

CONSUMER BUYING BEHAVIOUR REGARDING FINANCIAL PRODUCTS

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Abstract

Understanding consumer buying behaviour regarding financial products is crucial for financial institutions aiming to effectively market their offerings and build lasting customer relationships. This review paper investigates into the complex process of consumer decision-making in the realm of financial products. Drawing upon various theories and models from psychology, economics, and marketing, the paper explores the intricate interplay of factors shaping consumer preferences and choices. Additionally, it discusses specific models applicable to financial products, including the Life-Cycle Hypothesis, Portfolio Theory, and Technology Acceptance Model, highlighting their relevance in understanding consumer behaviour. The paper also examines the impact of technological advancements and the rise of digital financial services on consumer buying behaviour. By providing insights into the complexities of consumer behaviour and preferences, this paper offers valuable guidance for financial institutions seeking to tailor their products and strategies to better meet the needs of their customers.

Keyword: Consumer buying behaviour, financial products, economic factors, decision-making process, theories and models, technology.

1. INTRODUCTION

Consumer buying behaviour regarding financial products is a multilayered process influenced by a variety of factors, including economic conditions, personal financial goals, risk tolerance, and cultural influences. Unlike consumer goods, financial products such as savings accounts, investment funds, insurance policies, and credit instruments often require a higher degree of involvement and decision-making due to their complexity and long-term implications. [1]

Consumers tend to evaluate financial products based on factors such as perceived value, potential returns, associated risks, and the credibility of the financial institution. In recent years, technological advancements and the proliferation of digital financial services have also significantly impacted consumer behaviour, making convenience, ease of access, and digital features important criteria in the decision-making process. Understanding these behaviours and preferences is essential for financial institutions aiming to effectively market their products and build lasting customer relationships.

1.1. Background and Significance of the Study

Understanding consumer buying behaviour is crucial for financial institutions, marketers, and policymakers because it shapes how financial products are developed, marketed, and consumed. In recent years, the financial landscape has undergone significant changes due to economic fluctuations, technological advancements, and shifts in consumer preferences. The proliferation of digital banking, the rise of fintech companies, and increasing consumer awareness about financial health have all contributed to a dynamic market environment.

By studying consumer buying behaviour regarding financial products, stakeholders can gain insights into what drives consumer decisions, how they perceive different financial products, and the factors that influence their purchasing choices.

1.2. Scope and Limitations

This review covers a broad range of financial products, including investment, savings, insurance, and credit products. It examines consumer behaviour across different demographic groups and regions, providing a comprehensive understanding of the market. The scope includes an analysis of both traditional financial institutions and emerging fintech companies, offering a holistic view of the industry.

However, there are certain limitations to this review. Firstly, the availability and quality of data may vary across different regions, which can affect the generalizability of the findings. Secondly, consumer behaviour is influenced by rapidly changing economic conditions and technological advancements, meaning that some findings may become outdated quickly. Lastly, while the review aims to be comprehensive, it may not cover all possible factors influencing consumer behaviour due to the complex and multifaceted nature of the topic.

1.3. Definition of Consumer Buying Behaviour

Consumer buying behaviour refers to the actions and decision processes of individuals or groups in purchasing and using goods and services. It encompasses the psychological, social, and economic factors that influence individuals' purchase decisions. In the context of financial products, consumer buying behaviour includes the ways in which consumers evaluate, select, and utilize financial instruments such as savings accounts, investments, insurance policies, and credit products [2]. Understanding consumer buying behaviour helps financial institutions and marketers design products and strategies that meet consumer needs and preferences.

1.4. Factors Influencing Consumer Buying Behaviour

Consumer buying behaviour regarding financial products is influenced by a myriad of factors. Understanding these factors is crucial for financial institutions to develop effective marketing strategies and tailor products to meet the specific needs and preferences of their customers. The key factors include economic, psychological, social, cultural, and personal influences. [3]

Economic Factors

Economic factors play a significant role in shaping consumer buying behaviour for financial products. Consumers' income levels and overall wealth significantly affect their ability and willingness to purchase financial products. Higher income and wealth typically increase the capacity to invest in a wider range of financial products, including high-risk investments and comprehensive insurance plans [4]. The interest rate environment impacts consumers' decisions regarding savings and borrowing. Lower interest rates might encourage borrowing and spending, while higher rates might incentivize saving and investing in interest-bearing accounts. Inflation affects the real value of money, influencing consumer decisions on saving and investing [5]. During high inflation periods, consumers might seek investments that offer higher returns to outpace inflation. The overall economic stability and outlook influence consumer confidence. In a stable economy, consumers are more likely to make long-term financial commitments, such as investing in the stock market or purchasing life insurance.

