

An Empirical Analysis Over Knowledge on Financial Products and Investment Choices of Urban and Rural Households

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ABSTRACT

For the developing country like India, the household savings of both urban and rural sector has been considered as the major determinants of economic growth, which contributes a lion's share of the total savings of the country with a tremendous savings potential. It is essential to channelize these savings as investments which hopefully thrive towards economic growth. Financial experts believe that increasing domestic savings primarily reduces dependence on foreign capital aid to investment flow, which in turn will drive the economic growth engine. It happens only when the households have enough financial knowledge about available investment avenues to invest their income. Descriptive analyses have done to analyze the awareness level of households on different financial products and their investment preferences. The study covers Tirupur city with a sample size of 60, and the results of the study will help financial service providers found the most and least preferred financial products and to promote financial products and services.

Keywords: Financial products, Investment preferences, Rural Households, Financial literacy.

INTRODUCTION:

Financial awareness is an important aspect of financial stability in a country. When people possess enough financial knowledge, they are more likely to explore the products and services offered by banks and use them for their benefits. This accelerates the pace of financial inclusion, where everyone can access the basic banking facilities rather than relying on the orthodox systems of money market like borrowing money lenders. Unfortunately, when it comes to India's financial literacy rate the statistics are quite shocking. According to a survey conducted by Standard & Poor's, over 76% Indian adults lack basic financial literacy and they don't understand the most basic and key financial concepts. According to a survey on Global Financial Literacy in 2012 conducted by VISA, only 35% of Indians were financially literate and India was among the least financially literate countries. Clearly, the statistics are disappointing. The lack of essential knowledge on financial products and inability to manage personal finance not only affect a household, but makes an economy as a whole to suffer. This study intends to measure the awareness level of different financial products and their investment preferences of households of Tirupur city.

OBJECTIVES OF THE STUDY:

The providers of financial services and the products provided by them are changing day by day with drastic technological advancement, this advancement not only provides benefits to the users but entailed along with high risks. Even a small household requires an adequate financial knowledge to make over investment decisions. The awareness in modern financial products are lower than that of traditional financial products available in the market, this is because of lack of awareness about the investment avenues and low rate of financial literacy possessed by the investors both in urban & rural areas. Awareness about financial product is the tool for channelized investment behavior and financial inclusion which contributes to economic

development. In these contexts the study on awareness level of financial products of households assumes importance. The following are the objectives of the study.

1. To measure the awareness level of households on different financial products.
2. To analyze the investment preferences of households.
3. To identify the factors which discriminate the urban and rural respondents in terms of financial knowledge and investment choices.

LITERATURE REVIEW:

Annamaria Lusardi & Olivia (2010) examined financial literacy among the young and showed financial literacy was low; less than one-third of young adults possesses basic knowledge on interest rates, inflation and risk diversification. In addition to that the study found, financial literacy was strongly related to socio demographic characteristics and family financial sophistication. A college educated male whose parents had stocks and retirement savings was more likely to know about risk diversification than a female with less than a high school education whose parents were not wealthy.

Sandra J. Huston (2010) analyzed Seventy-one individual studies drawn from fifty-two different data sets in order to found whether selected studies used a measure to capture an individual's human knowledge specifically related to personal finance, including terms such as financial literacy and financial knowledge. And found that Forty-seven percent of the studies analyzed used the terms financial literacy and financial knowledge synonymously. Only 13% of the studies provided a formal measure for the term financial literacy.

David L. Remund (2010) dissects the differing financial literacy definitions and measures, urging researchers toward common ground. And explicated the concept of financial literacy by analyzing the many ways in which it has been interpreted and measured in research since 2000, the results of the study showed there is no common ground for operationalizing or measuring financial literacy in research studies and identified a crucial need for researchers to employ clear, consistent criteria when defining and measuring financial literacy.

