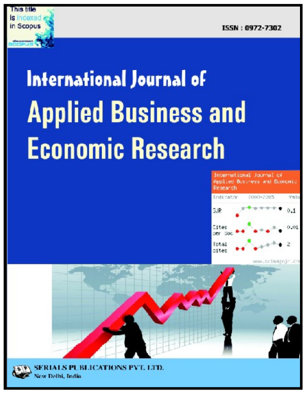

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A Study of Factors Associated with Buying of Various Financial Products

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Abstract: *Purpose:* The purpose of the present paper was to study the various factors that are associated with buying of financial products. The three factors which were considered were risk perceived, interest in the financial world and the trust on the financial intermediary. The association of these factors was examined with financial products like bank fixed deposits, insurance and stock markets. *Design/Methodology/Approach:* A sample of 200 individuals was considered for the present study. ANOVA was done to study the association between various factors. *Findings:* The results of the research show that the factors associated with buying of the financial product vary as per the product which an individual is buying. In case of bank fixed deposits, trust was the major factor while in case of insurance; risk and interest were the major factors. In case of stock markets, all three factors play an important role in facilitating the decision to make the investments in the stock markets. *Practical Implications:* The present study gives an insight to the marketer that which factor is important or should be focused upon while recommending a particular financial product to the consumer *Originality/Value:* Though various studies have been done to understand the consumer financial behaviour of the individuals, not many studies have been done which connects these factors with the ultimate product in which an individual is going to invest. The present study is a sincere effort to bridge this gap.

Key words: risk, interest, trust, financial products.

INTRODUCTION

The traditional structure and operation of the financial services industry does not leave any choice in terms of selecting financial instruments and delivery channels for the consumers. The inflexible structure of the financial industry meant that consumers had to accept the form and price of both financial instruments and delivery channels. The switch between financial providers generated nil or negligible long-term benefit and forced the consumer to incur disruption and financial cost. Consumers were, therefore, locked into buying patterns and had little incentive to change. However, deregulation and the emergence of new forms of technology have created highly competitive market conditions which have had a critical impact upon consumer behavior (Beckett et al, 2000).

Consumers are now more inclined to change their buying behaviour when purchasing financial products. As a consequence, bankers are no longer certain that their customers will continue to bank with them or that they will be able to rely upon the traditional banker-customer relationship to able them to cross-sell high value, so-called ancillary products. At present, customer retention and the ability to cross-sell products to existing customers are critical in determining banks' profitability. Keeping this in mind, it is important that banks respond strategically to these changes. Bank providers must, therefore, attempt to better understand their customers in an attempt not only to anticipate, but also to influence and determine consumers' buying behaviour.

As per the RBI Annual Report, 2016, the major financial investments that an Indian household do is in bank deposits. The distant second is insurance sector. The share of equity market in the total household saving is the least as compared to the other financial products. But there is a growing trend in the investments in the equity market as compared to the last year. Therefore, in the present study, the investments in these three financial instruments, viz., bank deposits, insurance and equity markets were considered.

This study examines the role of two major attitudinal factors that play a fundamental role in determining consumer buying behaviour. These factors are uncertainty and involvement. The association of these factors with the actual buying of the selected financial products was seen. The third factor was the trust of the individuals on the financial service providers and it was seen if this factor was associated with the actual buying of financial products. The effect of all these three factors, viz., uncertainty, involvement and trust were examined on the buying of financial products which are bank deposits, insurance and equity market. The questionnaire was developed and administers to the sample on the basis of judgmental and snowball sampling. The present paper is divided into various sections……

REVIEW OF LITERATURE

Drawing on existing literature in economics, psychology, consumer behaviour and marketing, it is possible to identify two attitudinal factors, uncertainty and involvement, which are closely linked with the financial behavior of an individual.

In seeking to make purchasing decisions, consumers identify and choose products and services which fulfill their particular needs. The more accurately the outcomes of choice and purchase decisions can be anticipated, the lower the degree of uncertainty affecting the process of choice, and vice versa. The impact of uncertainty on purchase decision-making can be likened to that of friction on motion in the physical sciences; its existence makes the process of decision-making and transacting more difficult and expensive. A key objective of consumer behaviour, therefore, is the reduction of uncertainty and the costs of making transactions.