Psychological Factors

Psychological factors pertain to the mental processes and emotional states that affect consumer behaviour. Different individuals have varying levels of risk tolerance, which affects their choice of financial products. Risk-averse individuals prefer safer investments like savings accounts or government bonds, while risk-tolerant individuals might opt for stocks or mutual funds. How consumers perceive financial products and the institutions offering them can greatly influence their purchasing decisions. Trust in a financial institution, perceived product benefits, and brand reputation all play crucial roles. Consumers with higher financial literacy are better equipped to understand and evaluate complex financial products. This knowledge influences their ability to make informed decisions and select products that align with their financial goals. Additionally, consumers are motivated by various needs and goals, such as securing their financial future, achieving financial independence, or planning for retirement. These motivations drive their interest in and purchase of financial products.

Social Factors

Social factors encompass the influence of other people and social structures on consumer behaviour. The opinions and experiences of family and friends can significantly

impact financial decisions. Recommendations and advice from trusted individuals often guide consumers in selecting financial products. Financial products can serve as a status symbol, with certain investments or insurance plans being perceived as indicators of financial success and social standing. Social circles and peer groups can exert pressure on individuals to conform to certain financial behaviours, such as investing in popular stocks or purchasing specific insurance policies. [6]

Cultural Factors

Cultural factors involve the shared values, beliefs, and norms within a society that influence consumer behaviour. Cultural attitudes towards money, saving, investing, and spending shape consumer behaviour. For example, some cultures emphasize the importance of saving and financial security, while others may prioritize consumption and lifestyle. Ethnic background and religious beliefs can dictate acceptable financial practices and the suitability of certain financial products. For instance, Islamic finance adheres to Sharia law, which prohibits interest-bearing products. The prevailing societal norms regarding financial responsibility and prudence can influence consumer behaviour. Societies that value financial prudence are likely to have consumers who prioritize savings and insurance.

Personal Factors

Personal factors are individual characteristics that affect consumer behaviour. Consumers' financial needs and preferences change with age and life stage. Young adults may prioritize saving for education or buying a home, while older individuals may focus on retirement planning and wealth preservation. The nature of one's job and employment stability can influence financial decisions. Secure employment may encourage long-term investments, while uncertainty might lead to more conservative financial choices. Consumers' lifestyles, including their interests, activities, and overall way of living, affect their financial product choices.

1.5. Types of Financial Products

Financial products encompass a broad range of instruments that cater to various consumer needs and preferences. These products can be categorized into investment products, savings products, insurance products, and credit products, each serving distinct financial goals and functions.

Investment products include instruments such as stocks, bonds, and mutual funds. Stocks represent ownership in a company and provide the potential for capital appreciation and dividends. Bonds are debt securities that pay periodic interest and return the principal at maturity, offering a more stable income stream. Mutual funds pool money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities, managed by professional fund managers. These products are typically chosen by consumers seeking to grow their wealth and achieve long-term financial goals.

Savings products are designed to help consumers save and protect their money while earning interest. Savings accounts, for example, provide a secure place to store money with the benefit of earning interest, albeit at a lower rate compared to investment products. Certificates of deposit (CDs) offer higher interest rates in exchange for keeping the money deposited for a fixed term. These products are ideal for individuals looking to maintain liquidity and earn a modest return on their savings with minimal risk. [7]

Insurance products offer financial protection against various risks and uncertainties. Life insurance provides a death benefit to beneficiaries upon the policyholder's death, offering financial security for loved ones. Health insurance covers medical expenses, reducing the financial burden of healthcare costs. Other types of insurance, such as auto and home insurance, protect against specific risks associated with vehicles and property. These products are essential for risk management and ensuring financial stability in the face of unforeseen events.

Credit products enable consumers to borrow money for various purposes, from purchasing a home to managing daily expenses. Loans, such as personal loans, auto loans, and mortgages, provide lump-sum amounts that are repaid over time with interest. Credit cards offer a revolving line of credit that can be used for everyday purchases, with the flexibility of making minimum payments or paying off the balance in full each month. These products are crucial for managing cash flow and financing significant expenditures. [8]

1.6. Types of Consumers Buying Behaviour in Reference to Financial Products

Consumer buying behaviour in reference to financial products can be categorized into several types, each influenced by the complexity of the product, the level of consumer involvement, and the decision-making process. Understanding these types helps financial institutions tailor

their marketing strategies and product offerings to better meet consumer needs.

- **Routine Response Behaviour**

Routine response behaviour occurs when consumers buy financial products that require minimal decision-making effort. These products are typically low-risk, straightforward, and used regularly. Examples include opening a basic savings account or renewing an existing insurance policy. Consumers rely on past experiences and established habits, leading to quick and automatic purchasing decisions.

