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Drivers of Demand for Different Financial Instruments in India: A Study of Buyer Attitude, Perceptions and Choices

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ABSTRACT

According to research, people's psychological tendencies have likely influenced their financial preferences,where savings and investing are important components of life. The major goal is to understand how psychological factors that influence investors' decisions to buy deferment of shares and their potential to protect their capital. The balance of Indian household assets is unique, when compared with other countries. Here, mostly physical assets are favoured with a composition of about 62%, around 8% isinvested in gold and less than 20% of Indian household wealth is concentrated in financial assets. The transformation in how investing habits have evolved in past decade(s), and a lot of traffic of Indian household capital has been pushed in the stock market, this report is based on assessing a sample group of more than 100 individuals, ranging from students and alumnus to teachers and professionals, collecting their financial preferences to form an opinion of the report.

I. INTRODUCTION

Investing refers to employment of funds, where the objective is to make more money. In other words, investing is a process of generating wealth by earning favourable returns from respective assets. Nowadays, investments is mostly associated with financial instruments, that allows an individual or a business, to raise and deploy capital. The universe of financial instruments in Indiais broadly known for its most common type of investments, that are stocks, bonds, commodities and derivatives. Earlier consumers hadlittleknowledge regarding financial instruments and delivery methods. Due to the traditional structure and operation of the finance industry, investors were forced to experience interruption and financial loss as a result of switching financial providers, which produced no or very little long-term value. As a result, investors were forced into certain purchasing habits and lacked motivation to alter them. Today, market circumstances have become extremely competitive due to regulatory authorities and advent of new technologies, which has had a significant impact on investor behaviour (Beckett et al, 2000). Many investors in recent years who were tempted by high investment returns lost their money (e.g., 2008 Asia financial storm, 2012 Europe loan crisis, etc.). Large organisations, including Enron and WorldCom, have been linked to numerous scandals and unethical actions recently (Vitell et al. 2007). Financial decisions are more complex than in the past and are being evaluated regularly. These choices cannot be made just based on outside information; investors must exercise correct judgement as well. Along with financial literacy, attitudes regarding money may also play a significant role in determining how investors behave financially. Compared to other financial instruments, equities market used to contribute the least to overall household savings. However, during and post COVID, India has seen a rising tendency of individual investors in equity market. The majority of the research presently available on investor's financial behaviour is exploratory and descriptive in nature, with very little attention given to attitudinal theoretical foundations or financial discoveries. Investor's attitudes on money, financial knowledge, and practical financial behaviours is the foundation of our research. It describes the psychological process by which an individual investors' present and future financial behaviour is formed. The usage of financial decisions by individuals and the implications of theoretical developments for practical applications are significant topics covered in this study. The research theories will aid in understanding of how money attitudes, financial literacy, and financial considerations relate with the financial behaviour of individuals. The financial instruments chosen for this study's topic are among the favoured ones available in stock market, that are stocks and derivatives. Additionally, we analysed consumer financial decisions using the level of risk involved in investments, in terms of clarifying two types of financial products based upon theoretical support, to connect the relationship between low-risk and high-risk financial product and individuals' behaviour. The features of high-risk financial products may include steady price and return fluctuations (such as equity and equity derivatives). Thus, categorised target financial products into low-risk and high-risk financial product groups. The primary focus of this study is on how customers' attitudes toward money influence their financial behaviour, as well as how their levels of financial literacy influence their choices to invest in high-risk financial products. To better clarify the various implications of antecedents on consumer practical/expected financial behaviour and to connect the talks between various life stages (current/future), these two dependent variables are further identified. Based on a survey of 125 universityattendants.

