A COMPARATIVE STUDY OF CONSUMER PERCEPTIONS OF INVESTMENT INSTRUMENTS

Pallavi Singh and Shivani Kuckian

Abstract

This study revealed that demographic factors have a significant influence on investment patterns and decisions related to it. It is evident from the findings that generally the decisions related to investment are taken by the respondents themselves rather than in consultation with professionals such as consultancy firms or even friends and family. This study revealed that investment in insurance is independent of occupation. Gold and Fixed Deposits are preferred by most of the people.

INTRODUCTION

Financial instruments are monetary contracts between parties. They can be created, traded, modified and settled. They can be cash, evidence of an ownership interest in an entity (share), or a contractual right to receive or deliver cash (bond).

The Investor behavior is the process by which Investor tends to satisfy his/her needs by showing their choices. The behavior of the Investor can be affected by many of internal as well as external environment. The demographical factors play critical role in determining individual buying behavior for any goods or even service. Many researches have been conducted to identify Investor buying behavior to identify how Investors are making financial planning to satisfy their future financial need. After initialization of reforms in 1991, Indian economy had seen dramatic changes in almost each and every sector of the country. The financial sector is one of them, since reforms, many new private (domestic and foreign) players have had come up to influence the buying behavioral pattern of Indian Investors specifically for financial assets. The income earning and income spending activities is a part of financial system. It channelizes the savings of million small and retail Investors into gigantic capital formation. Most of the marketing companies are now penetrating urban and rural regions of the country. Today, Investors have large number of option available for investment i.e. Systematic Investment Plan is an investment strategy wherein an investor needs to invest the same amount of money in a particular mutual fund at every stipulated time period, mutual fund is a professionally-managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities., Insurance means a financial risk management tool in which the insured transfers a risk of potential financial loss to the insurance company that mitigates it in exchange for monetary compensation known as the premium., equity means a stock or any other security representing an ownership interest, Gold, Property. A fixed deposit (FD) is a financial instrument provided by banks which provides investors with a higher rate of interest than a regular savings account, until the given maturity date, Government Bonds is a bond issued by a country's government, promising to repay borrowed
money a fixed rate of interest at a specified time, and Public Provident Fund (PPF) scheme is a popular long term investment option backed by Government of India which offers safety with attractive interest rate and returns that are fully exempted from Tax.

Financial instruments are one of the important aspects to encourage savings. Nowadays, there are many different variation available in financial instruments according to age, income, etc. hence we are conducting this research to understand the preferences of different type of people for different reasons. This will help to target proper population according to their choices.

RESEARCH OBJECTIVE

To understand and compare consumer perceptions for Investment Instruments. Hence, the following hypothesis was proposed for this research.

\( H_1 \): More than 40% of people investing in SIP have 2 earning member in their family.

\( H_2 \): More than 50% of people investing in FD are salaried.

\( H_3 \): Investing in equity is independent of gender.

\( H_4 \): Amount of investment in insurance is independent of occupation

\( H_5 \): Average age of people investing in gold is more than 45 years

\( H_6 \): Average work experience of people investing in equity is more than 10yrs

LITERATURE REVIEW

As per study done by Jani and Jain different demographical factors have influence on buying behavioral pattern of investor. The study shows that each demographical (age, gender, income, educational qualification, occupation etc.) factor had significant bearing on both urban and rural investors buying behavioral process. As far as, behavioral pattern is concerned, the study has revealed that both investors are having same behavioral pattern, marginal deviation was noticed during analysis. Both investors provide more priority to the financial planner, on the second place risk and return profile, third place is captured by past performance and so on.

As per study Wang, Keller and Michael the respondents perceived those easier-to-understand products as less risky, which was likely driven by the familiarity bias. As per study done by Beckett, Hewer and Howcroft it presents and develops a model which attempts to articulate and classify consumer behavior in the purchasing of financial products and services. The theoretical insights generated by this model are then used to examine qualitative research data gained from focus group discussions on consumers' attitudes to their financial providers and their financial products. Finally, these findings are examined for the potential insights they provide to bank providers attempting to identify appropriate strategies which are conducive to increased customer retention and profitability.
The study conducted by Lokhande disclosed that there was no significant difference in awareness level of rural male and female investors and their educational qualifications. The investment preference order of the respondents indicated towards secured investment attitude. Bank deposits, gold and jewelry, real estate were popular investment avenues for majority of the investors.