Annamaria Lusardi and Olivia S. Mitchell (2014) undertake an assessment of a rapidly growing body of economic research on financial literacy. Starts with overview of theoretical research and casts financial knowledge as a form of investment in human capital. The study examined the impact of financial literacy on economic decision in United States. Conclusions were drawn about the effects and consequences of financial illiteracy and remedies to fill the gap. In addition it offers learning for researchers to get better informed about theoretical and empirical models of public policy making.

Chen, Haiyang; Volpe, Ronald P (2002) surveyed financial literacy among college students and found that, women generally possess less knowledge on personal finance topics. Gender differences remains statistically significant with factors like participants major, class rank, work experience and age. Further education and experience have significant impact on financial literacy of both men and women .it was observed that women have less interest, less confidence to learn personal finance topics than men.

Anjuk.j and Anuradha.p.s (2017) determines the relationship between the income, saving and investment behaviour among the IT professionals of Bangalore. The study constructs a conceptual framework by meticulously analyzing the experimental studies on investor behaviour in different countries and exhibits that there are numerous variables that direct an investor's decision to invest in one particular investment.

A.Seetharaman, Indu Niranjana, Nitin Patwa and Amit Kejriwal (2017) aims to gain insights and information into the factors that affect investment planners, financial advisers in Singapore. Results of the study identified how factors drive investors to choose one investment over another and determined individuals need considered for improving their choice of the portfolio and its performance while making their investment portfolios.

Praba (2011) tries to understand how the saving objectives of individuals relate to the investment avenue. It is observed that investors' major saving objectives are wealth maximization, contingency management and children's welfare. Different factors, like age, gender, profession and annual income, also determine the investment objective of individuals.

Ajay Singh and Rahul Sharma (2016) Measures the awareness level on financial investment instruments based on level of knowledge, level of interest, level of commitment which plays a crucial role in making investment decision. Findings of the study shows, respondents have awareness on certain financial instruments but their level of understanding, level of knowledge & level of interest for these financial instruments is doubtful as the process of differentiation on factors such as risk, return, liquidity, tax planning requires bit more knowledge on finance.

K. Parimalakanthi and Dr.M. Ashok Kumar (2015) aims to find the investment behavior of individual investors of Coimbatore city. The study considers financial products like savings account, fixed deposits in banks, government securities, corporate bonds, insurance, real estate, commodities, shares, mutual funds, chit funds,

gold and silver. The results shows majority of the investors prefer to invest in savings account followed by Gold and Silver and Fixed deposits.

Suman chakraborty and sabat digal(2011) analyze the investment pattern, saving objective and preferences of individual investor's for various investment options available in India. The study used a structured questionnaire in which potential investors were asked for their reactions to some specific situations. The result shows that, objective to saving is significantly influenced by demographic factors such as age, occupation and the income level of investors. The study exhibits the saving habit of retail investors across the different income levels and shows Savings is a habit specially embodied into women. It was found that female investors tend to save more in a disciplined way than the male investors.

RESEARCH METHODOLOGY:

The purpose of this study is to analyze the awareness level of investors on different financial products with special reference to Tirupur city, both the primary and secondary data was used, Questionnaire was designed and information gathered through survey method by issuing questionnaire, total sample size was 60 samples from Tirupur city. This leading textile city acts as a nest for lots of migrated people from various districts of Tamilnadu and there are lots of categorized households, hence the study concentrated only on the Tirupur city. The type of sampling used in this study was convenience sampling. The collected data presented on a master chart to sub table as per statistical tools, Then simple percentage analysis ,Descriptive statistics, Anova analysis were used to analyze the outcome from the study.

