Investor Knowledge and Investment Practices of Private Sector Bank Employees

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The present study was conducted with an objective to analyze the level of knowledge regarding various investment avenues and present investment practices of employees of private sector banks in Nagpur city. A sample of 150 respondents was selected from 19 private sector banks in Nagpur. The study highlights the important sources of information that the respondents used to make their investment decisions. Further, the study revealed that a large majority of the respondents had invested in secured investments like employee provident fund, public provident fund, and post office saving schemes and even, the bank employees considered insurance as an investment tool rather than risk coverage instrument.

Keywords- Employee provident fund, Public provident fund, Saving schemes

Introduction

The major objective of investor is to invest in a variety of investments that deliver expected returns and meets the risk preference. The various investment avenues consist of security and non-security forms of investment. Security forms of investment are- corporate bonds or debentures, public sector bonds, preference shares, and equity shares. Various non-security forms of investment are-various types of provident funds, national saving certificates, corporate fixed deposits, life insurance policies, post office saving bank accounts and other deposits (Kaptan, 2013).

Investment decision-making process is concerned with how an investor should proceed in making decision about what marketable securities to invest in, how extensive the investment should be and when the investment should be made. Investment means the sacrifice of current rupees for future rupees. Investment has got two attributes - time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain. In some cases, element of time dominates (for example, government bonds). In other cases, risk is the dominant attribute (for example, call options on common stock). In yet others, both time and risk are important (for example, shares of common stock) (Sharpe et cd, 2012). Decision-making can be denned as the process of choosing a particular alternative from a number of alternatives. It is an activity that follows after proper evaluation of all the alternatives (Mathews, 2012). An investor has a wide array of investment avenues available for making investments and the choice of investment avenue(s) can be made on the basis of certain criterion of evaluation such as rate of'return, risk and safety, marketability, tax savings, convenience and liquidity (Chandra, 2012).

There is a great need for enhancing awareness and understanding of the investing community about the securities market, trade-offs between risk and returns and need for informed decision making surfaces prominently. India is a large country with a huge potential investor populace and sizeable and growing disposable incomes awaiting deployment in multiplier matrix of safety and liquidity. In the declining interest rates regime, investors look forward to profiting from opportunities in the securities market. Investor education and informed decision making is the most potent protective weapon for the investors in the Securities Market (Bajpai, 2013).

Review of Literature

In this section, a brief review of existing studies, pertinent to the present research has been presented. Alexander et al (2012) analyzed the responses from a nationwide telephone survey of 2,000 randomly selected mutual fund investors who purchased shares using the services of six different intermediaries, referred to as distribution channels — brokers, banks, mutual fund companies, insurance companies, employer-sponsored pension plans, and "other" (e.g., financial planners). The survey provided data on the demographic, financial, and fund ownership characteristics of mutual fund investors. Furthermore, it contained data on investors' familiarity with the costs and certain investment risks associated with mutual funds and the information sources used to learn about these costs and risks. The results suggested that there is room for improvement in investor knowledge of the expenses and risks associated with mutual funds and that more can be done to make mutual fund prospectuses more useful to investors. Schwarzkopf (2013) pointed out that the attraction effect occurs when an inferior item changes a decision-maker's perception of the relationship between other available alternatives, contrary to the expectations of rational decision-making. This study presented the first evidence that this effect, which has appeared persistently in consumer research, can influence investment decisions. Results of an experiment conducted on graduate students with investing experience or interest showed that the investor's perceived values of reported financial or non-financial performance, quality of earnings, and information source reliability were subject to trade-offs and can be altered by the composition of the decision set, rather than by any intrinsic change in the investment candidate itself. Ranganathan (2012) noted that financial markets are affected by the financial behavior of investors. She observed that consumer behavior from the marketing world and financial economics had brought together a need to study an exciting area of 'behavioral finance'. With the reforms of industrial policy- public sector, financial sector and the many developments in the Indian money market, capital market and mutual funds, are also influenced by the investors' financial behavior. This study was an attempt to examine the related aspects of the fund selection behavior of individual investors towards mutual funds in the city of Mumbai. Singh and Chander (2013) pointed out that since interest rates on investments like public provident fund, national saving certificate, bank deposits, etc., are falling, the question to be answered is: What investment alternative should a small investor adopt? Direct investment in capital market is an expensive proposal, and keeping money in saving schemes is not advisable. One of the alternatives is to

