REVIEWS OF LITERATURE
ISSN: 2347-2723
IMPACT FACTOR : 3.3754(UIF)
VOLUME - 5 | ISSUE - 8 | MARCH - 2018

EFFECTS OF DEMOGRAPHIC CHARACTERISTICS ON FINANCIAL PRODUCTS

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ABSTRACT

Financial products are instruments that help to save, invest, get insurance or get a mortgage. These are issued by various banks, financial institutions. There are several ways to classify such products; the approach taken in this work is to focus on the technical characteristics of Financial Products usage acting as the source of predictors for demographic characteristics such as Age, income and occupation.

KEY WORDS: *Demographic characteristics, Mutual Funds, Credit Card and Online Share Trading.*

INTRODUCTION

Financial products

Financial products refer to instruments that help in saving, investing, get insurance or get a mortgage (Sheikh & Rajmohan, 2017).These are issued by various banks, financial institutions, stock brokerages, insurance providers, credit card agencies and government sponsored entities (Keller, 2010). Financial products are sold by large number of distributors; these distributors are employees or agents of the product provider and not the customers.

DEMOGRAPHIC CHARACTERISTICS

Personal Statistics that include such information as Income level, Gender, Educational level, Location, Race and Family size for example, the marketing department of a business might use demographic variables as an important input when formulating target customer profiles.

REVIEW OF RESEARCH

The financial distribution industry has grown significantly in the last decade and stands close to Rs.230 billion at last count. For a sense of scale for the growth in distribution, insurance companies paid their distributors approx- Rs.180 billion in 2009-10, which amounted to almost seven percent of the total premiums collected. Mutual funds are believed to have paid commissions to distributors to the tune of Rs.50 billion Anagol and Kim (2011).There are two causes of concern when faced with this kind of growth in financial distribution: firstly, this growth has had little impact on household participation in the financial sector. Only one percent of all households report having investments in mutual funds in the quarter of June 2011 and 26 percent in the case of insurance, despite savings being at 34 percent of GDP. Anagol and Kim (2011) document one example of shrouding by Indian mutual funds where they estimate investors lost US$500 million. Concerns regarding the manner of selling insurance through banks have also surfaced in the last few years (Chapter 8, IRDA (2011)). These concerns have been raised, not just in India, but all over the world, and

have accelerated post the 2008 financial crisis. What raises the seriousness of these concerns is that it cannot be solved by the traditional financial markets solution of competition leading to best- practices. The complicated nature of financial products and their postponed pay-off make it difficult for customers to evaluate their choices objectively. Gabaix and Laibson (2006) show that in a market with a mix of sophisticated and naive customers, firms choose to shroud information not leading to a low cost equilibrium. Greater competition therefore does not necessarily ensure better outcomes for the customer. This only underscores the importance of policy that engenders an environment where financial intermediaries are responsive to customer needs and also respectful of customer rights (Khorana, Servaes, and Tufano, 2009). In the current distribution model, the intermediary sells to the consumer but is remunerated by the manufacturer. Thus, advice (which distributors deliver today) is likely to be biased because the incentive comes not from higher sales driven by customer satisfaction, but from commissions paid by the product provider. These misaligned incentives generate effort in promoting products with no regard to the suitability of the product for the customer. This is exacerbated through what is typically called the "common agency" problem. An example in India is an agent who can sell products of several mutual funds and an insurance company. Investors can receive very different information about products, which are similar in economic terms, depending on which product provider is paying a higher commission. Stoughton, Wu, and Zechner (2011) find that kick-backs to advisers from product providers are always associated with higher portfolio management fees and negatively impact fund performance, regardless of investor sophistication. While there is consensus on the problems in the distribution space, the solutions are not so obvious. Regulations may make the market for customers "Safer", but often have unintended consequences of potentially stifling innovation (Inderst, 2009). In India, the difficulty is compounded by the fact that low financial literacy and low household participation demand a significant effort of distribution, requiring regulation to straddle a thin line between establishing safeguards, while not throttling the profession.

OBJECTIVES

The Present Study is aimed at knowing the technical characteristics of Financial Products acting as a source of predictors for demographic characteristics.

