Variations on Financial Products between banking destinations

Dr. Bilal Ahmad Sheikh

Ph.D. in Business Administration

Abstract: **Financial Products deals with money help in making investments and get returns. Financial products are categorized in terms of their type or underlying asset class, volatility, risk and return. In the present study an attempt was made to check the financial products usage levels between customers different banking destinations. Based on the survey data generated through 1200 Banking customers where analyzed and the corresponding implications and limitations are discussed in the work.**

Keywords: **Mutual Fund, Credit Card, Insurance Services and Loan Facilities**

Introduction

Financial products refer to instruments that help in saving, investing, get insurance or get a mortgage. 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.

Review of Literature

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) however 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) documented 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 while as Investors can receive very different information about products, which are similar in economic terms, depending on which product provider is paying a higher commission in this regard 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 variations on financial products usage between customers' banking destinations.

Hypothesis

H1: Financial products usage does not vary between customers' different banking destination.

Sampling Details

The primary data for the present Study was collected from the Banking Customers and these Banking customers were identified on random basis from Srinagar, Delhi and Chidambaram. The filled up response were collected successfully from 1200 respondents comprising the breakup of 600 from Delhi, 300 from Srinagar and 300 from Chidambaram. To arrive at the usable sample size 1200 responses 1441 questionnaires got distributed with a success rate of 83 percent for the total distributed questionnaires. Hence the sample size for the present work is treated as 1200 comprising the Banking customers of Srinagar, Delhi and Chidambaram. 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 Jan 2016 to June 2016. The data collected were coded and transferred in to Statistical package for Social Science (SPSS) for the purpose of analysis.

Results and Discussions
Significant variations on the adoption of financial products between customers' Banking destinations

The variations in the adoption levels of Financial products such as Mutual funds Investments, Insurance Services (General Insurance and Life Insurance), Loan Facilities, Using Green Card for Deposits between the customers of three different Banking destinations such as Delhi, Srinagar and Chidambaram are defined in hypothesis- **H1** taken up and its results are shown in the table-**1**, as an outcome of one way ANOVA model conceptualized. From the results of this one way ANOVA model shown in table-**1**, it can be inferred that the F values of 7.772, 6.538, 8.333 and 18.217 corresponding to Mutual funds Investments, Insurance Services (General Insurance and Life Insurance), Loan Facilities and Using Green Card for Deposits between the customers of three different Banking destinations such as Delhi, Srinagar and Chidambaram are found to be significant at 5 percent level. Hence, hypothesis-**H1** is rejected at 5 percent level of significance. This result clearly shows that there exist significant variations in the adoption levels of Financial products such as Mutual funds Investments, Insurance Services (General Insurance and Life Insurance), Loan Facilities and Using Green Card for Deposits between the customers of three different Banking destinations such as Delhi, Srinagar and Chidambaram In order to identify the exact variations between different sampling areas, multiple comparisons were made with LSD method and its results are provided along with table-**1** were the variations are noted as follows.

Variations on Mutual funds Investments between customers' Banking destination

Based on the value of mean differences found in the table-**1**, it can be inferred that the Highest intensity levels of Mutual funds Investments is identified with Banking destination of Delhi, the next higher intensity levels of Mutual funds Investments is identified with a Banking destination of Srinagar and the lowest intensity levels of Mutual funds Investments is identified with a Banking destination of Chidambaram. From the details provided in the table-**1**, it can be noted that, the variations in the intensity levels of Mutual funds Investments between the Banking destination of Delhi and Chidambaram are found to be significant at 5 percent level.

Table-1:Results of ANOVA for hypothesis- H1					
Dependent Variable	**Place of living as a Source of Grouping**	**Sum of Squares**	**df**	**Mean Square**	**F**
Mutual funds Investments	Between Groups	10.765	2	5.382	7.772*
	Within Groups	828.982	1197	0.693	
	Total	839.747	1199		
Insurance Services (General Insurance and Life Insurance)	Between Groups	14.407	2	7.204	6.538*
	Within Groups	1318.905	1197	1.102	
	Total	1333.312	1199		
Loan Facilities from banks and other Financial Intuitions	Between Groups	24.503	2	12.251	8.333*
	Within Groups	1759.890	1197	1.470	
	Total	1784.393	1199		
Using Green Card for Deposits	Between Groups	88.189	2	44.095	18.217
	Within Groups	2897.290	1197	2.420	
	Total	2985.479	1199		

Multiple Comparisons LSD					
Dependent Variable	**(I) Place of living**	**(J) Place of living**	**Mean Difference (I-J)**	**Std. Error**	**Sig.**
Mutual funds Investments	Delhi	Srinagar	0.02167	0.05885	0.713
		Chidambaram	0.22500*	0.05885	0.000
	Srinagar	Delhi	-0.02167	0.05885	0.713
		Chidambaram	0.20333*	0.06795	0.003
	Chidambaram	Delhi	-0.22500*	0.05885	0.000
		Srinagar	-0.20333*	0.06795	0.003
Insurance Services (General Insurance and Life Insurance)	Delhi	Srinagar	0.02167	0.07422	0.770
		Chidambaram	-0.24500*	0.07422	0.001
	Srinagar	Delhi	-0.02167	0.07422	0.770
		Chidambaram	-0.26667*	0.08571	0.002