II. LITERATURE REVIEW

2.1 Bhuvanaet. al (2016)

Did a research on financial inclusion means giving low-income and vulnerable people access to financial and banking services. Efficient, transparent finance sectors can gain financial involvement. India has taken several steps to encourage financial inclusion. Financial firms like banks have intensified their efforts to serve uncontested and exempted groups. But in India, 21% of adults are unbanked, and 53% have access to formal banking services. Financial inclusion in rural areas is affected by how well people understand money, how much it costs, how much they trust technology, how much money they make, how far away they live, and how appropriate the products are. This research examined inventive distribution channels. Attract rural people and create a theoretical model to identify financial inclusion drive.

2.2 Jaswinder et .al

He conducted a systematic study on financial innovations that grow economies. Indian Financial innovations grow economies. Social advancements have a long track record of success. India is ready for financialization. The world's leading financial brand names are currently considering the Indian financial market. Some regions need growth in the economy and a boost. There's really an international tournament to increase stockholder wealth. Competitive rivalry spurs innovation. Like other forms of digital entrepreneurship, the above occurrence is instinctual. Financial engineers develop products, services, and testing procedures. Intentions to invest are needed to confront economic expansion obstacles. Financial products diversify the danger. Risks are being reduced and dissipated by financial products. In any economy, many factors affect financial instruments and innovations.

2.3 Ms. Nibedita Roy

He did research on DRIVERS OF SECURITISATION IN INDIAN BANKING INDUSTRY in which they revealed that traditionally, a company seeking funds means that it must borrow from the economy. Such methods must have adequate financial leverage. This reduces the availability of equity loans and creates a funding gap. To fill this shortfall, financial experts have devised structured finance. Structured finance is a complicated method tailor-made to shareholders' risk-return and maturity needs. It is used by banks, other financial institutions, and businesses as a new way to get money and to make sure that financial transactions are safe. Securitization makes use of the funds raised by reusing idle investments as well as the outcomes in terms of capital adequacy and financial results. This study employs statistics to determine what causes securitization between many Indian banks and NBFCs to occur or not occur.

2.4 John Schindler (2017)

Inthis section raised two questions about fintech's origins, expansion, and cash flow impact. It explains why "FinTech" is happening now. Several of the technologies that support financial technology innovations aren't new, but financial firms and business owners are only now using them. Analysis of "traditional" financial innovation's supply and demand factors reveals a confluence of factors. This article demonstrates why fintech is getting more attention than traditional innovation. The above study defines "technology complexity" as the response to this question. Profound innovations can reshape financial products, which shows that many FinTech innovations are profound and can change financial services. Greater transformability can affect monetary sustainability.

2.5 Preeti GuptaMicrofinance

It is the best way to meet the poor's necessities, which are not met by traditional financial institutions. It facilitates self-employment by allocating money, insurance, credit, etc. Microfinance institutions provide funds and other financial services to those who lack them. MFIs must be sustainable and profitable to achieve this moral goal. Microfinance aims to reduce poverty by continuing to increase financial access. Microfinance institutions should indeed perform well to help the poor. This same present study explores factors that affect Indian MFIs' sustainability. Indian MFI sustainability is determined by panel regression analysis. Due to the lack of data for most MFIs, we will sample 46 MFIs over five years (2009–2013). Different things, like the average loan amount, the number of borrowers per staff member, the return on assets, and the total loan yield in Indian MFIs' portfolios determine how well they can run and make money.

2.6 Pooja Bansal (2018)

She did research on the economic development of a country that depends on its families, individuals, and business offices channelling their cost savings into productive avenues in an economic system, money flows and shareholders (savers) to help finance users, creating wealth. Financial Markets mobilize this flow of funds in bonds, mutual funds, PPFs, bank deposits, etc. A market participant must choose the best money device. The study also compares different types of investments based on these factors and suggests the best choice for the investor.