The concept of perceived risk often used by consumer researchers defines risk in terms of the consumer's perceptions of the uncertainty and adverse consequences of buying a product (or service). As per Roszkowski (1996), it is difficult to assess the risk tolerance level of an individual because of the ambiguities involved in measuring the same. There are many factors which contribute to a person's attitude towards risk taking choices. As per Grable & Joo (2000), locus of control, financial knowledge and gender are significant predictors of risk tolerance of an individual. They define risk tolerance as the maximum amount of uncertainty a person is willing to take when making a risky choice. They developed a five item four point Likert scale to measure the risk tolerance of an individual.

Involvement, the interest a consumer displays towards a good or service, is the other key determinate of behaviour. The concept of involvement has had a major impact on the study of consumer behaviour. Despite the wide range of definitions of involvement (Mittal and Lee 1989), there seems to be a common thread that runs through the work. This manifests itself as the interest a consumer finds in the product class, which flows from the consumer's understanding of how the product or service meets important goals and values (Bloch and Richins 1983). Understanding the involvement, or the interest a consumer, at the personal level, consumer behavior is influenced by various shades of likes, dislikes priorities, morals and values.

Antony Beckett (2000) has developed a consumer behaviour matrix for financial services. The matrix compared the consumer buying behaviour with the kind of financial instrument used. Beckett had identified two attitudinal factors which play an important role in determining the consumer behaviour in buying financial services. These factors are uncertainty of the outcomes of the product that the consumer chooses and the involvement or the interest of the consumer towards a particular good or service. He put these two factors in the continuum and drew the consumer behaviour matrix for the financial services as shown in figure 1. Beckett drew a matrix on the basis of these two factors-uncertainty and involvement. The matrix has four quadrants with different combinations of involvement and uncertainty. Each quadrant depicts a kind of buying behaviour according to which an individual invests in a particular financial instrument.

Beckett further studied the characteristics of various financial instruments and how they affect the uncertainty and involvement of the consumer. He identified nine characteristics of financial instruments which distinguish them from each other and how these characteristics impact the individual's involvement and perception of uncertainty. These nine characteristics are intangibility, inseparability, heterogeneity, perishability, fiduciary responsibility, two way information flows, transparency of performance, uncertainty of outcome and poor comparability. He further linked these characteristics of the financial instruments with the consumer buying behaviour.

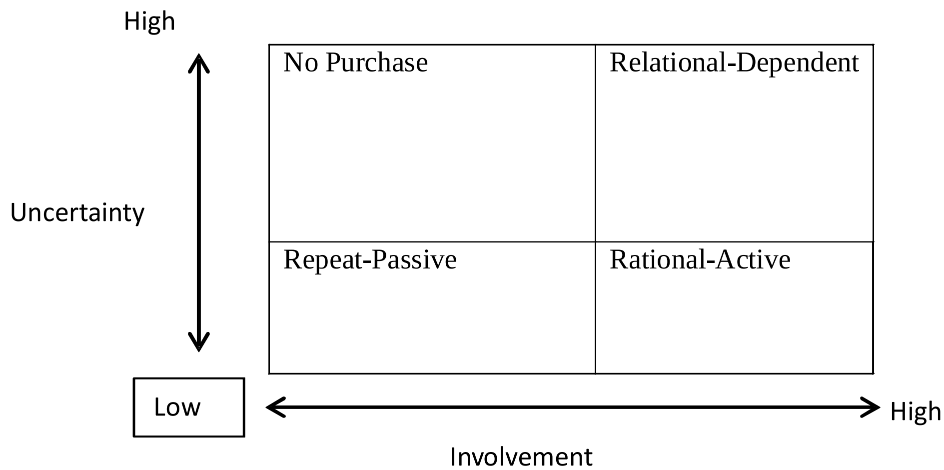

Figure 1: Consumer Behaviour Matrix

Source: Antony Beckett (2000)

To examine this theoretical matrix, Beckett et al (2000) did the focus group interviews of the selected consumers. All the discussions were taped and transcribed to permit further analysis and coding. The data was analysed using a keyword approach which included identifying specific words, themes or issues which commonly occurred within and across the discussion groups. To facilitate this approach it was decided to classify financial services and products on the basis of consumer need. The research findings have demonstrated that consumers' purchasing behaviour is greatly influenced by the type of financial product being purchased. The emphasis on trust and having relationship is also highly pertinent to the strategies of financial service providers.