	Chidambaram	Delhi	0.24500*	0.07422	0.001
		Srinagar	0.26667*	0.08571	0.002
Loan Facilities from banks and other Financial Intuitions	Delhi	Srinagar	0.00000	0.08574	1.000
		Chidambaram	-0.33000*	0.08574	0.000
	Srinagar	Delhi	0.00000	0.08574	1.000
		Chidambaram	-0.33000*	0.09900	0.001
	Chidambaram	Delhi	0.33000*	0.08574	0.000
		Srinagar	0.33000*	0.09900	0.001
Using Green Card for Deposits	Delhi	Srinagar	0.02667	0.11001	0.809
		Chidambaram	-0.61667*	0.11001	0.000
	Srinagar	Delhi	-0.02667	0.11001	0.809
		Chidambaram	-0.64333*	0.12703	0.000
	Chidambaram	Delhi	0.61667*	0.11001	0.000
		Srinagar	0.64333*	0.12703	0.000
* Significant at 5 percent level; Source: Computed from primary data					

Similarly such significant variations exist between the Banking destination of Srinagar and Chidambaram. These results suggest that the different Banking destinations are significantly related to the adoption levels of Mutual funds Investments among the Banking customers. More specifically, the levels of Urbanization in the Banking destinations play a major role in the adoption levels of Mutual funds Investments among the Banking customers.

Variations on the adoption of Insurance Services (General Insurance and Life Insurance) between customers banking destination

Based on the value of mean differences found in the table-**1**, it can be inferred that the Highest adoption levels of Insurance Services (General Insurance and Life Insurance) is identified with Banking destination of Delhi, the next higher adoption levels of Insurance Services (General Insurance and Life Insurance) is identified with a Banking destination of Srinagar and the lowest adoption levels of Insurance Services (General Insurance and Life Insurance) is identified with a Banking destination of Chidambaram. From the details provided in the table-**1**, it can be noted that, the variations in the adoption levels of Insurance Services (General Insurance and Life Insurance) between the Banking destination of Delhi and Chidambaram are found to be significant at 5 percent level. Similarly such significant variations exist between the Banking destination of Srinagar and Chidambaram. These results suggest that the different Banking destinations are significantly related to the adoption levels of Insurance Services (General Insurance and Life Insurance) among the Banking customers. More specifically, the levels of Urbanization in the Banking destinations play a major role in the adoption levels of Insurance Services (General Insurance and Life Insurance) among the customers.

Variations on availing Loan Facilities between customers' Banking destinations

Based on the value of mean differences found in the table-**1**, it can be inferred that the Highest intensity levels in availing Loan Facilities is identified with Banking destination of Delhi, the next higher intensity levels in availing Loan Facilities is identified with a Banking destination of Srinagar and the lowest intensity levels in availing Loan Facilities is identified with a Banking destination of Chidambaram. From the details provided in the table-**1**, it can be noted that, the variations in the intensity levels of availing Loan Facilities between the Banking destination of Delhi and Chidambaram are found to be significant at 5 percent level. Similarly such significant variations exist between the Banking destination of Srinagar and Chidambaram. These results suggest that the different Banking destinations are significantly related to the Intensity levels in availing Loan Facilities among the Banking customers. More specifically, the levels of Urbanization in the Banking destinations play a major role in availing of Loan Facilities from Banks.

Variations on Using Green Card for Deposits between customers banking destination

Based on the value of mean differences found in the table-**1**, it can be inferred that the Highest intensity levels of Using Green Card for Deposits is identified with Banking destination of Delhi, the next higher intensity levels of Using Green Card for Deposits is identified with a Banking destination of Srinagar and the lowest intensity levels of Using Green Card for Deposits is identified with a Banking destination of Chidambaram. From the details provided in the table-**1**, it can be noted that, the variations in the intensity levels of Using Green Card for Deposits between the Banking destination of Delhi and Chidambaram are found to be significant at 5 percent level. Similarly such significant variations exist between the Banking destination of Srinagar and Chidambaram. These results suggest that the different Banking destinations are significantly related to the Intensity levels of Using Green Card for Deposits among the Banking customers. More specifically, the levels of Urbanization in the Banking destinations play a major role in Using Green Card for Deposits among the customers.

Insignificant variations on the adoption of financial Products between customers banking destinations

The variations in the Mobile Banking and Credit Card usage between customers banking destinations such as Delhi, Srinagar and Chidambaram are defined in hypothesis- **H1**, as an outcome of one way ANOVA model conceptualized. From the results of one way ANOVA, it can be inferred that the F values of 0.032, 0.363 corresponding to the factors like Mobile Banking

and Credit Card usage between customers banking destinations such as Delhi, Srinagar and Chidambaram are not found to be significant at 5 percent level.