As per study conducted by Vipparthi and Margam it reveals that Liquidity, Flexibility, Tax savings, Service Quality and Transparency are the factors which have a higher impact on perception of investors.

As per study done by Gilliam, Chatterjee and Grable The assessment of financial risk tolerance, as a tool for managing expectations of portfolio volatility, is essential to goal attainment. This study compares two empirical measures of risk tolerance and separately examines the association between these measures of risk tolerance and asset allocation.

Bogle has suggested that the Investors are selecting fund on the past performance. They also specify that Investor invest in such a fund.

The study by Jariwala seeks to augment our understanding of consumers' attitudes and motivations when purchasing financial products. Using insights gleaned from focus discussion groups and a quantitative survey of consumers it focuses upon understanding the extent to which consumers' attitudes and behavior differs for a range of financial products. Within the traditional structure and operation of the financial services industry consumers appear to express little choice. The rigid structure of the industry, coupled with the operation of cartels, meant that consumers had to accept the form and price of financial products and delivery channels. However the critical impact of deregulation and the emergence of new forms of technology have altered this situation by producing a highly competitive market for financial services.

**RESEARCH METHODOLOGY**

An initial secondary data search was carried out through internet based sources as well as from earlier records i.e. journals, magazines and other sources. Thereafter a primary data search was conducted. Responses of individual investors were collected through questionnaire in the form of an E Form with pre explained objectives of research.

Online questionnaires were distributed to 440 individuals above the age of 25 years. This included selective people Sampling technique used was non-probabilistic judgment type and included respondents who were assumed to be having basic knowledge of financial environment.

Tools used for analysis were Test of Average, Test of Independence and Test of Proportion.
Sample demographics

AGE

- 25-30, 50%
- 30-40, 21%
- 40-50, 17%
- 50-60, 10%
- Above 60, 2%

GENDER

- Female, 28%
- Male, 72%

ANNUAL INCOME

- Less than 3 lacs, 33%
- 3-5 Lacs, 33%
- 5-8 Lacs, 18%
- 8-10 Lacs, 6%
- More than 10 Lacs, 10%

OCCUPATION

- Salaried, 70%
- Business, 15%
- Housewife, 4%
- Professional, 7%
- Retired, 3%
HYPOTHESIS TESTING:-

Hypothesis 1: Test of Proportions

| Ho: Less than 40% of people investing in SIP have 2 earning member in their family. |
| Ha: More than 40% of people investing in SIP have 2 earning member in their family. |

Ho: p < 40%
Ha: p > 40%
Test of Proportions
Right-Tailed Test
Alpha =0.1
Probability = 0.9
Critical-value = 1.28

Calculating the Observed-value
x=64
n=132
p'=48%
p=40%
q=60%
p'-p=8%
sqrt(p*q)/n = 0.04

p'-p =
sqrt(p*q)/n 1.99

Observed-value =1.99
1.28 < 1.99,
critical-value < observed value

Therefore, reject the null.

**Observation:** We reject the null. Therefore, we can say that more than 40% of people investing in SIP have 2 earning member in their family.

**Insights:** There has been increase in investment in SIP. As there are more earning people in family, their annual family income also increases. So people can take risk and invest in SIP. So investment companies can show advertisement with working class investing in SIP so as to encourage more people to invest in SIP.
Hypothesis 2: Test of Proportions

Ho: Less than 55% of people investing in FD are salaried.
Ha: More than 55% of people investing in FD are salaried.

Ho: p < 55%
Ha: p > 55%
Test of Proportions
Right-Tailed Test
Alpha = 0.1
Probability = 0.9
**Critical-value = 1.28**

Calculating the Observed-value
x = 124
n = 193
p' = 64%
p = 55%
q = 45%
p' - p = 9%
sqrt(p*q)/n = 0.04

\[
p' - p = \frac{\sqrt{p*q}}{n} = 2.58
\]

**Observed-value = 2.58**
1.28 < 2.58, critical-value < observed value

Therefore, reject the null.

**Observation:** We reject the null. Therefore, we can say that More the half of the population investing in FD are salaried.

