

Analysing the investment factors of HNIs and revenue generation to financial institute

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Abstract:

With the economy in India showcasing strong growth with the favourable policy implementations, the number of HNIs & Ultra-HNIs is growing at very fast pace in India. This has resulted in huge opportunities for banks and other financial institutions to retain & acquire these highly profitable customers for sustainable growth. HNI portfolios continue to grow more diversified over the long term, spread across international boundaries and asset classes, their investments become increasingly mobile. A needs-based approach provides advisors with the right products and services to offer their investors to achieve their investment goals and enjoy improved client satisfaction.

The main objective of this paper is deduced below with the objective being to create an actionable strategy for the financial sector in

channelling the resources for optimal profitability. In the process the emphasis will lie in identifying the demographics of the High Net Worth individuals in India, to gauge the preferences of HNI with respect to brands, leisure activities and Investments and find out the pattern in investment of HNIs. The approach adopted in this research is quantitative in nature that includes in depth survey of 300 samples (HNIs) through a questionnaire. The data captured is analyzed using statistical tools like SAS, SPSS in order to create an inferential decision making. The researcher has decided to incorporate equation based models like regression/ logistic regression as well as algorithm based decision tree to capture the nonlinearities. The pattern recognition through segmentation and profiling has also been incorporated to capture the homogeneous characteristics of the most profitable segment.

Introduction:

Meaning of High Net worth Individuals:

A classification used by the financial services industry to denote an individual or a family with high net worth. Although there is no precise definition of how rich somebody must be to fit into this category, high net worth is generally quoted in terms of liquid assets over a certain figure. The exact amount differs by financial institution and region. The categorization is relevant because high net worth individuals generally qualify for separately managed investment accounts instead of regular mutual funds.

The most commonly quoted figure for membership in the high net worth "club" is \$1 million in liquid financial assets. An investor with less than \$1 million but more than \$100,000 is considered to be "affluent", or perhaps even "sub-HNWI". The upper end of HNWI is around \$5 million, at which point the client is then referred to as "very HNWI". More than \$50 million in wealth classifies a person as "ultra HNWI".

Sample for the present Study

High net worth Individuals of the bank:

In the Bank whose samples are incorporated there are three types of customers in the managed portfolio, they are:

1. Customers eligible for *Imperia Premium Banking*

- Maintaining a minimum Average Monthly Balance of Rs.30 Lakhs across all Savings and
- Fixed Deposit accounts. OR
- Maintaining an Average Quarterly Balance of Rs.10 Lakhs in Savings account

2. Customers eligible for *Preferred Banking*

- Maintaining a minimum Average Monthly balance of Rs. 15 Lakhs across all accounts(Savings, Current and Fixed Deposits) OR
- Maintaining an Average Quarterly Balance of Rs. 2 Lakhs in Savings account. OR
- Maintain an Average Quarterly Balance of Rs. 5 Lakhs in Current account.

3. Customers eligible for *Classic Banking*

- A minimum Average Quarterly Balance of just Rs.1 Lakh in Savings Bank account OR
- A minimum Average Monthly Balance of just Rs 5 Lakh in a combination of Savings Bank account and Term Deposit.

These three types of customers are considered as HIGH NET WORTH INDIVIDUALS for the Bank.

Data Analysis:

Hypothesis 1:

H0: The mean revenue accounted for the financial institution/ bank for the High Net

worth Individuals of both the genders are equal.

H1: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of both the genders are not equal and there lies a significant difference between the two categories.

As the dependent variable is the continuous variable and the independent or the explanatory variable is the categorical variable having two categories the T Test is incorporated.

The coding of the Gender is as follows:

Male ----0

Female---1

T-Test

Group Statistics

	Gender	N	Mean	Std. Deviation	Std. Error Mean
Total amount of transaction/ revenue accounted for	1	30	1016913.50	1888147.665	344727.023
	0	270	651427.36	807009.962	49113.062

Independent Samples Test

	Levene's Test for Equality of Variances	t-test for Equality of Means								
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Total amount of transaction/ revenue accounted for	Equal variances assumed	12.136	.001	1.964	298	.050	365486.137	186073.099	-697.629	731669.903
	Equal variances not assumed			1.050	30.188	.302	365486.137	348208.002	-345463.944	1076436.218

The p value of 0.001 less than the benchmarked significance level of 5% (95% confidence level) propel us to reject the assumption of equal variance for the T Test and hence choose the p value of the unequal variance T Test. The p value of 0.302 of the unequal variance T Test more than the significance level of 5% (95% confidence level) propel us to reject the alternate hypothesis and accept the null hypothesis that the mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of both the genders are equal.

