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Research Support & Consultancy

**THE EFFECT OF INCOME LEVELS ON
INVESTMENT IN FINANCIAL PRODUCTS BY
SALARIED INDIVIDUALS IN NAIROBI, KENYA
POST COVID – 19**

Introduction

- The Covid-19 pandemic disrupted the world. The pandemic has had Far-Reaching implications on the Kenyan economy as well as Short-term and Long-term impacts on majority of the sectors. The Economy in Kenya, had a positive growth in pre-covid years and was projected to grow by 6.2 percent for 2020/21, However, instead it fell into negative.
- The main population of Kenya is employed individuals with varying scales of income. This greatly affects how they utilize any personal finance they might have and the type of investment decisions they go for. Their Spending behavior and education levels directly affect this as well.
- There are very many different types of investment areas such as property, businesses E.t.c with investment in Financial products being a major avenue containing varied levels of financial security as well as risks and returns.
- The main Aim of the research was to find the extent to which income levels of the working class individuals correlates to the investment in financial products in Nairobi, Kenya. The secondary aim was to find out on how this can be improved in the various categories

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- The main Question used to direct the research was, the extent to which income levels are correlated to investment levels in financial products in Nairobi
 - There were 3 Research objectives;
 - i. To determine how income levels affect the investment decisions in the Kenyan economy.
 - ii. To explore the challenges, insecurity, and investment preferences of salaried individuals in their various salary brackets, when wanting to invest in financial products and the potential solutions to these.
 - iii. To compare the pre-covid investment preferences with post-covid levels in financial products and provide recommendations in improving the level of investment.



Literature Review

- Employees contribute to the national economic development by investing in different investment areas and investor group perception can further enhance effectiveness of investments (Pavithra (2020))
- Bhushan & Yajulu (2012) investigated the preference of investment in financial products by salaried individuals in India and found that investment preference differed based on individual set of circumstances.
- Ahmed et al. (2013) concluded in his research that demographic factors do indeed have a significant impact on investment, however, it was also noted that there are some who do have the knowledge and income levels and yet are unwilling to invest due to factors such as fear of losses and religion amongst others.
- Suguna G (1986) in their study about investors attitudes found that due to insufficient income individuals were unable to invest in saving schemes.
- KHAN et al., (2020) studied the impact of Covid-19 in investment patterns, he found that Covid-19 has had a high level negative impact on investment in real estate and not as much on Gold and Equity.
- The review of the literature on the subject shows study has been generally carried out on investment behavior and the preferences of salaried individuals towards investment in financial instruments with varied results. However little study has been carried out for the same with Kenya as the country of concentration and even lesser for the effects of covid-19 on the same. The present study partially hopes to bridge this gap as well as provide insight into the investment preferences in Kenya.



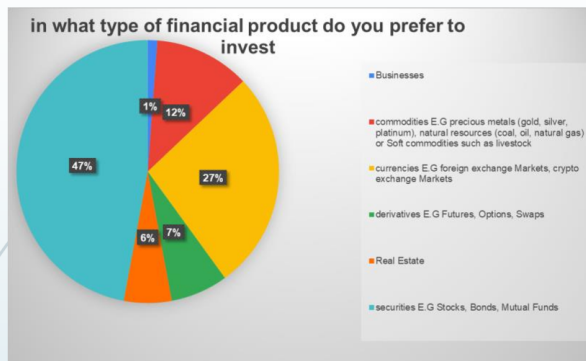
Research Methodology

- Based on the low levels of data available, as well as the low levels of research done for both the post covid timeline and the salary levels of individuals with their preferences in Kenya, the philosophy felt best to lead this study is the Pragmatism philosophy.
- A deductive approach is felt to be most suitable for this study, under the above philosophy choice.
- A mono Quantitative research methodology was used to test the theory developed by the above approach. Based on the type of research and the levels of data required to correctly analyze and estimate the required results, this method is most suited for this research.
- Due to the nature of the research and the size of the population in question as well as the type of research being conducted and the restrictive timeline, the primary method used in this study is the survey method. This method was used to source the primary data from a sample of the salaried population of Nairobi using Online questionnaires, as the data collection method, so as to obtain unbiased responses which can then be accurately analyzed.
- Cross sectional time horizon was used due to the need for only specific current data for this research
- Questionnaires were then used to get the relevant data under the quantitative technique.

