

Determinants of Financial Products Understanding among Individuals of West Bengal.

¹Dr. Puja Mondal

¹Assistant Professor,

¹Department of Commerce,

¹Adamas University, Barasat, India.

Abstract : This study investigates the factors influencing individuals' understanding of financial products, such as mutual funds, stocks, and insurance, in West Bengal. Using multinomial logistic regression on survey data from 56 respondents, the research analyzes the probability of individuals transitioning from low to higher levels of financial product understanding. The analysis reveals that confidence in making independent investment decisions is the only statistically significant predictor of higher financial understanding. Individuals with higher investment confidence are significantly more likely to demonstrate moderate to high levels of financial knowledge. Other factors, including gender, risk preference, and general financial understanding, do not show significant effects. The model demonstrates a good fit and explains approximately 68.4% of the variance in financial product understanding, highlighting the central role of personal investment confidence in financial literacy

Key words: Financial Product Understanding, Investment Confidence, Financial Literacy, Risk Preference, Multinomial Logistic Regression

I. INTRODUCTION

In the evolving financial landscape of India, individuals are increasingly exposed to a variety of financial products such as mutual funds, stocks, insurance, and retirement schemes. With the government's push toward financial inclusion and the rise of digital finance, the ability to understand and engage with these financial instruments has become essential for making informed investment decisions and achieving financial well-being.

Financial literacy goes beyond basic knowledge of budgeting and saving. It also involves the comprehension of complex financial products and the confidence to use them effectively. In this context, the understanding of financial products is emerging as a critical component of financial capability. While national initiatives by institutions such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have focused on enhancing financial literacy, gaps remain in product-specific understanding, especially in states like West Bengal, where educational and economic disparities can influence financial behaviour. Recent studies have shown that demographic variables such as age, gender, income, and education may influence financial literacy, but their role in understanding specific financial products remains underexplored. Furthermore, psychological and behavioural factors, particularly confidence in making investment decisions, have been identified as potential determinants of financial knowledge and behaviour. Yet, their impact in regional Indian contexts has not been thoroughly examined.

This study seeks to address this gap by investigating the factors that influence the understanding of financial products among individuals in West Bengal. Using statistical models, including correlation and multinomial logistic regression, this research examines both demographic and behavioral predictors, such as financial education, investment confidence, and risk preference, to determine their relative importance in shaping financial product understanding. The findings aim to offer insights for financial educators, policymakers, and financial institutions to tailor interventions that not only improve financial literacy but also empower individuals with the confidence and knowledge needed to navigate the modern financial ecosystem effectively.

II. LITERATURE REVIEW

2.1 Financial Literacy and Product Understanding

Financial literacy, defined as the ability to understand and effectively use financial skills, including personal financial management, budgeting, and investing, has been extensively studied in the context of individual financial decision-making. Lusardi and Mitchell (2014) argue that financial literacy is a crucial skill in navigating complex financial markets, particularly for decisions involving insurance, mutual funds, and retirement planning.

Studies show that greater financial literacy correlates with better financial behavior, including higher rates of saving and investment (OECD, 2016). However, understanding specific financial products remains uneven, especially in developing economies. Atkinson and Messy (2012) emphasized that product-specific knowledge—like understanding mutual funds or insurance—is often lower than general financial awareness.

2.2 Confidence and Self-Efficacy in Financial Decisions

Self-efficacy—belief in one's ability to perform tasks—has emerged as a strong predictor of financial behaviour. According to Bandura's social cognitive theory (1997), individuals with higher self-confidence are more likely to engage in complex decision-making processes. This aligns with findings by Allgood and Walstad (2016), who reported that financial self-efficacy significantly influences the likelihood of participating in stock markets or using financial planning tools.

In particular, individuals confident in making investment decisions demonstrate higher engagement with financial products (Chen et al., 2017). Confidence not only influences participation but also enhances understanding, as self-assured individuals are more likely to seek information and evaluate alternatives critically.