Results and Discussion:

Table1: Socio-Economic background of Respondents

Variable	Frequency	Percentage
Gender		
Male	40	66.7%
Female	20	33.3%
Marital Status		
Married	38	66.7%
Unmarried	22	36.7%
Education		
SSLC	5	8.3%
HSC	10	16.7%
UG	23	38.3%
PG	11	18.3%
Diploma/Technical education	5	8.3%
Professional qualification	3	5.0%
No formal education	3	5.0%
Place of Living		
Urban	35	58.3%
Rural	25	41.7%
Occupation		
Business	8	13.3%
Professional	4	6.7%
Government employee	6	10.0%
Private employee	41	68.3%
Agriculturists	1	1.7%
No of Earning Members in Family		
One	18	30.0%
Two	37	61.7%
Three	3	5.0%
Four	2	3.4%

Variable	Frequency	Percentage
Monthly Income		
Below 20000	28	46.7%
20001-40000	16	26.7%
40001-60000	8	13.3%
60001-80000	8	13.3%
Monthly Saving Allocation		
Less than 10%	27	45.0%
11%-15%	19	31.7%
16%-20%	10	16.7%
Above 25%	4	6.7%
Tax Payers		
Payers	41	68.3%
Non-payers	19	31.7%

Source: Primary Data

The above table interprets Socio-Economic factors of respondents. Most of the respondents of the study belongs to “urban” category and possess under graduation level of education, working as a “private employee’s” Having maximum of “two earning members” in the family with the highest monthly income ranges “below 20000”.

Table 2: Awareness level of respondents on Traditional financial products

Financial products		Aware	Somewhat Aware	Unaware	Total
Savings account	No.	51	6	3	60
	%	85.0	10.0	5.0	100.0
Current account	No.	43	11	6	60
	%	71.7	18.3	10.0	100.0
Fixed deposits	No.	44	6	10	60
	%	73.3	10.0	16.7	100.0
Public provident funds	No.	34	11	15	60
	%	56.7	18.3	25.0	100.0
National savings account	No.	27	21	12	60
	%	45.0	35.0	20.0	100.0
Post office savings	No.	43	14	3	60
	%	71.7	23.3	5.0	100.0
Life insurance	No.	43	11	6	60
	%	71.7	18.3	10.0	100.0
Government securities	No.	30	17	13	60
	%	50.0	28.3	21.7	100.0

Source: Primary Data

From the above table it was found that the highest of respondents about 85% “Aware” about “Bank savings account” next to this “bank fixed deposits” stands with 73.3%, about 71% of respondents are aware of “post office savings” & “life insurance”. only 30% of respondents are aware of “government securities”, least of about 27% of respondents aware about “National savings account”. Least of about 3% “unaware” about “savings account”, were else highest of 21% of respondents “unaware” about “Government securities”.

Table 3: Awareness level of respondents on Modern financial products

Financial products		Aware	Somewhat Aware	Unaware	Total
Shares	No.	25	21	14	60
	%	41.7	35.0	23.3	100.0
Debentures/ Bonds	No.	21	21	18	60
	%	35.0	35.0	30.0	100.0
Mutual funds	No.	20	22	18	60
	%	33.3	36.7	30.0	100.0

Financial products		Aware	Somewhat Aware	Unaware	Total
Derivatives	No.	19	16	25	60
	%	31.7	26.7	41.7	100.0
Real Estates/properties	No.	24	25	11	60
	%	40.0	41.7	18.3	100.0
Gold/precious metals	No.	33	18	9	60
	%	55.0	30.0	15.0	100.0
Chit funds	No.	32	16	12	60
	%	53.3	26.7	20.0	100.0

Source: Primary Data

The above table interprets that the highest of respondents about 55% “Aware” about “Savings in gold/precious metals” next to this “chit funds” stands with 53.3%, about 41.7% of respondents are aware of “shares”. 40% of respondents aware about “real estate’s” least of about 27% of respondents aware about “Derivatives”. Least of about 14% “unaware” about “Gold/precious metals”, were else highest of 41.7% of respondents “unaware” about “Derivatives”.

