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**

<table>
<thead>
<tr>
<th>Gender</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of transaction/ revenue accounted for</td>
<td>1</td>
<td>30</td>
<td>1016913.50</td>
<td>1888147.665</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>270</td>
<td>651427.36</td>
<td>807009.962</td>
</tr>
</tbody>
</table>

**Independent Samples Test**
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**

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>648480244741.464</td>
<td>3</td>
<td>216160081580.488</td>
<td>.227</td>
<td>.877</td>
</tr>
<tr>
<td>Within Groups</td>
<td>281536435707973.400</td>
<td>296</td>
<td>951136607121.532</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>282184915952714.800</td>
<td>299</td>
<td>951136607121.532</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 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**

<table>
<thead>
<tr>
<th></th>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.869</td>
<td>3</td>
<td>296</td>
<td>.457</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th></th>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>.914</td>
<td>2</td>
<td>297</td>
<td>.402</td>
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</table>
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

<table>
<thead>
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<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>428122040971.979</td>
<td>2</td>
<td>214061020485.989</td>
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<td>.798</td>
</tr>
<tr>
<td>Within Groups</td>
<td>281756793911742.900</td>
<td>297</td>
<td>948676073776.912</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>282184915952714.900</td>
<td>299</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

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.

The coding of the different professions is as follows:

1- Business
2- Professional
3- Retired

Oneway ANOVA

<table>
<thead>
<tr>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>.227</td>
<td>2</td>
<td>297</td>
<td>.797</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>Between Groups</td>
<td>127503696093.901</td>
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<td>63751848046.950</td>
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<td>.935</td>
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<tr>
<td>Within Groups</td>
<td>282057412256621.000</td>
<td>297</td>
<td>949688256756.300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>282184915952714.900</td>
<td>299</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 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.

**Hypothesis 5:**
H0: The mean revenue accounted for the financial institution/bank for the High Net worth Individuals of all the different type of 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
2- Delhi
3- Chennai
4- Mumbai
5- Bangalore
6- Pune
7- Patna

Oneway ANOVA

<table>
<thead>
<tr>
<th></th>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of transaction/ revenue accounted for</td>
<td>.640</td>
<td>5</td>
<td>294</td>
<td>.669</td>
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</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>7985345354947.307</td>
<td>5</td>
<td>159706907989.461</td>
<td>1.712</td>
</tr>
<tr>
<td>Within Groups</td>
<td>274199570597767.530</td>
<td>294</td>
<td>932651600672.679</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>282184915952714.800</td>
<td>299</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.496</td>
<td>7</td>
<td>290</td>
<td>.168</td>
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</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>6141710423118.786</td>
<td>7</td>
<td>877387203302.684</td>
<td>.923</td>
</tr>
<tr>
<td>Within Groups</td>
<td>275719820313770.660</td>
<td>290</td>
<td>950758001081.968</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>281861530736889.440</td>
<td>297</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

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.

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)

Oneway ANOVA

<table>
<thead>
<tr>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.808</td>
<td>4</td>
<td>295</td>
<td>.127</td>
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</tbody>
</table>

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.

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>4505619410739.533</td>
<td>4</td>
<td>1126404852684.883</td>
<td>1.197</td>
<td>.312</td>
<td>.0312</td>
</tr>
<tr>
<td>Within Groups</td>
<td>277679296541975.220</td>
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<td>941285750989.747</td>
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<td></td>
<td>.0050</td>
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<tr>
<td>Total</td>
<td>282184915952714.750</td>
<td>299</td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

Bibliography


