

The research on the investors' cognition of banks' finance products

Li Huang¹ Yan Hu¹ Meng_ting Wan¹ Qiao_ling Tang¹

¹Business School, SiChuan Normal University, Chengdu, 610000, China

Abstract

In recent years, the banks' finance products has been became more and more popular in China. However, the growth has also brought some inevitable growing pains. In order to promote the development of banks' finance products, we investigated investors' cognition of banks' finance products through the questionnaire, and found that the bank should improve the scientific nature of the products' design and investors should strengthen their knowledge.

Keywords: Banks' Finance Products
Investor Cognition Choose

1. Introduction

With the development of market economy in China, the demand of personal financial products have been become stronger. This phenomenon impels that many banks issue varieties of financial products in order to attract more investors and expand the scale of financing. Then, how investors choose financial products? How to judge all kinds of financial products' benefit? If all the products that investors invested have achieved a certain income? If investors' cognition of bank's finance products is sufficient? To solve the above problems, we investigated the investors selection

process and cognition of financial products.

2. Literature Review

Prior researches found there were some problems with the banks' finance products. Xiao_feng Lin(2012) propose that there are many problems in the banks' finance products, such as the information disclosure of the finance products, the transparency of operation, and the investors' rights protection. And he also points out that it's difficult to safeguard these rights. Jin_fu Du(2013) found that outsiders mainly focused on the risk of banking products, the impact of macroeconomic control, the banking operations and consumer protection. So regulatory mechanisms should pay more attention to the above aspects. Guang_hua Gu(2013) concluded that there existed problems in the design and sale of the banks' finance products, so he put forward to build a complete customer information database,subdivide the market, and design many categories of products.

Although the researches have played a great role in the development of the commercial banks' finance products, they all do not from the perspective of investors. So it's necessary to investigate investors' cognition, and it would be helpful to analyze present situation and problems of the banks' finance products.

3. Status of banks' finance products

Before a questionnaire survey, we visited several commercial banks to learn the banks' finance products about publicity, sales, earnings and so on. we found the following problems:

- Most investors of banks' finance products are the general public who know little about finance and economy, so it's difficult for them to invest effectively.
- Based on Chinese traditional culture, domestic residents savings are relatively conservative, therefore investors are limited in capital. That's why financial products can not be fully developed in our country.
- In order to attract more investors, the commercial banks would like to exaggerate returns.
- Information asymmetry about the financial products might lead to the fact that investors are unable to carry on the correct choice while investing.
- The unfavorable supervision and unperfected legal system causes the unhealthy development of the bank, and it's bad for the improvement of banks' products.

4. Research Design

4.1. Questionnaire Design

According to the destination and the actual situation of banks' finance products, we designed the questionnaire. The whole questionnaire was divided into three apartments: basic characteristics of the respondents, investment characteristics and their cognition of banks' finance products. And the basic characteristics including the age and work background of investors.

The key factor evaluation index is made up of the sixteen items(appendix 1).We used Likert Five Point to study the questionnaire.

4.2. Investigation Object

We distributed 600 questionnaires randomly to the banks' finance products (potential) investors who are in Chengdu, Beijing, Shanghai, and 499 effective questionnaires were recycled, which meant the effective returns-ratio is 83.17%. Among them, 39.2% of the sample age is 20-40; 42.5% of the sample revenue is above 4000; 10.2% work in finance; 61.3% of the sample targets have ever bought banks' finance products.

4.3. The reliability and validity test

The KMO of sample is 0.80 and the Cronbach α coefficients is 0.74; the KMO of the investment characteristics and the knowledge of banks' finance products is 0.72, 0.71; while Cronbach α coefficients of them is 0.61, 0.61. These results indicated that the questionnaire survey was reliability and it's suitable for the factor analysis.

5. Analysis of Results

5.1. Calculation Process

This paper used stata13.0 as the tool for statistical analysis. In the process the factor analysis and the orthogonal transformation of factor loading matrix to centralize classes were used(formula (1)).

$$DF_i = \sum_{j=1}^{16} XF_{ij} * Z_{kj}(1)$$

The DF_i is the key factor, XF_{ij} is coefficient of loading matrix, Z_{kj} is principal component standardization.