invest in capital markets through mutual funds. This helps the investor avoid the risks involved in direct investment. Considering the state of mind of the general investor, this article figured out the preference attached to
different investment avenues by the investors; the preference of mutual funds schemes over others for investment; the source from which the investor gets information about mutual funds; and the experience with regard to returns from mutual funds. The results showed that the investors considered gold to be the most preferred form of investment, followed by NSC and Post Office schemes. Hence, the basic psyche of an Indian investor, who still prefers to keep his savings in the form of yellow metal, is indicated. Investors belonging to the salaried category, and in the age group of 20-35, years showed inclination towards close-ended growth (equity-oriented) schemes over the other scheme types. A majority of the investors based their investment decision on the advice of brokers, professionals and financial advisors. The findings also revealed the varied experiences of respondents regarding the returns received from investments made in mutual funds. Mittal and Dhade (2012) observed that risk-taking involves the selection of options that might result in negative outcomes. While present is certain, future is uncertain. Hence, all investments involve risk. Decourt et al (2012) indicated that the process of making investment decisions is based on the 'Behavioral Economies' theory which uses the fundamental aspects of the Trospect Theory' developed by Kahneman and Tversky (1979). The effects that have been tested and identified using an investment simulator over the Internet were: the endowment effect, which prevents the participants from selling the received assets, even if better investment options are
available; the disposition effect, which refers to the pattern that people avoid realizing paper losses and seek to realize gains; fear of regret, which makes the participant invest in previously rejected assets that had good valorization; and framing, which modifies the investment decision depending on the perspective given to the problem. The conclusions of this study were: the endowment effect was effective for physicians; the disposition effect did not affect the participants; the fear of regret influenced the decisions of MBA students; and the framing modified the investment decision of the physicians and MBA students. Mittal and Vyas (2013) observed that investors have
certain cognitive and emotional weaknesses which come in the way of their investment decisions. Over the past few years, behavioral finance researchers have scientifically shown that investors do not always act rationally. They have behavioral biases that lead to systematic errors in the way they process information for investment decision. Many researchers have tried to classify the investors on the basis of their relative risk taking capacity and the type of investment they make. Empirical evidence also suggests that factors such as age, income, ^education and marital status affect an individual's investment decision.

Objective

The present study is an attempt to carry forward the work in the area of behavioral finance by analyzing the awareness and practices of private sector bank employees.

Research Methodology

The population for the study consisted of employees of all the private sector banks in Nagpur city. There are 19 private sector banks in Nagpur (Annual Credit Plan, 2012). All the banks were, included in the study and the main branch of each bank was selected. A sample of 150 respondents was selected on convenience basis. To meet the objective of the study, primary data and secondary information were collected. Primary data were collected through a pre-designed, structured" and non-disguised questionnaire. The questionnaire mainly included close-ended questions. To study the level of awareness, questions to measure the level of awareness regarding different investment avenues were asked. A score was assigned to each question. Based on the scores, respondents have been categorized on the basis of level of awareness i.e highly aware, moderately aware and low level of awareness. Various statistical tools like percentage, mean score, and rank score were applied for the analysis.

Results and Discussion

The profile of the respondents with respect to demographics like age, gender, family income, qualification, number of dependents in the family and family savings has been discussed in this section in detail. The information regarding the demographic characteristics of the respondents has been tabulated in the Table below.

Table 1. Profile of respondent

Characteristic	Type/Option	Frequency (N)	Percentage (%)
Age	18-25 years	30	20.0
	26-35 years	75	50.0
	36-45 years	35	23.3
	45 years and above	10	6.7
Qualification	Below graduation	2	1.3
	Graduate	28	18.7
	Post Graduate and above	116	77.3
	Professional	4	2.7
Number of members in the family	Two	4	2.7
	Three	26	17.3
	Four	106	70.7
	Above four	14	9.3
Annual Income (Rs.)	Less than 3 lakhs	28	18.7
	3 lakhs-6 lakhs	93	62.0
	6 lakhs- 9 lakhs	26	17.3
	Above 9 lakhs	3	2.0
Number of dependents in the family	None	12	8.0
	One Two More than Two	37 88 13	24.7 58.7 8.7
Annual Family Income (Rs.)	Less than 5 lakhs 5 lakhs- 10 lakhs Above 10 lakhs	49 83 18	32.7 55.3 12.0
Annual Household	Up to 20% 21-40	109 39	72.7 26.0
Savings (%)	Above 4 1	2	1.3

Table 1 shows that majority (73%) of the respondents were in the age group of 26-45 years, whereas, 20.00 per cent of the respondents were in the age group of 18-25 years. A large majority (77%) of the respondents were postgraduates, 18.7 per cent of the respondents were graduates and only 2.8 per cent of the respondents had professional qualification. A large majority of the respondents (70%) had four members in the family. Majority of the respondents (62%) had an annual income between Rs. 3-6 lakhs, while 18.7 per cent of the respondents had an annual income below Rs. 3 lakhs and approximately 17 per cent of the respondents had an annual income between Rs. 6-9 lakhs. Majority of respondents (58%) had two dependents while 24.7 per cent of respondents had one dependent in the family. Majority of the respondents (55%) had an annual family income between Rs. 5-10 lakhs while approximately 32 per cent of the respondents were in the income category of less than Rs. 5 lakhs. A large number of respondents (72%) saved up to 20 per cent of their annual household income in a year, while 26 per cent of respondents saved between 21 to 40 per cent

