

A Study on Exploration of Factors for Consumer's Behaviour Economics in Banking and Insurance Industry

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ABSTRACT

Economic considerations influence consumers' behavior since they expect to receive some return on their investment and are eager to accumulate more interest over time. Therefore, the banking and insurance industries offer a large platform for those customers who have faith in these sectors and are prepared to invest by buying policies or other alternatives for the various utilities, consumers eager to invest, and consumers based on their needs, offer by industry and decision. By purchasing life insurance, people can safeguard their families financial future in the event of their own untimely passing. Life insurance plays a crucial role in the financial security of a significant portion of society because of the lack of access to formal financial markets and the lack of knowledge and financial literacy. Particularly crucial are the rural and less affluent segments of society. In this study, 415 respondents from Madhya Pradesh, especially Indore, Bhopal, Gwalior and Ujjain, were chosen through random technique and the study area is the banking and Insurance Industry where they have to take decisions carefully for their future planning.

Keywords: Needs, Promotional Schemes, Financial decision, Behavior Economics, Financial Security.

Adhyayan: A Journal of Management Sciences (2022); DOI: 10.21567/adhyayan.v12i2.04

INTRODUCTION

The Indian economy is one of the fastest growing economies in the world with GDP per capita growing at a rate of 7.8% per annum. In addition, the country's demographics are changing, with 39% of the population expected to be between age 15 and 34 in 2021. Unprecedented young people are anticipated to start working in the coming decades, earn incomes, and save some of it. In the fiscal year 2021–2022, it was anticipated that household financial savings in India will amount to nearly \$31 trillion, or roughly 8.1% of GNDI. A quarter of these savings are placed in bank accounts and insurance. As a result, the banking and insurance industries are substantial and will continue to expand. Understanding consumer behavior and what drives purchasing decisions is crucial for various banking business participants, such as regulators and insurance companies.

Behavioral economics combines elements of economics and psychology to understand how and why people behave the way they do in the real world. It differs from neoclassical economics, which assumes

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How to cite this article: Singhai, M., Shrotriya, A. (2022). A Study on Exploration of Factors for Consumer's Behaviour Economics in Banking and Insurance Industry. *Adhyayan: A Journal of Management Sciences*, 12(2):20-25.

Source of support: Nil

Conflict of interest: None

that most people have well-defined preferences and make well-informed, self-interested decisions based on those preferences. No matter what the future holds, an economics major helps people succeed. Understanding how decisions are made, how markets work, how rules affect outcomes, and how economic forces drive social systems will equip people to make better decisions and solve more problems. This translates to success in work and in life. In addition to the psychological definition of decision-making, economics define decision-making as the process of identifying alternative courses and choosing an appropriate alternative when faced with

decisions. Likewise, the goal of every decision is to obtain a form of reward.

Key Concepts in Behavioural Economics

One might employ many ideas, biases, and nudges in the behavioral economics field. Before going into detail about the empirical work, I'd like to offer some key concepts to help with understanding:

Predictably irrational behavior: Many of our decisions and choices are illogical and could be characterized as such. One may claim that they are consistently made in a systematic and predictable manner; as we get the benefits from the special policies, we are repeatedly inclined towards such products or services in the banking and insurance industry.

Heuristics and biases: Heuristics serve as mental shortcuts, while biases indicate a systematic "mistake" in judgment and behavior;

Choice architecture: Acknowledges that the decision-maker is influenced by the manner an option is presented. The techniques for influencing behavior without eliminating or prohibiting any options or altering their reward are referred to as choice architecture;

Nudge: A trigger that would change someone's decision in a predictable way. A typical illustration of a "nudge" would be placing little, inexpensive items—typically sweets—near the register at retailers;

Choice Overload: The idea that having too many options can cause uncertainty and, eventually, make you decide not to buy;

Loss Aversion: The idea that the pain of losing something you own is much stronger than this of gaining something that you do not;

Endowment effect: Following "loss aversion", the idea is that a person values something they possess more than something that they do not;

Present bias: People appreciate gains in the now more than they value gains in the future, according to the theory. This is one of the reasons why most people choose to relax and have fun instead of working hard to accomplish a long-term objective that would be more important;

Social proofing: Individuals are social creatures, and we enjoy feeling like we belong to a group or groups of people. We make decisions based on the notion of belonging to a favored group as we attempt to identify with that group;

Personalisation: Everyone desires and believes they deserve to be treated "especially." Nobody wants to

be reduced to a common denominator, and when he receives personal attention, he typically feels better and is more likely to reciprocate;

Scarcity: The notion that something must be pricey and extremely precious if there are too few of it to be useful. Simply put, humans place a higher value on a rare good and a lower value on a plentiful good. (Mittone & Savadori, 2009).