2.3 Demographic and Socioeconomic Factors

Demographics such as gender, income, age, and education level have traditionally been used to predict financial knowledge. Studies suggest men often score higher on financial literacy assessments (Bucher-Koenen et al., 2017), although this may reflect differences in confidence rather than actual knowledge. Similarly, education and income levels are positively correlated with financial literacy (Lusardi & Tufano, 2015).

Yet, these predictors often fail to account for variance in financial product understanding across different populations. In rural or semi-urban regions of India, cultural norms and access to financial services may mediate the relationship between demographics and financial behavior (Sinha & Subramanian, 2012).

2.4 Risk Preference and Investment Behaviors

Risk tolerance is frequently linked to investment choices. According to Grable (2000), individuals with higher risk tolerance are more likely to invest in equities and other volatile financial instruments. However, understanding of such instruments does not necessarily correlate with risk preference. Research by Hoffmann et al. (2013) found that many individuals invest without fully understanding the products, driven by heuristics or social influence rather than informed decision-making.

2.5 Financial Education and Interventions

Formal financial education programs have been shown to improve knowledge and behavior, though their long-term effects are debated. Hastings, Madrian, and Skimmyhorn (2013) note that the effectiveness of financial education depends heavily on timing, delivery method, and contextual relevance. In India, efforts such as those by SEBI and RBI to promote financial literacy have increased awareness, but comprehension and confidence remain lacking among certain groups (RBI, 2020).

2.6 Objective of the study

To examine the determinants influencing the understanding of financial products (e.g., mutual funds, stocks, insurance) among individuals in West Bengal.

III. RESEARCH METHODOLOGY

3.1 Research Design

This study adopts a quantitative research design utilizing a cross-sectional survey approach to examine the determinants influencing the understanding of financial products among individuals in West Bengal. The study focuses on identifying key demographic and behavioural predictors that impact financial product comprehension.

3.2 Population and Sample

The target population comprises adult individuals residing in West Bengal with varying levels of exposure to financial instruments. A total of 56 valid responses were collected through structured questionnaires. Respondents were categorized based on their self-reported understanding of financial products, classified into five levels: Very Low, Low, Moderate, High, and Very High.

3.3 Data Collection Tool

A structured questionnaire was used as the primary data collection instrument. The questionnaire was divided into three sections:

- i. **Demographic Information:** Age, gender, marital status, education level, and income.
- ii. **Financial Literacy:** Questions related to maintaining budgets, investment confidence, financial education, investment frequency, and risk attitudes.
- iii. **Understanding of Financial Products:** Measured using a self-assessment scale from Very Low to Very High.

3.4 Variables Used in the Study

(i) Dependent Variable:

- a) Understanding of financial products (Ordinal: Very Low to Very High)

(ii) Independent Variables:

- a) Demographic factors: Age, Gender, Marital Status, Education, Income
- b) **Financial Literacy factors:** Confidence in investment decisions, financial education, Budget maintenance, Investment frequency, Investment horizon, Risk attitude (Risk-averse and Risk-loving tendencies), Financial understanding

3.5 Statistical Techniques

To analyse the data, the following statistical methods were applied:

- i. **Descriptive Statistics:** To summarize demographic data and understanding levels.
- ii. **Correlation Analysis (Spearman's rho):** To examine the strength and direction of association between understanding of financial products and other variables.
- iii. **Multinomial Logistic Regression:** To identify significant predictors of financial product understanding by comparing multiple understanding categories with a reference category (Very Low).

Model fit was assessed using:

- i. Model Fitting Information (AIC, BIC, Log Likelihood)
- ii. Goodness-of-Fit Tests (Pearson and Deviance)
- iii. Pseudo R-Square values (Cox and Snell, Nagelkerke, and McFadden)

3.6 Software Used

The statistical analysis was conducted using IBM SPSS Statistics v. 26, which enabled the generation of correlation matrices, regression outputs, and model diagnostics.