Table 4: Awareness level of respondents on Loans provided by Banks

Financial products		Aware & not used	Aware & used	total
Personal loan from bank	No.	34	26	60
	%	56.7	43.3	100.0
Vehicle loans from banks	No.	26	34	60
	%	43.3	56.7	100.0
Home loan from banks	No.	32	28	60
	%	53.3	46.7	100.0
Gold loans from banks	No.	36	24	60
	%	60.0	40.0	100.0

Source: Primary Data

The above table reveals that highest of about 60% of respondents aware about “gold loans” provided by banks, among them 40% use to receive gold loans. Next to this 56.7% of respondents aware about the “personal loans from bank”, among them 43.3% use to avail personal loans. “Home loans” stands next with 53.3%, about 46.7% of respondents received home loans offered by banks. The highest of about 56.7% of respondents aware and used “vehicle loans from banks”.

Table 5(I): ANOVA table to tests significance among “Monthly income of respondents” & “Respondents awareness level”

Financial products		Monthly income			
		Below 20000	20001-40000	40001-60000	Above 60000
Awareness Score-Traditional Products	Mean	18.61	21.00	22.75	21.00
	S.D	4.04	2.80	3.15	4.57
	No.	28	16	8	8
Awareness Score-Modern Financial Products	Mean	13.18	16.56	18.13	16.00
	S.D	3.33	4.16	4.05	4.81
	No.	28	16	8	8
Awareness Score-Govt. Schemes	Mean	14.00	15.00	17.25	14.00
	S.D	4.17	4.07	2.76	3.25
	No.	28	16	8	8
Awareness Score-Security/Economic Issues	Mean	20.46	24.31	26.38	23.00
	S.D	4.45	6.06	2.83	5.90
	No.	28	16	8	8
Awareness Score-Financial Concepts	Mean	19.71	24.81	25.75	21.75
	S.D	4.34	4.81	4.92	5.63
	No.	28	16	8	8

Source: Primary Data

In the above shown table ANOVA test performed to test whether the awareness scores for different type of financial products differs significantly with the monthly income of the respondents

Table 5(II): ANOVA grouping table

Financial products		Sum of Squares	Mean Square	F	Sig.
Awareness Score-Traditional Products	Between Groups	138.005	46.002	3.328	*
	Within Groups	774.179	13.825		
	Total	912.183			
Awareness Score-Modern Financial Products	Between Groups	217.264	72.421	4.846	**
	Within Groups	836.920	14.945		
	Total	1054.183			
Awareness Score-Govt. Schemes	Between Groups	71.100	23.700	1.570	Ns
	Within Groups	845.500	15.098		
	Total	916.600			
Awareness Score-Security/Economic Issues	Between Groups	289.907	96.636	3.904	*
	Within Groups	1386.277	24.755		
	Total	1676.183			
Awareness Score-Financial Concepts	Between Groups	384.498	128.166	5.764	**
	Within Groups	1245.152	22.235		
	Total	1629.650			

Source: Primary Data

From the above table it was found that there is no significant difference among income groups and awareness level on government schemes. But the awareness level of respondents on traditional products differ significantly with their monthly income at 5% significance level, As like the awareness level of respondents on Security/Economic issues differ significantly with their monthly income at 5% significance level, the awareness level of respondents on Modern financial and awareness level of respondents on financial concepts differ significantly with their monthly income at 1% significance level

Table 6: Descriptive statistics showing Preference level of Respondents on Different Financial products.

Financial products	N	Minimum	Maximum	Mean	Standard Deviation
Savings account	60	1.00	5.00	3.4667	1.53454
Bank Fixed deposits	60	1.00	5.00	3.4068	1.26107
Public provident funds	60	1.00	5.00	3.0167	1.12734
National savings account	60	1.00	5.00	3.0333	1.23462
Post office savings scheme	60	1.00	5.00	3.0667	1.32597
Insurance	60	1.00	5.00	3.1000	1.60191
Bonds	60	1.00	5.00	2.4333	1.28045
Debentures	60	1.00	5.00	2.5500	1.19922
Mutual funds	60	1.00	5.00	2.7667	1.34501
Equities	60	1.00	5.00	2.9167	1.35661
Commodity market	60	1.00	5.00	2.6167	1.24997
Forex market	60	1.00	5.00	2.5500	1.39521
Private Chits	60	1.00	5.00	2.7833	1.36657
Land and building	60	1.00	5.00	2.7333	1.52790

Source: Primary Data

In the above table Preference level of respondents on different financial products is measured by the means for each item. High mean values indicate more preference. Savings account is highly preferred by the respondents comparing to the other financial products with high mean value of 3.4667 and Bonds are least preferred by the respondents with the lowest mean value of 2.4333.