- **Limited Decision-Making Behaviour**

Limited decision-making behaviour involves a moderate level of consumer involvement and information search. Consumers spend some time comparing different financial products and evaluating options but do not engage in extensive research. Examples include choosing a new credit card or selecting a short-term investment plan. Factors such as interest rates, fees, and promotional offers play a significant role in influencing decisions. [9]

- **Extensive Decision-Making Behaviour**

Extensive decision-making behaviour is characterized by high involvement and significant information search. This type of behaviour is typical for complex and high-risk financial products that have a long-term impact on consumers' financial well-being. Examples include buying a home, selecting a mortgage, or investing in retirement plans. Consumers meticulously compare various options, seek professional advice, and consider multiple factors such as interest rates, repayment terms, potential returns, and risks.

- **Impulsive Buying Behaviour**

Impulsive buying behaviour involves spontaneous and unplanned purchases of financial products. This type of behaviour is less common in the financial sector due to the typically high stakes involved. However, it can occur in situations where consumers are influenced by persuasive marketing, limited-time offers, or peer pressure. An example might be purchasing a financial product during a promotional event without thorough consideration.

- **Loyalty-Based Buying Behaviour**

Loyalty-based buying behaviour occurs when consumers repeatedly purchase financial products from the same

institution due to established trust, satisfaction, and positive experiences. Loyalty programs, personalized services, and strong customer relationships contribute to this type of behaviour. Examples include renewing a savings plan with the same bank or purchasing additional insurance products from a trusted provider.

Understanding these types of consumer buying behaviour allows financial institutions to design targeted marketing strategies, offer tailored products, and enhance customer engagement, ultimately improving customer satisfaction and retention.

1.7. Challenges and Opportunities

The financial services sector faces challenges in understanding consumer behaviour, influenced by economic, psychological, social, cultural, and personal factors. This complexity makes it difficult for financial institutions to predict and respond to consumer needs accurately. Additionally, a lack of comprehensive data on consumer behaviour can hinder strategy development.

Regulatory and compliance issues also pose significant challenges. Financial institutions must navigate a complex and evolving regulatory landscape that varies across regions. Compliance is essential for consumer protection and maintaining trust but can be resource-intensive and limit product design and marketing flexibility.

Despite these challenges, there are numerous opportunities for innovation. Advances in technology and fintech have opened up new possibilities for financial products and services. Digital platforms and mobile applications have made it easier for consumers to access and manage financial products, offering greater convenience. Big data and analytics allow financial institutions to gain deeper insights into consumer behaviour, enabling more effective product and marketing strategies. [10]

Innovations such as artificial intelligence, blockchain, and machine learning are transforming the industry by enhancing security, improving customer service, and creating new products. Fintech companies are leading in developing solutions that address gaps in traditional financial services, such as peer-to-peer lending, robo-advisors, and digital wallets. These technologies improve the consumer experience and enable financial institutions to operate more efficiently and reach underserved markets.

2. LITERATURE REVIEWS

Sahney's (2016) research researches into the performance and preference of mutual fund products and services in India, examining them from marketing and financial viewpoints. Through financial analysis and the utilization of various research tools and approaches, the study aims to uncover performance disparities among different mutual funds while understanding consumers' behaviour. Survey findings indicate a growing recognition of mutual funds over time, reflected in the increasing awareness among investors and the proliferation of diverse plans in the market. Furthermore, the influence of stakeholders such as agents, family members, and individual investors significantly shapes the investment decisions of mutual fund investors, underscoring the dynamic nature of the sector within the Indian financial landscape. [11]

The study conducted by Mysa (2020) centers on the primary objective of identifying the most popular mutual funds among purchasers in the Secunderabad metropolitan city, with a focus on ensuring a strong return with minimal risk—an essential criterion for any mutual fund investment. Employing descriptive statistics and the chi-square test, the research analyzed data gathered through a standardized questionnaire. Interestingly, the study's findings reveal a prevailing reluctance among consumers to invest their money in contemporary investment vehicles like mutual funds, underscoring a noteworthy aspect of investor behavior in the region. [12]

Monirul's (2016) study highlights the importance for Asset Management Companies (AMCs) to grasp investor behavior concerning fund or scheme switching, crucial for tailoring solutions that align with clients' evolving financial needs as they progress through different life stages. To address this, a survey of 200 mutual fund investors in Dehradun was conducted to discern the variables retail investors prioritize when selecting a fund or scheme. The article outlines the survey results, aiming to provide valuable insights that can inform AMCs' product development and advertising strategies. In today's competitive market, mutual funds not only vie against each other but also contend with other financial products offering similar economic benefits, albeit under different classifications. Through the analysis of survey data, this study endeavors to identify the most popular investments among customers and elucidate the underlying factors driving their preferences. [13]