HYPOTHESIS

H1: The financial Products are not considered as the significant predictors of Age, Income and Occupational status.

SAMPLING DETAILS

The primary data for the present Study was collected from the Banking Customers and these customers were identified on random basis from Capital city of India (New Delhi). The filled up response was collected successfully from 150 respondents, however from collected 150 responses 133 responses were valid and 17 responses was incomplete and hence eliminated from the current study. Hence the sample size for the present work is treated as 133 comprising the Banking customers. Thus, the sampling procedure adopted for the present study is treated as stratified random sampling. The primary data for the present study was collected between the periods Oct 2017 to Dec 2017. The data collected were coded and transferred in to Statistical package for Social Science (SPSS) for the purpose of analysis.

RESULTS AND DISCUSSIONS

The ability of Usage of Financial products acting as the source of predictors for Age, income and occupational Status is defined in hypothesis-1, and its results are shown in table-1 as an outcome of Discriminant analysis. From the results shown in table-1 the Box's M Value of 11.164 is found to be above the suggested Value of $P > 0.001$ and hence the essential conditionality to be fulfilled for Discriminant Analysis is ensured.

Further this confirms the equality of covariance for the three categories of the outcome variable such as Age, Income and Occupational status. While the mean values for all the three financial products are found to be higher for users of financial products, the significant variations could be noted in five out of six categories of financial products between Age, Income and Occupational status. For Instance the F values of

5.902, 10.286, 5.243, 20.715, and 14.616 corresponding to Financial products Usage is found to be varying significantly between Age, Income and occupational Status.

Table-1: Results of Discriminant analysis for hypothesis-1

Dependent Variable	Predictors	Non users		Users		Total		F	Wilks' Lambda	Box's M
									0.987	11.164
		Mean	SD	Mean	SD	Mean	SD		Chi-square	F Approx.
Mutual Funds Investment	Age	1.7927	0.87365	1.8375	0.89820	1.8375	0.89820	5.902*	15.960*	3.713
	Income	1.8204	1.01641	2.0693	1.15763	1.9042	1.07204	14.616*	df	Sig.
									2	P= 0.011
Using Credit Card	Age	1.7655	.82162	1.8702	0.88463	1.8375	0.89820	2.305	Wilks' Lambda	Box's M
									0. .995	4.417
	Occupational Status	2.8635	1.73667	2.6333	1.69606	2.7275	1.71582	5.243*	Chi-square	F Approx
									6.562*	1.470
									df	Sig.
									2	P=0.221
Online Share Trading	Age	1.7902	0.91628	2.1180	0.91603	1.8375	0.89820	20.715*	Wilks' Lambda	Box's M
									0.978	7.316
	Occupational Status	2.7935	1.73669	2.3483	1.54116	2.7275	1.71582	10.286*	Chi-square	F Approx.
									26.778*	2.428
									df	Sig.
									2	P=0.063

*The mean difference is significant at the 0.05 level; Computed from primary data

Further the significance of this prediction model is confirmed through Wilk's Lambda value of 0.987, 0.995 and 0.978 with a Chi-Square value of 15.960, 6.562 and 26.778 at 5 degrees of freedom. Based on these results the hypothesis-1 is rejected and hence financial products are considered as the significant predictors of Age, Income and Occupational status. Based on the Discriminant Function coefficient and structure matrix loading the consistency of this predictor variables could be observed with 5 out of six financial products.

FINDINGS OF THE STUDY

1. Financial products are considered as the significant predictors of Demographic Characteristics.
2. The consistency of predictor variables could be observed with 5 out of six financial products. Among Financial products Mutual Fund Investments are considered as the significant predictors of Age and Income similarly, Online Share Trading are considered as the significant predictors of Age and Occupational status however, Credit Card usage is considered as the significant predictors of Occupational Status.

CONCLUSION

The significance of the prediction model used in the current study is confirmed through Wilk's Lambda value and Chi-Square value, hence financial products such as Mutual funds Investment, Credit Card usage and Online Share trading are considered as the significant predictors of Demographic Characteristics such as Age, Income and Occupational status, therefore the same prediction model could be used in future studies with other innovative financial Products and Demographic variables.

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