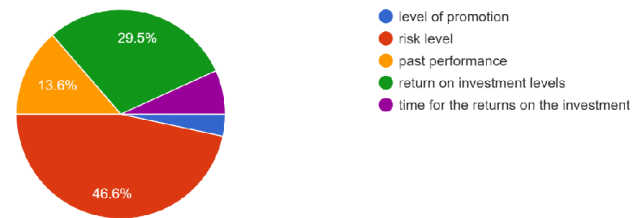
Data collection

- Due to the nature of the research and the size of the population in question as well as the type of research being conducted and the restrictive timeline, the primary method used in this study was the survey method. This method was used to source the primary data from a sample of the salaried population of Nairobi using Online questionnaires, as the data collection tool, so as to obtain unbiased responses which can then be accurately analyzed.
- For this study, the Questionnaire, which consisted of 21 multichoice and 2 open ended questions was uploaded to Google Forms and the link then emailed randomly to over 200 individuals using the convenience sampling method under non-probability technique. This appeared to be the best method to be used as currently most of the employed individuals in Nairobi have internet and email access and therefore it would be convenient for them to respond to questionnaires in privacy.
- The open ended questions were optional and used to gather further insights from the respondents in regards to the topic. This can assist in determining need of future research in certain areas such as Islamic finance / investment
- Approximately 150 respondents were expected out of which ninety-two responses were received. This represents a response rate of 61%

Analysis and findings



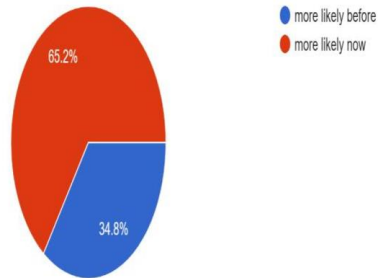
what is the main important criteria you look at when selecting between the investment options
88 responses



- ▶ 47% of the respondents stated they would prefer to invest in securities over all other options. Majority of the securities investors invest mostly in shares. Usually, securities are marketed quite frequently via special channels and fast short term returns with lower risk factors which can be why it is the most preferred area.
- ▶ The highest criteria considered is the risk level of the investment. No one wants to lose money and therefore the risk factor is one of the key elements considered before investing in an avenue. 46.6% of the respondents stated their main important criteria of consideration before investing is the risk level of the investment

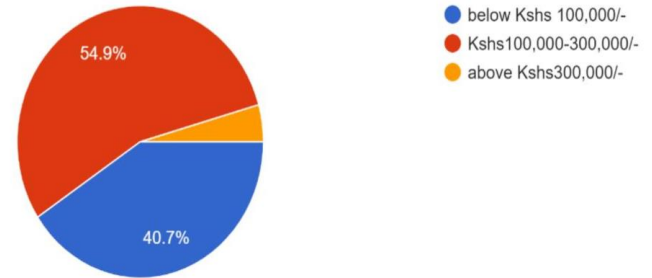
were you more likely to invest before covid-19 or now

89 responses



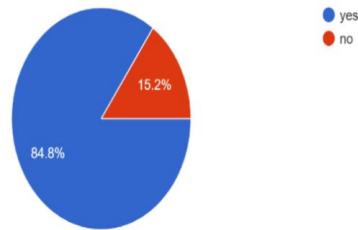
what is your income level

91 responses

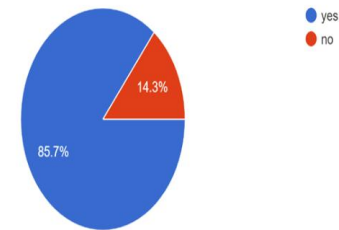


- 66.2% of the respondents were more likely to invest in the pre covid times and have changed their thinking post covid, most probably preferring placing their money into savings avenues.
- Majority of the respondents were earning in the mid range salary bracket (54.9% of the total respondents) followed by low range brackets (40.7% of the respondents) at the time of the research.
- 57.8% of the respondents were more likely to invest any excess funds while 38.9% of the respondents more likely to save. This follows a similar percentage to the income levels and it can be inferred from comparing the two that individuals within the mid range income levels seem more likely to invest the excess funds

do you have any finance, business, or accounting experience or education
92 responses