2.7 Satyananda Sahoo (2013)

The article systematically analyses this same contribution of financial structures to economic growth in India. An evaluation of the development of numerous financial indicators reveals that both bank-based and market-based intermediary procedures have also made considerable progress in the last six decades. Whilst borrowing cash from other sources besides Indian banks has grown rapidly over the past two decades, it is still significantly below the average global level, and even below the level of its EDE peers. Nevertheless, in recent years, the market capitalization of the Indian stock market has increased sharply, reflecting a greater reliance on stock market-based sources of funding. One-way Granger causality running from private sector credit to real GDP confirms the supply-leading process of bank intermediation, while the ARDL cointegration test suggests that both bank-based and market-based financial inclusion has a useful function in growing India's economy. The results suggest that in a relatively bank-centric financial sector, Indian banks have the potential to further channel borrowing to the productive parts of the economy.

2.8 Garling et.al (2009)

He surveyed that sense that many would wonder how the current financial crisis could have occurred. It is also obvious why individuals, both laypeople, and professionals, think that psychological variables are important because market actors seem to be acting irrationally. Is there proof for such a position, and if so, what kind of proof is it? The research reviewed, assessed, and discussed in this book, which focuses mostly on psychological research, has the potential to deepen our understanding of the psychological causes and effects of financial crises. It also shows important places where more psychological research is needed to learn more. They also reviewed that financial markets like stocks and credit may strain actors' rationality. In product markets with complete competition, prices more accurately reflect product value, minimizing ambiguity and making wise decisions easier. Due to excessive trading, stock prices are more volatile than they should be. Cognitive biases like overconfidence and over-optimism, risk aversion in the presence of sure returns and risk-taking and loss aversion in the face of likely losses, and stock price nominal can explain excessive trading. Individual irrationality in stock markets may be avoided if there were no cognitive biases or only some actors were subject to them.

2.9 Herwig Pilaj (2017)

He promotes that responsible investment using behavioural economics and nudge theory. Socially responsible investing (SRI) allows financial instruments to support ethical principles. While policymakers have encouraged SRI, most ordinary investors still invest conventionally. The authors also concluded that a conceptual framework would enhance SRI policymaking. A transmission mechanism stresses SRI's role in sustainable development in the framework's first phase. The second portion is an SRI decision model. The approach indicates that low SRI demand is a symptom of behavioural market failure, and that nudging can remove SRI behavioural obstacles. An SRI nudge is designed using smart choice architecture as an example.

Policymakers may consider the nudge if it passes empirical testing.

2.10 Tarrazonaet. al (2011)

This research aims first at behaviours of socially aware mutual fund investors. A sample of people made investment decisions based on different information about potential investments and expected returns. In the experiment, each participant divides a budget for investments between two uncertain funds with fluctuating returns. On one of the two investment options, two treatments offer various levels of socially responsible (SR) information. Even when returns and variety are their primary investment objectives, participants invest more when they are clearly informed about a fund's. Participants with SR concerns put a lot more money into the SR option. A small percentage of investors put most of their money into the SR fund even when the return gap is negative. Investors can effectively express their choices by making the SR characteristics of investment preferences.

III. RESEARCH METHODOLOGY

The literature review conducted on “Drivers of Demand for Different Financial Instruments in India: A Study of Buyer Attitude, Perceptions and Choices" portrays a need to spectate and study with Indian context. This research makes an effort to study the different factors that drives investor choices for different financial instruments, the investment trends in different types of financial instruments and to identify the different factors that drives an individual investors choices for different financial instruments. Participants have a wide range of investment options available to them, but the biggest conundrum for the buyer is which one is best for them. It is necessary to thoroughly consider the contributing elements before deciding which investment strategy best meets their financial needs.Each research objective's methodology has been covered in depth in this chapter, including topics like questionnaire construction, validity, and reliability, respondents of the studyand data analysis.

3.1 Statement of Problem

Before beginning to try to solve the problem, a problem-solving team should be supplied with (or generate) a problem statement that clearly and concisely describes the difficulties that need to be addressed. Buyers in India has engaged in a variety of endeavours and derives his income from many sources. Therefore, the goal of this research study is to examine how buyers spend their money and the considerations they make before using it. As a result, the Statement of Problem is "Preferences of Buyer of India in Choosing the Appropriate Financial Instruments."