Gautam et al (2013) plot the various investment products in the matrix developed by Beckett (2000) in Indian context on the basis of theoretical insights. The paper concluded that in India people are investing less in equity market and more in secured investment products like bank deposits etc because of high uncertainty and low involvement/ interest of consumers associated with equity products. The study further concludes that to induce the investors to make investments in equity products the uncertainty needs to be reduced and involvement of the consumers in these products need to be increased. This is only possible by way of increasing transparency in the system and to make consumers financially literate.

Trust is defined as the benevolent act in which one party is genuinely interested in other parties' interest and there is a perceived credibility towards the target of interest (Doney et al, 1997). Earle (2009) defined trust as the willingness to make one vulnerable to another based on the judgement of similarity of intentions or values. Thus trust is based upon shared values. Morgan et al (1994) found out in their study that commitment and trust are key variables that mediate successful relationship marketing. Hansen (2015) distinguished trust in his study as broad-scope trust and narrow-scope trust. Broad-scope trust was defined as 'system trust'. Thus it refers to the concerns whether the entities in a system can be trusted or not. The narrow scope trust, on the other hand, was defined as the expectation held by the consumer that the service provider is reliable and can be dependent on to deliver on its assurances. The concerned study shows that broad-scope trust can improve narrow-scope trust. It further found out that consumer knowledge positively influenced both kinds of trusts, financial healthiness and satisfaction. It is also consistent with the past researches and demonstrates the beneficial effect of relationship satisfaction for increasing narrow scope trust.

As per the study done by Charter et al (2010) in various EU countries, it was found that consumers tend to buy stocks, shares, personal pensions, life insurance for investment purposes. The main purchase route is direct from the provider, who is typically a bank or insurance company. Although consumers show reasonable understanding of the difference between types of financial products, some confusion is evident, with some indication that consumers under-estimate the risks associated with their investment. Investment providers rely on advertising rather than direct sales approaches to generate sales, although purchase is more likely to be triggered by a change in life circumstances in many cases. Information search is not that in-depth, typically involving financial websites, newspapers and magazines, and consulting the staff of banks, insurance companies and other financial institutions. Often, consumers do not consider many options in depth or shop around for the best deal, and many exclude providers and products that they are unfamiliar with. The main factors determining the final choice of investment are perceived risk and return, and recommendations from advisors or salespeople. Post-purchase satisfaction is generally high, although consumers often remain unclear about how some aspects of their investment work.

OBJECTIVES & CORRESPONDING HYPOTHESES OF THE STUDY

1. To study the association between perceived risk and the financial product purchased by the consumer
2. To study the association between interest in knowing about the financial world and the financial product purchased by the consumer
3. To study the association between trust on the financial intermediary and the financial product purchased by the consumer

The corresponding hypotheses with respect to the above-mentioned objectives are developed as follows:

When making risky financial choices, people consider four distinct elements viz., the probability of gains, the probability of loss, the dollar amount of potential gains and the potential dollar loss (MacCrimmon et al, 1986). To measure their own risk tolerance, clients are dependent upon how the advisor asks for the same and the particular method he uses to determine it. It is also dependent upon the past experiences of an individual or his own wrong beliefs due to ignorance (Oehler et al, 2009). Earle (2009) defined two components of risk management- trust and confidence. He defined trust as the relations between people and confidence as the relations between people and objects.

Further study by Grable & Joo (2001) shows the relationship between risk tolerance and financial behaviour of an individual. A person having higher financial risk tolerance exhibits better financial behaviours. These kinds of persons are more like to take professional help in taking financial decisions. Hence the first hypothesis can be mentioned as follows:

- H1: There is an association between perceived risk and the financial product purchased by the consumer.

As has been explained earlier, in the present study, we are taking three financial products, viz., bank fixed deposits, insurance and stock market. Therefore, the above-mentioned hypothesis can be further divided into three sub-hypotheses as follows:

H1a: There is an association between perceived risk and bank deposit purchased by the consumer.

H1b: There is an association between perceived risk and insurance purchased by the consumer.