Table 2: Importance of in formation that help in investment decision-making

Source of information	Rank Score
Newspapers/Magazines/Books	1
Websites	2
Bank/Post Office/Insurance Company	3
TV Channels	4
Brokers and Agents	5
Friends and Relatives	6
Spouse/Family	7

Investor Knowledge: Table 3 represents that majority of the respondents (60.7%) had a moderate level of knowledge and only 39.33 per cent of the respondents had high level of knowledge.

Table 3: Distribution of respondents on the basis of level of knowledge

Awareness	Number of respondents
Moderate level of knowledge	91(60.7%)

High level of knowledge	59(39.3%)

Proportion (%) of Annual Savings in Various Investment Avenues:

Table 4 depicts that mean proportion (%) of annual savings of all respondents was 'public provident fund' (21.6%), 'employee provident fund' (21.4%), 'life insurance policy' (21.4%), 'stocks' (16.7%), 'company sponsored fixed deposit' (16.7%), 'real estate' (16.5%), 'post-office saving schemes (NSCs, KVP's)' (15.9%), 'bank deposits' (14.1%), 'mutual funds' (13.8%), 'gold/silver' (12.7%), and 'government securities' (10%).

Table 4: Mean proportion (%) of annual savings in various investment avenues

Investment Avenue	Mean Proportion
Public Provident Fund	21.6
Employee Provident Fund	21.4
Life Insurance Policy	21.4
Stocks	16.7
Company Sponsored Fixed Deposit	16.7
Real Estate	16.5
Post-office saving schemes (NSCs, KVP's)	15.9
Bank deposits	14.1
Mutual funds	13.8
Gold/Silver	12.7
Government Securities	10.0

Table 5: Distribution of respondents on the basis of duration of investment

N=150

Duration of Investment/ Investment Avenue(s)	1 -3 years	(s)3-8 years	Above 8 years
Employee provident fund	0	83	57
Public provident fund	0	65	40

Life insurance policy	0	88	56
Bank deposits	101	30	2
Stocks	35	0	0
Mutual funds	46	7	0
Government securities	3	0	0
Post- office saving schemes)	36	72	0
(NSCs, KVP's			
Company sponsored fixed deposit	1	3	3
Real estate	28	19	1
Gold/ Silver	39	20	22

Duration of Investment: Majority of respondents have invested ibr a duration of 3-8 years, where as in case of' stocks', 'mutual funds', 'real estate', 'bank deposits', 'gold/silver', 'government securities' and 'company sponsored fixed deposit' majority of respondents have invested for a duration of 1-3 years. Also, a significant number of respondents have invested for duration of' above 8 years' in case of 'employee provident fund', 'public provident fund', and 'life insurance policy'.

Frequency of review of Existing Investments: Table 6 represents that approximately 43 per cent of the respondents reviewed their existing investments biannually while approximately 27 per cent of the respondents reviewed their existing investments annually. Only 22.7 per cent of the respondents reviewed their existing investments monthly.

Table 6: Distribution of respondents on the basis of frequency of review of existing investments

Frequency of review	Number of respondents
Monthly	34 (22.67%)
Biannually	65 (43.33%)
Annually	41 (27.33%)

Assistance during Investment Decision-making: Table 7 reveals that large majority (94%) of the respondents made their investment decisions 'on their own' and only 6.00 per cent of the respondents made their investment decisions with the professional help.

Table 7: Distribution of respondents on the basis of medium of investment

Assistance during investment	Number of respondents decision-making	
Investment planner	6 (4.0%)	On the ir own
144 (96.0%)		

Change in Existing Investments in the Light of Economic Meltdown:

The majority of the respondents (92.7%) had made a shift in their existing investments in the light of economic meltdown.

Conclusions

Findings of the study revealed that print media and websites were the two most important sources of information that helped the respondents to make investment decisions. Thus, the marketers of investment avenues should keep advertising in the print as well as electronic media. It was surprising to note that a large majority of the respondents had invested in secured mode of investments like employee provident fund, public provident fund, and post office saving schemes. Another highlighting finding of the study was that even the bank employees considered insurance as an investment tool rather than risk coverage instrument. Also, another significant finding was that only four per cent of the respondents made their investment decisions with the help of investment planner. There is an immense need to raise the level of awareness about the various investment avenues among the bank employees, as based upon the scoring model, only forty per cent of the respondents had high level of awareness regarding various investment avenues.

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