IV. RESULTS AND DISCUSSION

4.1 Descriptive Statistics of Dependable Variable

A total of 56 valid responses were analysed. The distribution of participants' self-reported understanding of financial products (e.g., mutual funds, stocks, insurance) is summarized in

Table 1. Frequency Distribution of Financial Products Understanding

Level of Understanding	Frequency	Percentage
Very Low	4	7.1%
Low	10	17.9%
Moderate	28	50.0%
High	12	21.4%
Very High	2	3.6%
Total (Valid Cases)	56	100%

Source: Computed from primary survey

From the above Table-2, it has been shown that the majority of respondents (50%) reported a moderate understanding of financial products, while only a small proportion reported either very high (3.6%) or very low (7.1%) understanding. The data indicate a predominantly average self-assessment of financial literacy among the sample.

4.2 Correlation Analysis

To explore the relationships between Financial Planning Understanding (FPU) and various demographic, financial literacy variables, a Spearman's rho correlation was conducted. Table 2 summarizes the correlation coefficients.

The Table-2 revealed that Confidence in financial decision-making had the strongest positive correlation with FPU ($r = .575, p < .01$), indicating that more confident individuals tend to better understand financial product. Gender showed a moderate positive correlation ($r = .370, p < .01$), possibly reflecting differences in financial engagement or self-perception across genders. General financial understanding was also positively correlated with FPU ($r = .363, p < .01$), suggesting that basic financial literacy supports effective financial planning. Risk-loving tendency had a mild but significant correlation ($r = .269, p < .05$), indicating that individuals open to financial risks may gain more exposure and knowledge, improving their planning skills. Other factors like age, education, income, budgeting habits, and risk aversion showed weak or non-significant correlations, implying they may not directly influence financial planning understanding in this sample.

Table 2. Correlation with FPU (Financial product understanding)

Spearman's rho	FPU
AGE	0.036
GEN	.370**
MARITAL	0.129
EDU	0.161
INC	0.258
FPU	1.000
MAINTAIN_BUDGET	0.124
FIN_EDU	0.197
CONF	.575**
OBJ	0.061
INV_HORIZON	0.070
FREQ	-0.047
TENDENCY_RISK_AV	0.001
TENDENCY_RISK_LV	.269*
FIN_UNDERSTANDING	.363**
**. Correlation is significant at the 0.01 level (2-tailed).	
*. Correlation is significant at the 0.05 level (2-tailed).	

Source: Computed from primary survey

4.3 Model Fit Indicators.

Table 3. Model Fit

Model	-2 Log Likelihood	AIC	BIC	Chi-Square	df	Sig.
Intercept Only	134.169	142.169	150.270			
Final Model	78.170	118.170	158.677	55.999	16	.000

Source: Computed from primary survey

To evaluate the effectiveness of the model, a comparison was made between the intercept-only model and the final model that included all relevant predictors. As shown in Table-3, the final model yielded a substantially lower -2 Log Likelihood value (78.170) compared to the intercept-only model (134.169), indicating a stronger fit to the data. Furthermore, the model's efficiency improved, as reflected by reduced Akaike Information Criterion (AIC = 118.170) and Bayesian Information Criterion (BIC = 158.677) values,

compared to the intercept-only model (AIC = 142.169; BIC = 150.270). The improvement in model fit was statistically significant, as demonstrated by the likelihood ratio test (Chi-Square = 55.999, df = 16, $p < .001$). These results confirm that the inclusion of predictor variables significantly enhances the model's explanatory power.

Table 4. Goodness of Fit Tests

Test	Chi-Square	df	Sig.
Pearson	78.706	156	1.000
Deviance	69.277	156	1.000

Source: Computed from primary survey

To evaluate how well the model fits the observed data, both Pearson and Deviance goodness-of-fit tests were conducted. These high p-values indicate that the model fits the data very well, with no significant discrepancies between the predicted and actual values. In other words, the predicted probabilities are highly consistent with the observed outcomes, suggesting that the model is appropriate and reliable.

In addition to fit statistics, Table-5 i.e., pseudo-R-square measures were used to assess the model's explanatory power.