3.2 Scope of the Study

The primary goal of the study is to identify the different investment options that are available to buyers and which ones are the most successful.A greater understanding of the investment possibilities offered by different financial institutions in India would undoubtedly result from this research. Furthermore, the study covers all of the many professions, including students, professors, self - employed persons, freelancers and more.The degree of investment option expertise is also taken into account.Their willingness to assume risk, how much the return component is taken into account while investing and a comparison of the chosen investment options is also provided in this study paper.

3.3 Design of the Study

When we talk about the research design, we're talking about the general approach we use to logically and cogently combine the many study components. A research design is, quite simply, the outline of the study's strategy that directs the data's collection and processing. The purpose of the study is to identify the attitudes, perceptions, and purchasing choices of Indian buyers as well as the demand drivers for various financial products. The study is exploratory in its design.

Exploratory research is study done on a topic for which there are few or no previous studies to consult or rely upon to make predictions about the outcome, or the issue has not been examined in further detail.

Due to the lack of prior research examining the factors influencing demand for various financial instruments in India—specifically, the attitudes, perceptions, and choices of the buyer research project is exploratory in nature. This research is being done for the first time in order to understand the different factors that drives investor choices for different financial instruments, the investment trends in different types of financial instruments and to identify the different factors that drives investors choices for different financial instruments as well as how these factors affect their investment choices.

3.4 Variables Included in the Study

The following are the variables that were examined in the study:

Attitude, preference, and choice towards a certain investment option, as well as its return percentage, are dependent variables.
Annual investment amount, frequency of watching investments, level of financial understanding, etc. are all independent variables.

3.5 Data Collection
Both primary and secondary sources were used in the data collection process.

3.6 Primary Data Collection
Primary research entails the gathering of data that is not already in existence but is instead studied and original data is obtained.Primary data from the respondents was gathered using the questionnaire approach. A standardised questionnaire was created, and the concerned respondents were asked to complete it. In various locations around India, the questionnaire was distributed, and those who responded were instructed to fill it out according to their own beliefs and customs. Individuals between the ages of 20 and 60 completed the questionnaire.

3.7 Secondary Data Collection
Data gathered and assembled earlier for projects other than the one at hand is referred to as secondary research. With the use of multiple sources, this methodology enables researchers to assess and spot gaps in the literature.We gathered and examined secondary material from books, journals, periodicals, magazines, research papers, and the internet to help us comprehend the different perceptions, attitude and choices of buyer's investment.

3.8 Samples for the Study
The current study is only focused on individuals associated with Lovely Professional University. The sample for this study includes people in every age range, from under 20 to over 60. Only those who reside in and make a living in India answered the questionnaire.

3.9 Sample Size
A sample size of 100+ respondents has been used from the sample population for the survey. The sample is limited to Indian residents between the ages of 20 and 60 because the primary goal of the research paper is to examine the various factors that influence investor decisions regarding various financial instruments, investment trends in various categories of financial]\

IV. FINDINGS

4.1 Frequency of investments
From the study, we got to know how frequently the investors invest their money in different instruments of investments. The survey spotted a majority who have never invested or traded in a stock market. This could either be because of lack of capital of a student, or lack of investing knowledge. The survey found 20 individuals who trade daily, 24 who trade/ invest monthly and 15 respondents who invest yearly.

Frequency	No. of respondents
Daily	20
Monthly	24
Never	41
Yearly	15

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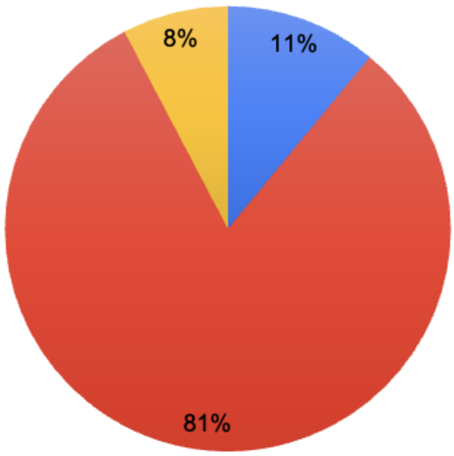
4.2 Money earned annually by the respondents

From this study, we got to know the range of money earned by the participants. Most of the respondents earned below INR 10,000 which depicts less investments or comparable losses. 10 respondents earned less than INR 20,000 which is still favourable for monthly expenses. And 7 respondents earn more than INR 20,000, which comprises of day traders.