Hypothesis 2:

H0: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the age groups are equal.

H1: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the age groups are not equal.

The coding of the Age Group is as follows:

- 1-(18 to 25 yrs)
- 2-(26 to 35 yrs)
- 3-(36 to 45 yrs)
- 4-(46 to 55 yrs)
- 5-(>55 yrs)

As the dependent variable is the continuous variable and the independent or the

explanatory variable is the categorical variable having five categories the Test of ANOVA (Analysis of Variance) is incorporated.

Oneway ANOVA

Test of Homogeneity of Variances

ANOVA

Total amount of transaction/ revenue accounted for

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	648480244741.464	3	216160081580.488	.227	.877
Within Groups	281536435707973.400	296	951136607121.532		
Total	282184915952714.800	299			

The alternate hypothesis is rejected and the null hypothesis i.e. the mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the age groups are equal and there lies no significant difference is accepted. This is on the basis of the fact that the p value of .877 is more than the standard 95% confidence level or the 5% significance level (0.05) propelling us for the decision taken.

Hypothesis 3:

H0: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different types of risk appetite are equal.

H1: The mean revenue accounted for the financial institution/ bank for the High Net

Total amount of transaction/ revenue accounted for

Levene Statistic	df1	df2	Sig.
.869	3	296	.457

The p value of 0.457 is more than the accepted 5% significance level (0.05) or the standard 95% confidence level satisfies the required equality of variance assumption for incorporating the test of ANOVA.

worth Individuals of all the different types of risk appetite are not equal.

The coding of the different risk appetites is as follows:

- 1 - Risk averse people
- 2- Moderate risk taking ability
- 3- People with high risk taking ability

Oneway ANOVA

Test of Homogeneity of Variances

Total amount of transaction/ revenue accounted for

Levene Statistic	df1	df2	Sig.
.914	2	297	.402

The p value of 0.402 is more than the accepted 5% significance level (0.05) or the standard 95% confidence level satisfies the

required equality of variance assumption for incorporating the test of ANOVA.

ANOVA

Total amount of transaction/ revenue accounted for

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	428122040971.979	2	214061020485.989	.226	.798
Within Groups	281756793911742.900	297	948676073776.912		
Total	282184915952714.900	299			

The alternate hypothesis is rejected and the null hypothesis i.e. the mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different types of risk appetite are equal is accepted. This is on the basis of the fact that the p value of 0.798 is more than the standard 95% confidence level or the 5% significance level (0.05) propelling us for the decision taken.

The coding of the different professions is as follows:

- 1- Business
- 2- Professional
- 3- Retired

Hypothesis 4:

H0: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of professions are equal.

H1: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of professions are not equal.

Oneway ANOVA

Test of Homogeneity of Variances

Total amount of transaction/ revenue accounted for

Levene Statistic	df1	df2	Sig.
.227	2	297	.797

The p value of 0.797 is more than the accepted 5% significance level (0.05) or the standard 95% confidence level satisfies the required equality of variance assumption for incorporating the test of ANOVA.

ANOVA

Total amount of transaction/ revenue accounted for

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	127503696093.901	2	63751848046.950	.067	.935
Within Groups	282057412256621.000	297	949688256756.300		
Total	282184915952714.900	299			

The alternate hypothesis is rejected and the null hypothesis i.e. the mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of professions are equalis accepted. This is on the basis of the fact that the p value of 0.798 is more than the standard 95% confidence level or the 5% significance level (0.05) propelling us for the decision taken.

- 2- Delhi
- 3- Chennai
- 4- Mumbai
- 5- Bangalore
- 6- Pune
- 7- Patna

Hypothesis 5:

H0: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type cities are equal.

H1: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of cities are not equal.

The coding of the different cities is as follows:

- 1- Kolkata

Oneway ANOVA

Test of Homogeneity of Variances

Total amount of transaction/ revenue accounted for

Levene Statistic	df1	df2	Sig.
.640	5	294	.669

The p value of 0.669 is more than the accepted 5% significance level (0.05) or the standard 95% confidence level satisfies the required equality of variance assumption for incorporating the test of ANOVA.