Joshi and Mandaviyaana (2018) emphasize the importance for organizations to delve into and comprehend the ever-evolving customer behavior within today's dynamic

business climate to effectively establish and manage businesses. They highlight the significant role of cultural, social, emotional, and psychological factors in influencing consumers' ultimate actions. Employing a descriptive study methodology and a non-probability sample approach, the researchers administered a structured questionnaire to 150 respondents in Surat city. The questionnaire aimed to gain insights into customers' investing behavior specifically concerning mutual funds, while also exploring the impact of factors such as the investor's profession and income on their decision-making process. The study's findings reveal that investors typically opt for the growth option in mutual funds, particularly through systematic investment mode. Moreover, brokers and banks wield considerable influence throughout the investment process. When selecting mutual funds, investors prioritize factors such as diversity and safety, underscoring the multifaceted nature of their decision-making criteria. [14]

Vymětal et al. (2013) stated goal is to provide a novel method of simulating business transactions by including client actions into a hypothetical company's trading procedures. A multi-agent system is established to function as a simulation framework, using agent-based modelling and simulation methodologies. We are driven to use the framework as a foundational component of a management system, functioning as an integrated element of an actual system deployed inside an organisation (like an ERP system), in order to study and forecast the selected business metrics of that organisation. Having such a framework in place helps with decision-making for firm management. The article begins by outlining some of the current hypotheses on consumer behaviour and the many elements that impact it. Second, the article describes the decision-making function, the various agents involved in the virtual company's multi-agent model of trade, and the agents themselves. During negotiations, the decision-making mechanism is used to tally the product price. The description concludes with the simulation results, a comparison to actual data, and an examination of the verification possibilities of the simulation model. The suggested method for modelling consumer behaviour in an agent-based simulation model will be shown to effectively aid in improving decision-making. [15]

Riyazahmedk & Saravanaraj (2016) aimed to dissect the elements that influence the choices made by individual investors in the Indian stock market. Also investigated is the nature of the connection between these variables and the return on investment. In order to offer a hypothesis, the

research starts by outlining current behavioural theories. Then, these theories are put to the test by having different individual investors in the Salem district fill out surveys. We use statistical tools like SPSS to analyse the gathered data. The next step in gaining insight into investor behaviour is to conduct semi-structured interviews with investment bankers and brokers. Herding, Prospect, Market, Overconfidence, and Anchoring are the five behavioural characteristics that impact stock investors' purchasing behaviour, according to the research. When it comes to the Indian stock market, individual investors are heavily influenced by the behavioural characteristics of four factors: prospecting, herding, market, and the market itself. According to reports, there are a number of factors that significantly impact investing decisions, including market, herding, and potential. [16]

Praveen et. al. (2009) found that not only can the topic of purchases, but also buying reasons and frequency, be better understood and predicted via consumer behaviour research. Many things impact Mumbaikars' purchasing decisions when it comes to financial services, including the nature of such services, the city's level of living, the prevalence of e-marketing, the intensity of competition, the city's educational ratio, and many more. The financial services sector places a premium on consumer behaviour research since it provides insight into what motivates customers to make a purchase and how to hold on to those customers. Therefore, the purpose of Praveen et. al. (2009) work is to investigate what variables impact customer behaviour in relation to different types of financial services. [17]

Prasad (2014) stated that people are more likely to alter their purchase habits when it comes to financial items. Consequently, financial institutions are less sure that their clients will stay with them or that the old-fashioned connection between bankers and consumers would work to their advantage when trying to cross-sell valuable auxiliary items. It is crucial for banks to react strategically to these developments in an age when client retention and the capacity to cross-sell goods to current customers are key in determining profitability. This study report sheds light on how customers' internet shopping habits are evolving. [18]

3. CONCLUSION

In conclusion, understanding consumer buying behaviour regarding financial products is essential for financial institutions to effectively meet customer needs and preferences in today's dynamic market. This review paper has explored the complex nature of consumer decision-

making, considering factors such as economic conditions, psychological influences, social and cultural norms, and technological advancements. By drawing upon various theories and models from psychology, economics, and marketing, we have gained insights into the complex interplay of factors shaping consumer preferences and choices. Furthermore, the impact of technological advancements and the rise of digital financial services on consumer buying behaviour has been reviewed. By recognizing the importance of these factors and incorporating them into product design and marketing strategies, financial institutions can better meet the evolving needs of their customers and enhance customer satisfaction and loyalty. Moving forward, continued research and analysis in this field will be crucial for staying abreast of changing consumer preferences and market dynamics, thereby enabling financial institutions to remain competitive and successful in the ever-evolving financial landscape.

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