Table 5. pseudo-R-square

Measure	Value
Cox & Snell	0.632
Nagelkerke	0.684
McFadden	0.387

Source: Computed from primary survey

The Nagelkerke R^2 value was 0.684, indicating that approximately 68.4% of the variation in financial product understanding is explained by the model. The Cox & Snell R^2 value was 0.632, and McFadden's R^2 was 0.387. While pseudo-R-square values are not interpreted in the same way as traditional R^2 in linear regression, these results suggest that the model explains a substantial proportion of the variance and has strong predictive capability.

Table 6. Likelihood Ratio Tests

Predictor	Chi-Square	df	Sig.
Gender	4.173	4	.383
Confidence in making independent investment decisions	26.193	4	.000
Risk Loving Factor	0.760	4	.944
Financial Understanding	7.167	4	.127

Source: Computed from primary survey

Table-6 shows the results of the Likelihood Ratio Tests for various predictors. Among all the variables, only confidence in making independent investment decisions was found to be statistically significant ($p < .05$), with a Chi-Square value of 26.193 and a significance level of .000. This suggests that confidence plays a crucial role in influencing the dependent variable. The other predictors — gender, risk-loving factor, and financial understanding — did not show statistically significant effects, as their p-values were above .05.

Table 7. Multinomial Logistic Regression Table

Understanding of financial products (mutual funds, stocks, insurance, etc.)		B	Std. Error	Wald	df	Sig.	Exp(B)	95% Confidence Interval for Exp(B)	
								LB	UB
Low	Intercept	-3.895	3.092	1.587	1	.208			
	Gender	1.029	1.918	.288	1	.592	2.798	.065	120.131
	Confidence in making independent investment decisions	2.452	1.468	2.792	1	.095	11.611	.654	206.067
	Risk Loving Factor	.118	.961	.015	1	.902	1.125	.171	7.401
	Financial Understanding	.010	.809	.000	1	.991	1.010	.207	4.928
Moderate	Intercept	-10.694	3.942	7.359	1	.007			
	Gender	2.036	1.954	1.085	1	.298	7.656	.166	352.713
	Confidence in making independent investment decisions	3.404	1.548	4.835	1	.028	30.090	1.447	625.560
	Risk Loving Factor	.529	.993	.284	1	.594	1.697	.242	11.882
	Financial Understanding	1.109	.886	1.566	1	.211	3.030	.534	17.201
High	Intercept	-12.203	4.194	8.467	1	.004			

	Gender	3.272	2.213	2.187	1	.139	26.377	.345	2016.973
	Confidence in making independent investment decisions	4.166	1.594	6.833	1	.009	64.425	2.835	1463.851
	Risk Loving Factor	.420	1.036	.164	1	.685	1.521	.200	11.589
	Financial Understanding	.440	.924	.227	1	.633	1.553	.254	9.495
Very High	Intercept	-270.993	.000	.	1	.			
	Gender	-15.410	.000	.	1	.	0.000	.000	2.030E-7
	Confidence in making independent investment decisions	63.410	15153.405	.000	1	.997	34565458473918380000000.000	.000	. ^b
	Risk Loving Factor	20.200	11786.037	.000	1	.999	592788340.842	.000	. ^b
	Financial Understanding	-19.008	14460.945	.000	1	.999	5.560E-9	.000	. ^b
	a. The reference category is: Very Low.								
b. Floating point overflow occurred while computing this statistic. Its value is therefore set to system missing.									

Table 7 presents the effects of different predictors on the likelihood of respondents falling into various levels of financial understanding from:

- a. Low – Very Low
- b. Low – Moderate
- c. Low – High
- d. Low – Very High

Confidence in making independent investment decisions shows a statistically significant positive impact on moving from lower to higher levels of financial understanding:

At the Moderate level ($p = .028$) and High level ($p = .009$), it is a significant predictor, indicating that individuals with more confidence are much more likely to have better financial understanding.

For Very High, the statistical outputs are distorted due to a floating-point overflow, suggesting issues with model estimation at that level (likely due to small sample size or extreme values).

Gender, Risk Loving Factor, and Financial Understanding (as predictors) do not show consistent statistical significance across most categories ($p > .05$), indicating their limited influence in predicting financial understanding levels.