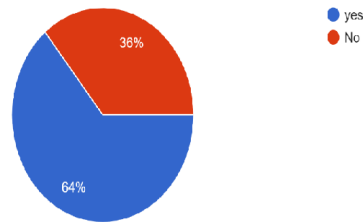
do you maintain a personal budget for personal and family income and expenditure
91 responses



- For investing in financial products, unless if a person gets very sound financial advice, without proper knowledge of dealing with and in financial products the individual is more than likely to incur losses. The number of respondents who have basic or more experience / education in accounting and Finance were 84.8%
- Most of the individuals maintain a budget to follow for all their income and expenditure. This helps them keep track of savings and manage their cashflows. Individuals with budgets are more organized and seen to be more likely to invest rather due to their cash management policies than those who are not aware of their finance position. From the total responses received 85.7% maintain personal budgets

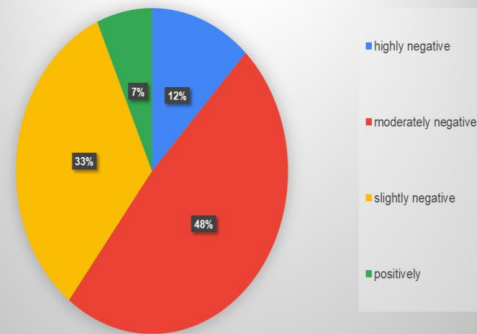
did the covid-19 pandemic make you change your investment thought process in regards to what/where to invest

89 responses



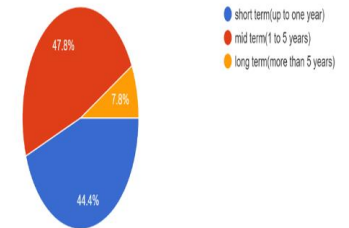
how has the covid-19 period affected you financially

91 responses



what time period do you prefer to invest for

90 responses



- ▶ 64% of the respondents stated they changed their thought process in regards to investment from the pre covid times to now. They felt more comfortable with certain investments but Covid – 19 changed their outlook and made them rethink their areas of investment.
- ▶ A follow up open question was asked in terms of a description by the respondent of the above. The answers varied to a point, however the basic thought process was a shift to investing either in the Share market or currencies as this represents easier access to funds / liquidity if the urgency arises.
- ▶ 48% of the respondents stated they were moderately negatively affected financially. This may be to salary cuts or rise in expenses and cost of living post covid 19. This would make them feel extra income would be useful and push them towards thinking about investment. 33% of the respondents were slightly negatively affected financially.
- ▶ short term (up to one year) and mid term (one to five years) were the most preferred time limits.

Conclusion & Recommendation

- From the Findings it can be concluded that income levels have a majority impact on investment in financial products. Other factors contribute as well to the investment decisions and have a role to play in the decisions taken concerning the same.
- It can also be concluded that the covid-19 pandemic changed the thought process of majority individuals and made them reevaluate their savings and investment practices.
- Short and mid term products are the most popular investment areas and financial products are easier to invest in as mostly there is no lower limit to how much an individual can invest. Employment status also has a direct correlation to investment.
- The main recommendation would be for potential investors to educate themselves as the biggest issue that was seen as having being faced is the lack of knowledge, information and education about the various investment avenues available and the pro's and con's of these. Understanding and knowledge achieved for investment area would greatly benefit the population and assist in more investment.
- It would be informative and beneficial for the study to be extended to other geographical locations. A similar research incorporating all investment avenues would also be greatly beneficial.