H1c: There is an association between perceived risk and stocks purchased by the consumer.

The interest or involvement in financial issues is used in the study done by Funfgeld et al (2008). This factor deals with the individual's interest in financial issues and exposure to the financial world. It tells if the individual really enjoys knowing about what is happening in the financial world. Beckett (2000) concluded in his study that involvement or interest is the key factor to determine the individual financial behaviour. In another study done by Loix et al (2005), two scales have been developed to understand the orientation towards finances. These two scales were of financial information and personal financial planning. The financial information is dependent upon the interest of an individual towards the financial issues. The person would seek information about the particular object only when he is interested towards it. Thus the second hypothesis would be as follows:

- H2: There is an association between interest in knowing about the financial world and the financial product purchased by the consumer.

The corresponding sub-hypotheses for the above-mentioned hypothesis are as follows:

H2a: There is an association between interest in knowing about the financial world and bank deposit purchased by the consumer.

H2b: There is an association between interest in knowing about the financial world and insurance purchased by the consumer.

H2c: There is an association between interest in knowing about the financial world and stocks purchased by the consumer.

The study conducted by Earle (2009) concluded that trust, confidence, and risk management interact in complex ways, eluding simple formulas, requiring thoughtful engagement and close examination of specific, concrete circumstances. The quality of service is found out to be an important aspect to establish customer trust. (Eisingerich et al, 2007). They further said that customer trust has an optimistic association with both repurchases intentions and customer loyalty. Thus the third hypothesis would be as follows:

- H3: There is an association between trust on the financial intermediary and the financial product purchased by the consumer.

The corresponding sub-hypotheses for the above-mentioned hypothesis are as follows:

H3a: There is an association between trust on the financial intermediary and bank deposit purchased by the consumer.

H3b: There is an association between trust on the financial intermediary and insurance purchased by the consumer.

H3c: There is an association between trust on the financial intermediary and stocks purchased by the consumer.

PRELIMINARY ANALYSIS OF THE QUESTIONNAIRE

The exploratory research was done to fulfill the objectives of the present study. The sampling was done using the combination of judgmental and snowball sampling. The main reasons for choosing these methods were that people are generally not very forthcoming in disclosing the information about their financial investments. The sample size of the present study is 200 respondents. Data was collected in the year 2016 and the target population consisted of the people who were taking their personal investment decisions out of their surplus funds.

The age of the respondents varied from 20 years to more than 35 years. Majority of the respondents (around 40%) are in the age bracket of 20-25 years. Most of the respondents were married (62%), having a post graduate qualification (54%) and having service as their occupation (56%). The yearly income of the respondents is fairly spread out with the highest respondents (37%) in the bracket of INR 3lacs-INR 6 lacs. In the present study, 24% of the respondents keep more than 20% of their savings in bank fixed deposits.

RESEARCH METHODOLOGY

Risk Tolerance of an individual was measured using the scale developed by Grable & Joo (2000). The 5-point Likert scale consists of five items. The possible choices in the scale were strongly agree, agree, neutral, disagree and strongly disagree. The items indicating strongly agree implies a strong aversion to risk and therefore coded as 1. Therefore, the higher scores implied to indicate a higher financial risk tolerance. The scores can range from 5-25.

The second attribute measured in the study is the individual's interest in financial issues. Not much work has been done to understand an individual's interest in financial issues. Funfgeld et al (2008) measured the interest using two items scale. The rest of the items to measure interest in the present study have been taken by the questionnaire used in the survey done by FSA in UK (2006) on consumer attitude on money management. The final scale has 5 items to understand the interest of an individual towards financial issues. It ranges from strongly disagree coded as 1 to strongly agree coded as 5. The scores can range from 5-25.

The third attribute is the trust of the consumers on the financial service providers. The items to measure the trust has been taken by the study done by FSA in UK (2006). There are seven statements which are used in the questionnaire to measure the trust. It ranges from strongly disagree coded as 1 to strongly agree coded as 5. The scores can range from 5-35.

ANALYSIS & RESULTS

To check the above-mentioned hypotheses, ANOVA was calculated between different variables. These variables are perceived risk, interest in financial issues and trust on financial intermediaries with fixed deposits, insurance and stock markets. The summary of ANOVA calculations is mentioned in Table 1.