Price range	No. of respondents
10,000 to 20,000	10
Below 10,000	74
More than 20,000	7



4.3 Equity instrument preferred

From the study, we got to know that the most preferred and speculated equity instrument, invested and exercised by the respondents is **Stocks.** 11 of the respondents traded in futures and 9 traded in options. This illustrates the most vivid and practiced form of investments that arises in an individuals' opinion.

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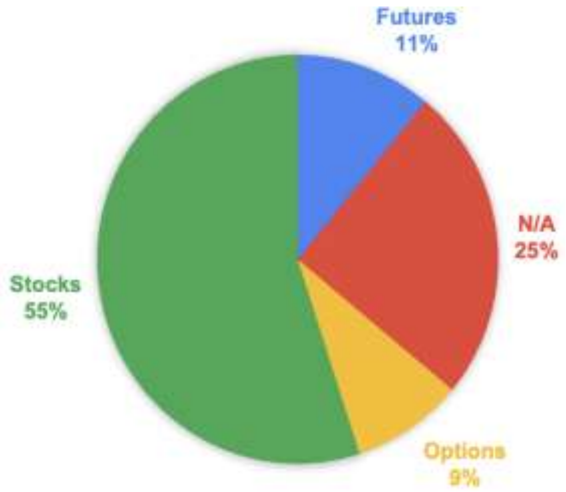
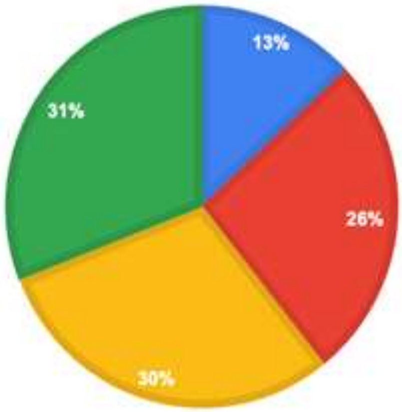
Instrument	No. of respondents
Futures	11
N/A	25
Options	9
Stocks	55



4.4 Exposure to risk

From this study, we tried to understand the exposure faced and practiced by these individuals, ranging from aggressive to conservative. We wanted to analyse the fluctuating and impulsive buying or selling performed by individual investors. We got to know that most of the individuals (30%), who practiced trading/ investing prefer to be very conservative and try to minimize the risk. 26% of the respondents were willing to take a moderate level of risk and 13%respondents stated that they prefer to trade aggressively and prefer to take big risks, in order to win big.

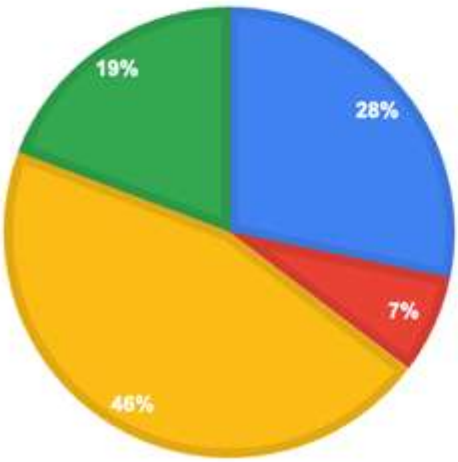
Exposure to risk	No. of respondents
Aggressive and take big risk	11
Expect a moderate level of risk	22
Conservative with small amount of risk	25
Very conservative and try to minimize risk	26



4.5 Primary Investment Objective

From the gathered data, we have interpreted the primary investment objectives of our respondents. The most common or practiced way of investing is to generate long term returns. With 46% of the sample, preferring long term returns, we spotted 19% respondents whose primary objective is short term returns. And 7% of the respondents practice investing to tackle inflation.