Table7: Discriminant Function Analysis (DFA)-Factors discriminating between Rural and Urban respondents.

The following factors which are likely to discriminate between rural and urban respondents were included the model.

Financial Literacy:

- Awareness Score-Traditional Products
- Awareness Score-Modern Financial Products
- Awareness Score-Govt. Schemes
- Awareness Score-Security/Economic Issues
- Awareness Score-Financial Concepts

Investment Preference:

- Source of Borrowing
- Investment Preference-Low risk
- Investment Preference-Moderate risk
- Investment Preference-High risk

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions Variables ordered by absolute size of correlation within function.

Table 7(1): Structure Matrix

Variables	Function (R)	R2 %
Investment Preference-Low risk	-0.593	35.16
Investment Preference-Moderate risk	0.562	31.58
Investment Preference-High risk	0.480	23.04
Awareness Score-Financial Concepts	0.344	11.83
Awareness Score-Modern Financial Products	0.323	10.43
the percentage of your money you would allocate for monthly saving	0.208	4.33
percentage of your money you would allocate for Investment	0.166	2.76
Investment Management	0.108	1.17
Peer influence	0.041	0.17
High Capital Appreciation	-0.030	0.09

Source: Primary Data

It is seen from the structure matrix that ‘Investment Preference-Low risk’ is the maximum discriminating factor (R2%=35.16%) between Urban and Rural respondents followed by “Investment Preference-Moderate risk” (31.58%), “Investment Preference-High risk” (23.04%) in that order. “Awareness Score-Financial Concepts” contributes 11.83% and “Awareness Score-Modern Financial Products” contributes 10.43% in discriminating between Rural and Urban respondents.

FINDINGS:

- From the study it is found that, the awareness level of respondents on traditional financial products is higher than that of modern financial products; most of the respondents seek financial information still from friends and family members as their most trusted source of information.
- Most of about 68.3% of respondents are aware about “Investments”, i.e., converting their savings as profitable investment and generating long term benefits from those investments.
- The highest of about 55% of respondents aware about “Household Budgeting”, most of the respondents are interested in effective credit management, and learned to perform rate of return calculations in their own simple way.
- The habit of monitoring the household’s expenditure had been mostly in the way like “plan, spend, and don’t monitor” .most of the respondents do not possess the habit of monitoring their spending habits.
- The time horizon preferred by the respondents on their investment had been mostly the “medium term”, long term investments are least preferred by the respondents.

- Most of the respondents feel comfortable to invest in safe/low risk investment avenues, which make them feel satisfied comparing to medium and high risk investment avenues.
- The investment preference is the major factor which discriminates urban and rural households, rural households prefer to choose low risk investment avenues, where else urban prefer moderate and high risk investment avenues.

SUGGESTIONS:

- The financial service providers need to take promotional steps to make the modern financial products reach the households, in order to channelize their savings as profitable investments which thrive towards the economic growth.
- The households need to make a try for using various ways of sourcing financial information. Thereby they can able to make use of profitable investment options and attain financial wealth.
- The government needs to make proper regulations in order to avoid fraudulent activities in this financial sector, which builds confidence among the public to make investments which in turn helps to reduce the dependence of foreign capital.

CONCLUSION:

When people possess enough knowledge on financial services they will become financially literate, they are more likely to explore the products and services offered by banks and use them for their benefits. This accelerates the pace of financial inclusion, where everyone can access the basic banking facilities rather than relying on the orthodox systems of money market like borrowing from money lenders. This not only increases the standard of living of the people but also helps to generate the economic growth engine towards Economic development.

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