Table-2:Results of ANOVA for hypothesis- H1						
Dependent Variable	**Place of Living as Source of Grouping**	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
Mobile Banking	Between Groups	0.110	2	0.055	0.032	0.969
	Within Groups	2084.927	1197	1.742		
	Total	2085.037	1199			
Using Credit Card	Between Groups	1.797	2	0.898	0.363	0.696
	Within Groups	2963.373	1197	2.476		
	Total	2965.170	1199			
* Significant at 5 percent level; Source: Computed from primary data						

Based on the results shown in table-21 it can be confirmed that Mobile Banking and Credit Card usage are not found to be varying significantly between customers banking destinations such as Srinagar, Delhi and Chidambaram. Hence hypothesis- **H1** is accepted.

FINDINGS OF STUDY

1. It is found that significant variations exist between the usage levels of financial products such as Mutual funds Investments, among the customers of three different Banking destinations such as Delhi, Srinagar and Chidambaram. Highest intensity levels of Mutual funds Investments is identified with Banking destination of Delhi, the next higher intensity levels of Mutual funds Investments is identified with a Banking destination of Srinagar and the lowest intensity levels of Mutual funds Investments is identified with a Banking destination of Chidambaram. It is also found that, the variations in the intensity levels of Mutual funds Investments between the Banking destination of Delhi and Chidambaram are found to be significant, similarly such significant variations exist between the Banking destination of Srinagar and Chidambaram.

2. It is found that significant variations exist between the usage levels of financial products such as Insurance Services (General Insurance and Life Insurance) among the customers of three different Banking destinations such as Delhi, Srinagar and Chidambaram. Highest adoption levels of Insurance Services (General Insurance and Life Insurance) is identified with Banking destination of Delhi, the next higher adoption levels of Insurance Services (General Insurance and Life Insurance) is identified with a Banking destination of Srinagar and the lowest adoption levels of Insurance Services (General Insurance and Life Insurance) is identified with a Banking destination of Chidambaram. It is also found that, the variations in the adoption levels of Insurance Services (General Insurance and Life Insurance) between the Banking destination of Delhi and Chidambaram are found to be significant, similarly such significant variations exist between the Banking destination of Srinagar and Chidambaram.

3. It is found that significant variations exist between the usage levels of financial products such as availing of Loan Facilities among the customers of three different Banking destinations such as Delhi, Srinagar and Chidambaram. Highest intensity levels in availing Loan Facilities is identified with Banking destination of Delhi, the next higher intensity levels in availing Loan Facilities is identified with a Banking destination of Srinagar and the lowest intensity levels in availing Loan Facilities is identified with a Banking destination of Chidambaram. It is also found that, the variations in the intensity levels of availing Loan Facilities between the Banking destination of Delhi and Chidambaram are found to be significant, similarly such significant variations exist between the Banking destination of Srinagar and Chidambaram.

4. It is found that significant variations exist between the usage levels of Green Card for Deposits among the customers of three different Banking destinations such as Delhi, Srinagar and Chidambaram. Highest intensity levels of Using Green Card for Deposits is identified with Banking destination of Delhi, the next higher intensity levels of Using Green Card for Deposits is identified with a Banking destination of Srinagar and the lowest intensity levels of Using Green Card for Deposits is identified with a Banking destination of Chidambaram. It is also found that, the variations in the intensity levels of Using Green Card for Deposits between the Banking destination of Delhi and Chidambaram are found to be significant, similarly such significant variations exist between the Banking destination of Srinagar and Chidambaram.

5. It is found that the variations between the usage levels of Mobile Banking and Credit Card usage among customers of three diffrent banking destinations such as Delhi, Srinagar and Chidambaram are not found to be significant.

References

[1] Keller, W. (2010). International trade, foreign direct investment, and technology spillovers. Handbook of the Economics of Innovation, 2 (1), 793-829.

[2] Sheikh, B. A., & Rajmohan, P. (2016). Adoption of Internet Banking. International Journal of Advance Research in Computer Science & Management Technology, 4(6), 20-28.

[3] Anagol, Santosh, and Hugh Kim (2011): "The Impact of Shrouded Fees:Evidence from a Natural Experiment in the Indian Mutual Funds Market,"American Economic Review.

[4] Gabaix, Xavier, and David Laibson (2006): "Shrouded Attributes, Consumer Myopia, And Information Suppression In Competitive Markets,"The Quarterly Journal of Economics.

[5] Khorana, Ajay, Henri Servaes, and Peter Tufano (2009): "Mutual Fund Fees Around the World," Review of Financial Studies, 22(3), 1279–1310.

[6] Inderst, Roman (2009): "Retail Finance: Thoughts on Reshaping Regulation and Consumer Protection after the Financial Crisis," European Business Organization Law Review, 10, 455–464.

[7] Stoughton, Neal M., Youchang Wu, and Josef Zechner (2011): "Intermediated Investment Management," The Journal of Finance, 66(3), 947–980.