V. FINDINGS AND CONCLUSION

Based on the analysis of 56 respondents from West Bengal, the following key insights have been identified:

1. Moderate Understanding Dominates

Half of the respondents (50%) demonstrated a moderate level of understanding of financial products. Only a small portion had very high (3.6%) or very low (7.1%) understanding, indicating a knowledge gap at both ends of the spectrum.

2. Confidence Is the Most Influential Factor

Confidence in making independent investment decisions emerged as the strongest predictor of financial product understanding. Respondents with moderate and high understanding levels were found to be 30 to 64 times more likely to be confident investors than those with very low understanding.

3. Gender and Financial Literacy Show Correlation but Not Causation

Although gender and financial literacy levels were positively correlated with financial product understanding in the correlation analysis, they were not statistically significant predictors in the regression model.

4. Risk Appetite Not a Major Factor

The tendency to take investment risks showed a mild positive correlation but did not significantly affect financial product understanding in the predictive model.

5. Model Effectiveness

The multinomial logistic regression model used in this study demonstrated good fit and explanatory power, accounting for approximately 68.4% of the variation in financial product understanding (Nagelkerke $R^2 = 0.684$).

This research highlights the critical role of investor confidence in shaping the understanding of financial products among individuals in West Bengal. While demographic and educational factors are often assumed to be influential, this study shows that they may not independently predict financial literacy outcomes when confidence is accounted for.

The findings suggest that efforts aimed at enhancing individuals' confidence in financial decision-making—through simplified education programs, hands-on workshops, or guided investment platforms—may significantly improve their understanding and engagement with financial instruments.

In conclusion, fostering confidence appears to be a more actionable and impactful strategy than solely focusing on theoretical financial education or demographic targeting. Future interventions and policies should consider building psychological readiness alongside educational initiatives to boost financial inclusion and literacy in emerging economies.

REFERENCES

- [1] Allgood, S., & Walstad, W. B. (2016). The effects of perceived and actual financial literacy on financial behaviors. *Economic Inquiry*, 54(1), 675–697.
- [2] Atkinson, A., & Messy, F. A. (2012). Measuring Financial Literacy: Results of the OECD / International Network on Financial Education (INFE) Pilot Study. OECD Working Papers on Finance, Insurance and Private Pensions, No. 15.
- [3] Bandura, A. (1997). *Self-efficacy: The exercise of control*. New York: Freeman.
- [4] Bucher-Koenen, T., Lusardi, A., Alessie, R., & van Rooij, M. (2017). How financially literate are women? An overview and new insights. *Journal of Consumer Affairs*, 51(2), 255–283.
- [5] Chen, H., Volpe, R. P., & Liu, S. (2017). Gender differences in personal financial literacy among college students. *Financial Services Review*, 6(2), 201–216.
- [6] Grable, J. E. (2000). Financial risk tolerance and additional factors that affect risk taking in everyday money matters. *Journal of Business and Psychology*, 14(4), 625–630.
- [7] Hastings, J. S., Madrian, B. C., & Skimmyhorn, W. L. (2013). Financial Literacy, Financial Education and Economic Outcomes. *Annual Review of Economics*, 5, 347–373.
- [8] Hoffmann, A. O. I., Post, T., & Pennings, J. M. (2013). Individual investor perceptions and behavior during the financial crisis. *Journal of Banking & Finance*, 37(1), 60–74.
- [9] Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, 52(1), 5–44.
- [10] Lusardi, A., & Tufano, P. (2015). Debt literacy, financial experiences, and overindebtedness. *Journal of Pension Economics and Finance*, 14(4), 332–368.
- [11] OECD. (2016). OECD/INFE International Survey of Adult Financial Literacy Competencies.
- [12] RBI. (2020). National Strategy for Financial Education: 2020–2025. Reserve Bank of India.
- [13] Sinha, S., & Subramanian, S. (2012). Financial Inclusion and Urban Poor in India. *Economic and Political Weekly*, 47(18), 71–76.

Copyright & License:



© Authors retain the copyright of this article. This work is published under the Creative Commons Attribution 4.0 International License (CC BY 4.0), permitting unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.