Literature Reviews

Litao Xu and Xinzhou Shen (2021) stated that most of the time, rational consumer behavior can only be found in the premises and presumptions of classical economics. On the other hand, actual consumption often reveals consumer behaviors that conventional theories would label as abnormal or illogical. Currently, behavioral economics is an essential instrument for comprehending actual customer behavior. The main focus of this study is irrational decision-making from a behavioral economics perspective. Numerous behavioral economics theories are examined, as well as the theoretical ramifications of those theories, with a focus on how prospect theory and mental account theory affect consumer behavior.

Sarah Bayer, Henner Gimpel & Serkan Sarikaya (2019) found even while the banking industry is giving sustainability more attention, ethical banks still only make up a small fraction of the market. This study examines the variables that affect consumers' choices between conventional and ethical banks, and vice versa, using ethical decision-making models. This study aimed to determine whether factors such as product value, location, service value, and marketing might partially or concurrently affect consumers' decisions to use BNI KCP Kelapa Dua Depok's Taplus Bisnis service. Other factors outside the scope of this study had an impact on another 42.7%. Additionally, we contend that reputation and financial gain are important considerations for a broad context. We include these considerations here as domain-specific extensions of well-known ethical decision-making models. -independent development of decision-making models.

Dubey, U. and Tiwari, M. (2019) focused on the insurance market in India is reportedly expanding at an alarming rate. The competition tends to grow as more businesses enter the insurance market. Due to the constant influx of new players, the insurance market in India is very competitive. Therefore, increasing customer happiness is one of the most important factors to stay in the market and combat the escalating competition. The underlying research focuses on the elements

that increase consumer involvement with the Ajmer Insurance Company. The main goal is to keep an eye out for those elements and then rank them appropriately.

Bambang Dwi Hartono, Elis Yuli Sudaryati, Hapzi Ali (2017) ascertain if elements such product value, location, service value, and marketing might partially or simultaneously influence consumers' choices to utilise Taplus Bisnis from BNI KCP Kelapa Dua Depok. The data were gathered through a poll of bank clients. Out of a total of 261 clients, 100 respondents who had been bank customers for at least a year were chosen using Slovin's technique. The results showed that the independent variables significantly influenced the bank customers' purchasing decisions either partially or simultaneously. Here, the term "buying decision" refers to the bank customers' choice of Taplus Bisnis in relation to the research site, BNI.

James Suter *et al.* (2017) assess various solutions to improve customer decision-making and interest in cross-border offerings, and estimate possible consumer savings. The preparatory phase includes gathering qualitative and quantitative evidence on the demand for and supply of insurance and looking into the motivators and barriers of cross-border transactions to support the experimental phase's design. The survey evaluated the respondents' behavioral characteristics, educational background, and comprehension. The study's findings and recommendations address several general and global insurance issues, including the amount of information consumers, receive, how they purchase insurance and their levels of understanding.

Reisch, L. A., & Zhao, M. (2017) examined the traditional neoclassical economics assumption that people are rational *Homo oeconomici* who always seek to maximise their utility and follow their "true" preferences has been challenged by research in behavioral economics, which has shown that people's judgments and decisions are frequently subject to systematic biases and heuristics and are strongly dependent on the context of the decision. These recommendations not only make a significant contribution to the study of consumer behavior, but they also offer consumer policy readily usable practical implications that can be used to influence behavior in favorably in a variety of consumption areas, such as purchasing decisions, product selection, healthy eating, and sustainable consumption.

Jashari *et al.*, [2017] studied the impact of social media on consumer behavior at Kosovo. According to the report, 59% of the respondents unintentionally made

purchases based on information they found online. The opinions of their friends about the merchandise encouraged about 62% of the respondents to make a purchase. The most popular social media platforms were Facebook and LinkedIn, while blogs and microblogs saw the least amount of use.

Sidhardha and Sumanth [2017] studied consumer buying behavior towards through the application of behavioural economics life insurance. A survey was distributed to 150 policyholders in the public and private sectors of the city of Visakhapatnam. Both short- and long-term policies are available through life insurance, with 78% of respondents choosing short-term protection. The primary criterion for choosing an insurance provider was the return on investment. The agents' influence was the most important factor when deciding whether to get an insurance policy.