Table 1
ANOVA testing between various variables

Financial Product/ Variable	*F-Statistic*	*Significance*	*Acceptance/Rejection of Null Hypotheses*
Risk_Bank Fixed Deposit	1.047	.416	Accepted
Risk_Insurance	2.153	.010	Rejected
Risk_Stock Market	3.059	.000	Rejected
Interest_Bank Fixed Deposit	1.163	.307	Accepted
Interest_Insurance	2.338	.004	Rejected
Interest_Stock Market	2.842	.000	Rejected
Trust_Bank Fixed Deposit	1.960	.021	Rejected
Trust_Insurance	1.705	.054	Accepted
Trust_Stock Market	1.749	.046	Rejected

Source: Calculations done by authors

The first alternate hypothesis stating that there is an association between perceived risk and bank deposit purchased by the consumer has been rejected. This can be attributed to the fact that there is no apparent risk associated with the bank fixed deposits. An individual would feel very safe while making investments in bank fixed deposits, provided there is an overall conducive economic environment. Moreover, most of the salaried individuals have their bank accounts in which they are getting their salaries. They feel very safe if they keep the fixed deposits with the same bank. Similarly, the self-employed people would also have a bank account through which most of their transactions happen. They also feel quite comfortable keeping the fixed deposit with that bank.

The next two hypotheses which test the association between perceived risk with insurance and stock markets have been accepted. This implies that an individual's perceived risk and his investments in insurance and stock market are strongly associated. If a person is risk averse then he will think twice before investing in stock markets etc. There are very few insurance policies available these days, where returns are assured. In most of the policies, returns have been associated with returns of either the bond market or the equity market. The stock market in any case is known for its fluctuating returns. If the person is risk averse then even the small ups and downs in the market will make him anxious. Thus, many financial planners actually do the proper risk assessment of an individual before suggesting any financial product.

The hypothesis which states that there is an association between interest in knowing about the financial world and bank deposit purchased by the consumer has been rejected. The individuals invest in bank deposits even if he has nil or negligible knowledge about the financial world. It's a very simple product in which there is fixed return which an individual is going to get. Even if one does not know about the nitty-gritties of the financial world, a person would still be comfortably putting money in bank fixed deposits.

The other two hypotheses in this category which state that there is an association between interest in knowing about the financial world and investments in insurance and stock market have been accepted. An individual who is investing in insurance and stock markets would at least be having some preliminary knowledge about these financial products. As the return in these instruments is not fixed, one would always be interested in knowing the criteria on the basis of which he is going to get any return. If the person does not know about the particular financial product and lacks the interest in knowing about them, he would not be investing his hard earned money in those financial instruments.

The hypothesis which states that there is an association between trust on the financial intermediary and bank deposit purchased by the consumer has been accepted. As the return given on the bank deposit is fixed, the individual would be making the bank deposit with someone whom he can trust completely and is assured of getting his money back. All the banks come under strict RBI regulations but the matter of fact is that if the bank files for the liquidation, then the amount up to 1 lakh rupees only are assured. Although the Indian banking system is quite strong, to avoid any unpleasant incident, an individual would keep his money in the banking institution which he completely trusts.

The hypothesis which states that there is an association between trust on the financial intermediary and insurance has been rejected. This stems from the fact that people are quite assured of the insurance as a sector. It is governed by the tough regulations and people know that they or their near ones would get their money back. Insurance sector is also regulated by insurance ombudsman which deals with all the disputes related between the insurance company and the consumer.

The hypothesis which states that there is an association between trust on the financial intermediary and investments in stock markets by the consumer has been accepted. The returns in the stock market are not at all assured. Many a times, an individual would make the investments in those stocks which have been suggested by his intermediary. If an individual is actually listening to the intermediary and is acting on the basis of the suggestions given by him, the trust factor has to be very high.