Objective	No. of respondents
I have not invested	28
Inflation	7
Long term returns	45
Short term returns	19



4.6 Inclination towards Investing

From this study, we concluded that whether an individual is already investing or not, people are more inclined towards investing in future. From the data that we gathered, 55% are inclined towards investing in stock market. 32% are not sure whether to participate or not, while 13% of the sample intend not to participate.

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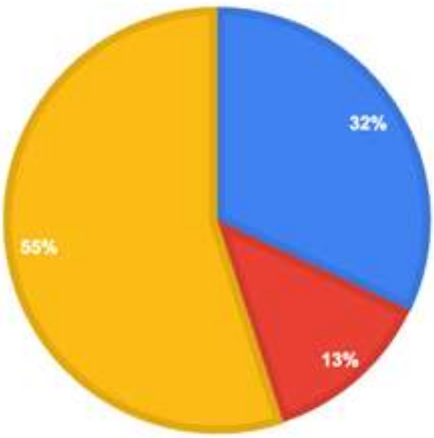
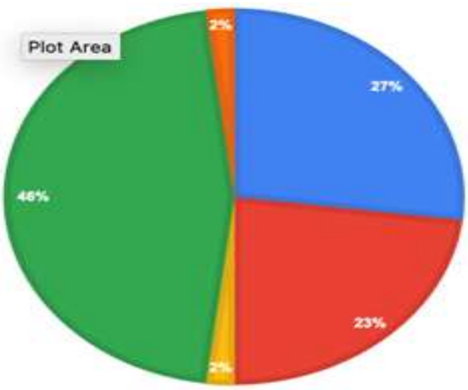
Inclination	No. of respondents
Maybe	32
No	13
Yes	55



4.7 Views on Trading

From this study, we got to interpret the perception of trading for an individual. From the responses we gathered 23% of the sample consider trading extremely favourable. 46% of the respondents have a moderate opinion on trading, and 2% consider trading extremely favourable. This report interprets and concludes that the majority of the sample are inclined more towards trading, while a few have no knowledge of investing.

View	No. of respondents
Do Not Know	27
Extremely Favourable	23
Extremely Unfavourable	2
Somewhat Favourable	46
Somewhat Unfavourable	2



V. LIMITATIONS OF THE STUDY

Sample size taken in this study is small and might not be sufficient to predict accurate results. This study was limited to the extent of available data and willingness of the respondents.Also, the data gathered was mostly restricted to Lovely Professional University. There ispossibility of data gathered by the respondents being biased. This could be becausethe respondents might be reluctant to expose their actual financial standings. Also the lack of knowledge of the respondents about various equity products could be a limitation in this study. Other than that, all variables were incorporated to the best of our erudition whilst chances of variables not appearing in this study is excluded.

VI. CONCLUSION

From the data we researched and gathered concludes that the retail participation of individuals towards Indian Stock Market is rising. With the onset of pandemic, Indian household savings showed a significant increase. With the cash inflow of FIIs, global liquidity has increased, creating more opportunities for wealth creation, and has in turn attracted many individuals to invest in the stock market. Out of 100 respondents collected in the data 80 were male while 22 were female. This could interpret that the male population is more inclined towards investing and wealth creation. The most common occupation of the respondents was students, who freelance or day trade, followed by faculties of the university. This study indicated the annual income of the individual plays an significant impact on impact on choice of investments and the duration of which the investments are made. Most of the individuals (usually students) trade daily, while a few trade and monitor yearly results. The main investment objective of the sample was long term returns, followed by short term returns to favour expenses. Also, in this study, it was concluded that the most preferred investment option by youth was derivatives, while others are conservative and prefer to invest in stocks alone.

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