**Insights:** As there is no risk in FD salaried people prefer to invest in FD. Currently there are also loans available on FD which is helpful to people during emergency time. There are also flexible FD schemes for higher income people. Hence, salaried people are attracted towards investing in FD.
**Hypothesis 3: Test of Independence (Chi-squared test)**

<table>
<thead>
<tr>
<th></th>
<th>Invest</th>
<th>Don't invest</th>
<th>Total</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Female</strong></td>
<td>74</td>
<td>43</td>
<td>117</td>
<td>29%</td>
</tr>
<tr>
<td><strong>Male</strong></td>
<td>218</td>
<td>73</td>
<td>291</td>
<td>71%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>292</td>
<td>116</td>
<td>408</td>
<td></td>
</tr>
</tbody>
</table>

**Chi-squared test**
- Right-Tailed Test
- Alpha = 0.1
- Probability = 0.1

<table>
<thead>
<tr>
<th></th>
<th>Invest</th>
<th>Don't invest</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Female</strong></td>
<td>84</td>
<td>33</td>
<td>117</td>
</tr>
<tr>
<td><strong>Male</strong></td>
<td>208</td>
<td>83</td>
<td>291</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>292</td>
<td>116</td>
<td>408</td>
</tr>
</tbody>
</table>

**Critical Value = 2.71**
- Observed-value = 6

**P-Value = 0.02**
- Alpha = 0.1
- 0.02 < 0.1
- p-value < Alpha
- Reject The Null

**Observation:** - We reject the null. Therefore, we can say that investing in equity is not independent of gender.

**Insights:** - Women are mostly salaried or housewife. Hence they have less capacity to invest and thus they tend to avoid investing in risky financial instrument. And equity is known to have highest risk compare to other financial instruments. Mostly they also don’t have proper knowledge about equity which makes them reluctant to invest in it. Therefore, investing in equity is dependent on gender.
**Hypothesis 4: Test of Independence (Chi-squared test)**

<table>
<thead>
<tr>
<th></th>
<th>Business</th>
<th>Housewife</th>
<th>Professionals</th>
<th>Retired</th>
<th>Salaried</th>
<th>Total</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>18</td>
<td>5</td>
<td>9</td>
<td>4</td>
<td>85</td>
<td>121</td>
<td>28%</td>
</tr>
<tr>
<td>Less than 50,000</td>
<td>29</td>
<td>7</td>
<td>17</td>
<td>10</td>
<td>136</td>
<td>192</td>
<td>44%</td>
</tr>
<tr>
<td>50k to 100k</td>
<td>14</td>
<td>4</td>
<td>7</td>
<td>2</td>
<td>57</td>
<td>96</td>
<td>22%</td>
</tr>
<tr>
<td>100k to 250k</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>16</td>
<td>22</td>
<td>5%</td>
</tr>
<tr>
<td>250k to 500k</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>1%</td>
</tr>
<tr>
<td>More than 500k</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>0%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>66</td>
<td>17</td>
<td>32</td>
<td>14</td>
<td>308</td>
<td>437</td>
<td></td>
</tr>
</tbody>
</table>

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<td>4</td>
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<td>308</td>
<td></td>
</tr>
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</table>

\[(fo-fe)^2/fe\]

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<th>Professionals</th>
<th>Retired</th>
<th>Salaried</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Less than 50,000</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>5</td>
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<td>0</td>
<td>2</td>
</tr>
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<td>1</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>27</td>
</tr>
</tbody>
</table>
Chi-squared test
Right-Tailed Test
Alpha = 0.1
Probability = 0.1
Critical Value = 28.41
Observed-value = 27.06
P-Value = 0.18
Alpha = 0.1
0.18 < 0.1
P-value > Alpha
Fail to reject the Null

Observation: We failed to reject the null. Therefore, we can say that amount of investment in insurance is independent of occupation.

Insights: insurance has become very important in current scenario as people don’t have job security as well as for the future of the family. There are public as well as private insurance scheme that is suitable for every income group. Recently government of India has come up insurance scheme for low income group people, even advertisement are there which show the importance of insurance in one’s life. Therefore, there has been increase in investing in insurance despite of one’s occupation.
Hypothesis 5: Test of Proportions

<table>
<thead>
<tr>
<th>Ho:</th>
<th>Average age of people investing in gold is more than 45 years.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ha:</td>
<td>Average age of people investing in gold is less than 45 years.</td>
</tr>
</tbody>
</table>

Ho: \( \mu > 45 \)
Ha: \( \mu < 45 \)

Test of Average
Left-Tailed Test

Alpha = 0.1
Probability = 0.1

**Critical- value = 1.53**

Calculating the Observed-value

\( x' = 36 \)
\( \mu = 45 \)
\( x' - \mu = -9 \)
\( S = 10.95 \)
\( N = 188 \)
\( \frac{s}{\sqrt{n}} = 0.80 \)

\[ x' - \mu = (11.27) \]

\[ \frac{s}{\sqrt{n}} \]

**Observed-value = (11.27)**

\((1.53) > (11.27)\),

**Observed value > critical value**

Therefore, we reject the null.

