	405	520	70	84	34	**13112**	**2**
Life Insurance Policy (f_9)	54	30	26	24	22	18	17	6	4	3	1	205	
X x f_9	4482	2160	1690	1440	1210	900	765	240	140	84	17	**13128**	**1**
Recurring deposits with bank (f_{10})	2	2	4	7	9	12	15	18	30	51	55	205	
X x f_{10}	166	144	260	420	495	600	675	720	1050	1428	935	**6893**	**10**
Recurring deposits with post office (f_{11})	1	4	7	11	12	6	12	18	19	50	65	205	
X x f_{11}	83	288	455	660	660	300	540	720	665	1400	1105	**6876**	**11**

From table 5 it can be observed that the investors prefer to invest in Life Insurance Policies followed by Bank deposits, which is closely followed by schemes of UTI and Schemes of other Mutual Funds respectively. The order of their investments preferences are based on safety of returns and low risk investments like LIC, bank deposits, Government Mutual funds and Mutual funds to those instruments that are high in risk like company shares and debentures. It is interesting to note that the preference

to invest in safe instruments like National Saving Certificates, National Saving Schemes, Recurring Deposits with Post offices and Banks are low. These instruments provide safety in returns and are low in risk, however they have a lock – in period where investors cannot withdraw their investment. This means investors value liquidity of instruments along with safe returns and low risk

Conclusion

The findings observed are that the majority of the investors are in the age category of 31-40 years with a monthly income between Rs.10000-Rs.15000 or above Rs.20000. It is observed in this study at the Indian context that the number of investors decline as they age , where the study by kocherlakota (1996) finds a shift in the investments by investors away from stocks and toward bonds as they age. Here investors are aware of different modes of investment but the prime motive for investment is tax benefit. The study shows that the investor’s current preference of investments is in the order of life insurance policy, bank deposits, investments in shares and national savings certificates. **Mcinish,** (1991) in his study suggests an psychological approach that involves personality characteristics as an alternative to infer risk tolerance. The investors here opine any kind of trading in the secondary market to be unsafe though they feel investments in primary market to be safe . In spite of this their current investment portfolio does not reflect their preference towards this investment option. The future investments options are also similar to the current investments made. However they are interested in investment in mutual funds schemes and prefer to invest in instruments that provide immediate liquidity. The investment companies can take a cue from this and educate the investors about the various financial options, schemes and its features.

This study would be useful to organizations like banks, insurance and financial companies providing various kinds of financial products and services to improve on its marketing activities to reach the potential investors in a more effective way. The Prospective clients can be captured by offering services and products that suit their investment preferences. The marketing strategies of these organizations should be to capture the middle aged, middle income category of investors who invest for the purpose of tax benefit and deliver products suitable to this target group.

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