ANOVA

Total amount of transaction/ revenue accounted for

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7985345354947.307	5	1597069070989.461	1.712	.132
Within Groups	274199570597767.530	294	932651600672.679		
Total	282184915952714.800	299			

The alternate hypothesis is rejected and the null hypothesis i.e. the mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type cities are equal is accepted. This is on the basis of the fact that the p value of 0.132 is more than the standard 95% confidence level or the 5% significance level (0.05) propelling us for the decision taken.

Hypothesis 6:

H0: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of preferred investments are equal.

H1: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of preferred investments are not equal.

The codes for the different preferred investments are as follows:

- 1- Mutual Funds
- 2- Equity Products
- 3- Debt Funds
- 4- FMP
- 5- Real Estate
- 6- Gold
- 7- Insurance
- 8- IPO

Oneway ANOVA

Test of Homogeneity of Variances

Total amount of transaction/ revenue accounted for

Levene Statistic	df1	df2	Sig.
1.496	7	290	.168

The p value of 0.168 is more than the accepted 5% significance level (0.05) or the

standard 95% confidence level satisfies the required equality of variance assumption for incorporating the test of ANOVA.

ANOVA

Total amount of transaction/ revenue accounted for

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6141710423118.786	7	877387203302.684	.923	.489
Within Groups	275719820313770.660	290	950758001081.968		
Total	281861530736889.440	297			

The alternate hypothesis is rejected and the null hypothesis i.e. the mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of preferred investments are equal is accepted. This is on the basis of the fact that the p value of 0.489 is more than the standard 95% confidence level or the 5% significance level (0.05) propelling us for the decision taken.

The codes of the different type of investment horizon are as follows:

- 1-(< 1 year)
- 2-(1 to 2 years)
- 3-(3 to 4 years)
- 4-(4 to 6 years)
- 5-(>6 years)

Hypothesis 7:

H0: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of investment horizon are equal.

H1: The mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of investment horizon are not equal and there lies a significant difference.

Oneway ANOVA

Test of Homogeneity of Variances

Total amount of transaction/ revenue accounted for

Levene Statistic	df1	df2	Sig.
1.808	4	295	.127

The p value of 0.127 is more than the accepted 5% significance level (0.05) or the standard 95% confidence level satisfies the

required equality of variance assumption for

incorporating the test of ANOVA.

ANOVA

Total amount of transaction/ revenue accounted for

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4505619410739.533	4	1126404852684.883	1.197	.312
Within Groups	277679296541975.220	295	941285750989.747		
Total	282184915952714.750	299			

The alternate hypothesis is rejected and the null hypothesis i.e. the mean revenue accounted for the financial institution/ bank for the High Net worth Individuals of all the different type of investment horizon are equal is accepted. This is on the basis of the fact that the p value of 0.312 is more than the standard 95% confidence level or the 5% significance level (0.05) propelling us for the decision taken.

Conclusion:

It evolved that the high net worth individuals cannot be captured by focusing on a particular gender, age group, risk appetite, type of profession. Neither they can be captured by focusing on a particular city, preferred investment, type of investment horizons, investment motive, whether the

individual going for discounts or not or a particular source of purchase of investment instruments. This accentuates for the fact that the high net worth individuals comprises of diverse demographic features, geographic locations, and different investment instruments invested at their own preferred horizons based on their investment motives through their own choice of source of investment instrument. Thus a generalized fit for all strategy would not garner profitability for the banks and financial instruments. This justifies for creating a decision tree to zero in on the profitable or high priority high net worth individuals beforehand based on the different explanatory variables to streamline the focus of the banks to optimize the profit by concentrating on the most valuable high net worth individuals and thus reduce the cost and wastages by not focusing on the non-priority high net worth individuals. The high net worth individuals are divided into

two segments namely the priority customers and the non-priority customers based on the revenue of the bank. The definition is created by distributing the total revenue and hence distinguished based on the business prospect. The decision tree model is incorporated here thus creating a mechanism for the banks and the financial institutions to understand the probability of being a priority or a non-priority high net worth individuals for a new customer and thus utilise the resources in the optimized way. The decision tree will even take care of the complex non-linearities, interactions, non-monotonic relations as well thus giving an easy yet most effective mechanism for deployment for the client for leveraged and optimized resources garnering the maximum profitability and sustainable growth

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