**Observation:** We reject the null. Therefore, we can say that average age of people investing in gold is less than 45 years.

**Insights:** In recent years we have seen that there has been tremendous increase in the price of gold and it is expected to increase in same pace. Hence, it has become most popular mode of wealth creation. It can be used as both jewelry as well as assets. Therefore, people are more likely to invest in gold.
Hypothesis 6: Test of Proportions

**Ho:** Average work experience of people investing in equity is less than 10yrs.

**Ha:** Average work experience of people investing in equity is more than 10yrs.

Ho: \( \mu > 10 \)
Ha: \( \mu < 10 \)

Test of Average
Right-Tailed Test
Alpha = 0.1
Probability = 0.1

**Critical-value = 1.64**

Calculating the Observed-value
\( x' = 8 \)
\( \mu = 10 \)
\( x' - \mu = -2 \)
\( S = 6.24 \)
\( N = 286 \)
\( s/\sqrt{n} = 0.37 \)

\[ x' - \mu \quad = (5.42) \]
\[ s/\sqrt{n} \]

**Observed-value = (5.42)**

1.64 > (5.42),
critical-value > observed value

Therefore, we failed to reject the null.

**Observation:** We failed to reject the null. Therefore, we can say that average work experience of people investing in equity is less than 10yrs.

**Insights:** Investing in equity requires market research as well as there is risk involved in investing in equity. But today’s generation has knowledge about equity and as they have started working, they don’t have much family pressure. Hence, they are able to take risk.

Thus, the financial companies such as Motilal Oswal and Sharekhan companies can target graduating college students who are going to enter the job market to invest in equity.
CONCLUSION

This comparative study of consumer perceptions of investment instruments was undertaken to understand investors’ investing behavioral pattern. This study revealed that demographics have a significant influence on investing patterns and has a direct impact on the decisions related to investing. In this study it was revealed that salaried people prefer to invest more in investment which have less risk factor such as FD and PPF. It also showed that women prefer to invest more in gold and FD compared to other instruments, so most of the populations prefer to invest in gold as it is a way of wealth creation. Property is also seen as a mode of wealth creation, but due to requirement of high amount during investment, people prefer gold as a better instrument for wealth creation. PPF and insurance are preferred as instruments for future term investment. There has been increase in awareness of insurance schemes; this has encouraged everyone to invest in insurance scheme in spite of the different income group or occupation. Investment in equity is mostly being done by the younger generation due to exposure to the topic. We can also see that more the earning power more is the risk taken by the consumers. It can be seen that the decreasing interest rate has an impact on saving decision. Scheme like SIP has encouraged people to invest more. It is evident from the findings that generally the decisions related to investment are taken by the respondents themselves rather than in consultation with professionals such as consultancy firms or even friends and family.

LIMITATIONS

When using questionnaires, there is a chance that some questions will be ignored and there are always risks that they won’t be answered, which does not give us proper information.

Respondents may not be 100 percent truthful with their answers. This can happen for a variety of reasons, including social desirability bias and attempting to protect privacy.

The trouble with not presenting questions to users face-to-face is that each may have different interpretations of your questions there is no one to explain the questionnaire fully and ensure each individual has the same understanding.

As with any sort of research, bias can be an issue. Some may be influenced to participate based on the subject of your questionnaire. This can lead to inaccuracies in your data, generated from an imbalance of respondents who see your topic in an overly positive or negative light.

Surveys may be unsuitable for users with a visual or hearing impairment, or other impediments such as illiteracy. This should be considered when choosing to do research in this manner. Always choose a questionnaire platform that has accessibility options built in.

There is no way of checking misinterpretations and unintelligible replies by the respondents.
REFERENCES

   DOI: 10.3905/jpm.1998.409652
16. https://www.researchgate.net/publication/283274594_A_Study_of_Investment_Awareness_and_Patterns_of_Savings_and_Investments_by_Rural_Investors\