5.2. Correlation Analysis

Table 1 showed the correlation analysis result. There was significant positive correlation between X12 and X13 which meant investors with lower income and less investment were less willing to risk. And there was significant positive correlation between X21 and X22. This indicated that the investors pay close attention to the knowledge of finance and economics were more willing to study the instruction of banks' finance products. And those risk-averse investors (who pursue the stable income) hold the opposite view that financial products earnings was not high. Furthermore, we found 49.9% of respondents do not know the difference between realized rate of return and the expected rate of return, and 42.1% think that financial products have overstated earnings. And we also found that 45.21% of respondents who bought banks' finance products thought the eventual return of bank financial products was lower than expected.

Furthermore, we found that 42.89 % of the respondents agreed that the information of financial products is not transparent.

Table 1: Person Correlation Coefficients

	X11	X12	X13	X21	X22	X23
X11	1					
X12	-0.48***	1				
X13	-0.10**	0.21***	1			
X21	0.55***	-0.40***	-0.20**	1		
X22	0.24***	-0.18***	-0.13**	0.09*	1	
X23	0.04	-0.051	-0.06	0.12**	-0.01	1

* Correlation is significant at the 0.1 level;

** Correlation is significant at the 0.05 level;

***Correlation is significant at the 0.01 level.

The results indicated that, the investors with lower income and the investment proportion were usually risk averse

investors. And banks need to emphasize prediction method and steadiness of the earnings of the banks' finance products to them extremely.

6. Conclusion

This paper investigated the banks' finance products from the investors' perspective. With questionnaire, we concluded:

- Investors: should first understand their own financial condition, risk reference; and secondly, increase their knowledge of financial products; and thirdly, actively pay attention and study the operation of bank's finance products.
- Banks: should firstly improve the scientific of the products' design; secondly, fully reveal the benefits and risks associated to products in the process of products' promotion; also disclose relevant information of financial products in the process timely, accurately and completely; thirdly, strengthen the management of the sales staff in the process of selling; and enhance investors' educational services to help them to understand more comprehensively financial products.
- Institution: the regulators should expand the monitoring channels of banks from market, industry, and investors; increase the scope of supervision on financial products to promote the healthy and sustainable development of bank's finance products.

7. Future Research

Because the sample size is limited, recommendations presented in the paper may be not perfect. So in the future, we should reexamine the idea using larger

sample. and we also could investigate the difference between actual earnings and expected earnings which will be helpful for investors to better understanding the bank's finance products.

Appendix: Questionnaire

X1 Investment Characteristics

X11 Financing preference

Q1.Do you have fully understand of banks' finance products?

Q2.Do you pay much attention to financial news at usual?

X12 Incommode limits

Q3.What's the range of monthly income?

Q4.Will you put a part of your monthly income to invest in banks' finance products ?

X13 Investment preference

Q5.Why you purchase banks' finance products?

Q6.Which banks' finance products do you prefer?

X2 Cognition of banks' finance products

X21 the earnings of banks' finance products

Q7. Do you think the return guarantees of banks' finance products is free of risk?

Q8.Will you purchase products because of the high expected rate of return?

Q9.Do you know the difference between annualized rate of return and expected rate of return?

Q10.Do you think the banks' finance products are not been exaggerated?

X22 the instruction of banks' finance products

Q11.Do you think the definition is very clear

Q12.Do you study on the investment direction?

Q13.Do you think the exemption clause of bank is fair?

X23 additional item

Q14.Do you know quite well about the charge standard of banks' finance products?

Q15.Do you think there exist many formed contracts with some "overbearing articles"?

Q16.Do you think banking information is transparent?

Acknowledgements

This research was supported by scientific innovation Foundation of SiChuan Normal University, and the Humanities and Social Sciences Youth Foundation of Education Ministry under Grant No.12YJC630061.

References

[1]J.F. Du, "The Current Situation, Problems and Countermeasures of Bank Financing Products Market in China," *Financial Regulation Research*, vol.2, pp. 4-8, 2013.

[2]X.F. Lin, "Issues concerning Consumer Rights Protection in Bank Financing Products," *South China Finance*, vol.11, pp.97-98, 2012.

[3]B.Liu, "The Current Situation and Development Proposal for Commercial Bank Financing Products in China," *Manager' Journal*, vol.3, pp.50, 2013.

[4] "Study on Some Legal Issues of Bank Financing Products," *Financial Development Review*, vol.5, pp.100-104, 2013.

[5]G.H.Gu, "A Brief Talk on Sustained Development's effective countermeasure to Bank Financing Products," *Times Finance*, vol.9, pp.134-135, 2013.

[6]Measures of financial product sales and management of Commercial Banks. *China Banking Regulatory Commission (CBRC)*.2011.8.