DISCUSSION & IMPLICATIONS

The consumers today have wide array of financial products to choose from. In this study, we have seen three major financial products viz., bank deposits, insurance and stock markets and have studied the factors which are closely associated with the purchase of these financial instruments. In case of bank deposits, the only factor which is closely associated with its buying is trust. If a consumer trusts the bank in which he is putting his money for making a fixed deposit, he will go ahead with it. The bank fixed deposits are considered to be the safest investment option. An individual would be putting his money in the fixed deposit for certain duration, at the end of which he would be getting his principal and interest back. The banks which are actively looking for generating fixed deposits from their customers, firstly, they have to offer the adequate rate of interest to the customers and secondly, need to give them the assurance that their money is safe with them. Now, at present, with the increased competition among various banks, interest rates on fixed deposits for a particular tenure are more or less same. Therefore, the whole focus would be to give assurance to the customers that their money is safe with them. This is possible by increasing the trust quotient of the customers towards the particular bank. Thus, banks have to invest in various strategies through which the trust of customers is sustained in them.

In case of insurance, risk preference and interest in the financial world are closely associated while making a purchase decision. There are many kinds of insurance policies which are available in the market today. It ranges from a simple term plan to complex Unit Linked Insurance Plans (ULIPs). In addition, there is a whole lot of endowment plans, money back policies, children plans or retirement plans. Each and every policy is meeting a particular need of an individual. It is not possible that each and every plan is equally good for every individual. A plan which is good for a particular individual may not be a good plan for another individual because of their different needs. The risk tolerance as far as the financial investments are concerned varies among individuals. An individual needs to be generally aware about the happenings in the financial world. If he is not aware and is only dependent upon the third party who is suggesting him the financial product, then he may or may not get the right product as per his needs.

The investments in the stock markets are closely associated with all the three factors, viz., risk preference, interest in the financial world and trust on the intermediary. It's a known fact that the returns in the stock markets are not assured. Thus, an individual needs to be very clear about how much risk of capital he can bear if he is investing in stock market for a particular time period. An individual would be able to take the calculated risk on his investments only if he is aware about the happenings in the financial world. This awareness would help him to make prudent decisions regarding the investments. The awareness level would keep on increasing if the person is interested in the happenings of the financial world and put an effort to update his knowledge regarding the same on the regular basis. It is a possibility that a person is making the investments in the stock markets on the basis of the advice given by an intermediary. If an individual does not trust that intermediary, then it would be very difficult for an individual to listen to the advice given by that intermediary.

As can be seen from the present study, there are various factors which play their part while consumers are making investments in various financial products. Instead of the ad hoc approach adopted by the financial product providers to offer the financial products to the consumers, they should be aware of a particular variable which plays a major part in choosing a specific financial product by the consumer. The focus should be on that variable which plays a major part in choosing a particular product. Thus the financial institutions which are only dealing with the bank deposits have to work towards maintaining their trust factor very high among the consumers. The financial institutions which are dealing with selling insurance have to run the awareness programs about the benefits of taking insurance so that the interest of consumers can be generated in buying insurance policies. They will also have to access the risk preference of the consumer so that an appropriate policy would be suggested to the investor. It needs to be gauged whether the consumer is ok about the ups and downs of the ULIP plans or the stable returns of endowment plans are more appropriate for him. The institutions dealing with selling stocks has to work upon all three factors. They need to work upon the trust factor so that the consumers would listen to the advices given by them. The investor needs to be sure that whatever the intermediary is suggesting him is in his best interest. They also need to measure the risk preference of the investors because in the stock markets also there are different levels of risk. It would be always risky to invest in a small cap fund rather than a large cap blue chip stock. It needs to be assessed that even if an individual is investing in the stock markets, how much ups and downs in returns can he take. They need to constantly work on generating reports regarding the regular analysis of the stock markets so that the interest level of an individual is maintained in the same.

LIMITATIONS AND FUTURE SCOPE

Although the present study gives the useful insights on the factors which are important while making investments in a particular financial product, there are certain limitations associated with this study. First and foremost, this study was done in the urban areas; the result may vary in the semi-urban or rural areas. The study has considered only three factors which affect the financial product chosen by an individual. The future studies can examine other factors which effect the decision of an individual like various demographic factors. These factors range from age, gender, income, education, etc of an individual. It is possible that financial product chosen by a young person varies with that of an old person or there is a difference in making investment decisions among different income strata of the society. Future research studies need to explore these areas. Further the research can be expanded to other financial products also like mutual funds, exchange traded funds or real estate investment trust (REITs).

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