Arora and Gupta [2017] analyzed the savings pattern of individual taxpayers towards tax saving instruments. The study discovered that despite the market's plethora of tax-saving goods, 88 percent of respondents invested in life insurance. The primary function of life insurance is as a risk management tool. The paper claims that India knows nothing about several tax savings programmes. Investment level and annual tax obligations of investors did not differ significantly from one another.

Evans and Murray [2017] done a study to understand the relationship between financial difficulty and mental health. Financial difficulties can make people very anxious, including high debt levels, a lack of finances for children's education, and regular bills. 50% of respondents with financial problems also experienced mental health problems, according to the study's data. The study also showed that workers with financial issues performed worse at work because they slept less and were less focused. The worst part was that dealing with mental health concerns made daily money management difficult. The poll also highlighted the impact that employees' lack of sleep and inattention had on their performance.

Research Gap

This study is conducted on banking & insurance industry where consumer takes decision on their perspective of behavior economics as they perceive utility functions and its applications on their decisions. Also, many studies have been done on the influence of demographic factors on their behavior. The previous studies didn't focus much on the consumer decision aspect of financial products for investment. There is



Table 1: Reliability Statistics on Behavior Economics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.937	.927	15

Table 2: KMO and Bartlett's Test on Behaviour Economics

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		
		.927
	Approx. Chi-Square	5183.573
Bartlett's Test of Sphericity	df	105
	Sig.	.000

no specific study done with regard to buying behavior towards financial products in banking and insurance industry. This paves the way for the researcher to carry out intensive research relating to behavior economics in helping to understand consumer behavior and consumer decision making.

Objective

To identify the factors for the behavior economics of consumers in Banking and Insurance Industry.

Research Methodology

For this study the research design is exploratory as the researcher has identified the factors related to the behaviour economics of consumers. The study has taken a sample of 415 consumers of banking and insurance Industry from Madhya Pradesh and random sampling method is used. Through self-constructed questionnaires their behavioral aspects have been asked towards behavior economics. There are many parameters are related to behavioral economics such as; promotional schemes, focusing on needs and financial decisions. Through factor analysis on SPSS these three factors have been explored.

RESULTS

Table 1 given below shows the reliability of the variables related to the behavior economics of consumers, indicated the 0.937 value for 15 statements so the scale is very good to carry out or further analysis.

Exploratory factor analysis (EFA) is used to identify complex interrelationships among items and group items that are part of unified concepts. The researcher makes no "a priori" assumptions about relationships among factors.

In Table 2, it is shown KMO sampling measure revealed a KMO value of 0.927, indicating that the sample size is adequate for the current study. The Chi-

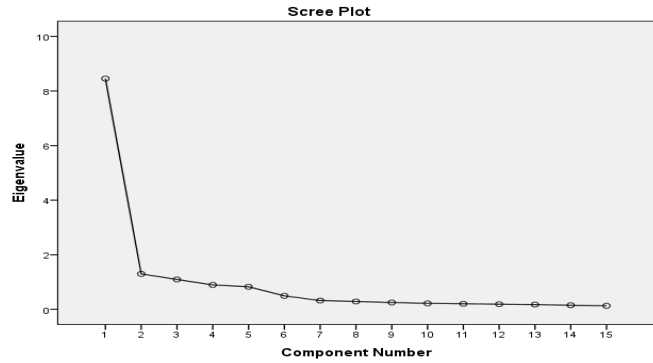


Figure 1: Graph showing Eigen value vs component number

Square score of 5183.573 is significant at the 0.000 level of significance, suggesting that the null hypothesis is rejected. As a result, it is demonstrated that the item matrix is not an identity matrix, and the value disclosed that the data is normally distributed and acceptable for factor analysis.

Description of Factors on Behaviour Economics

Varimax rotation was used in conjunction with principle component factor analysis. The raw scores of 15 items were submitted to factor analysis to determine the components that influence behaviour economics. After factor analysis 3 factors were identified. The rotation converged in 8 iterations.

In Table 3, the loadings of explored factors have been mentioned and details are as follows:

Factor One: Promotional Schemes

The total Eigen value of this factor is 8.453, which has emerged as the most important determinant of behavior economics and explains 31.816 % of variance of behavioral economics. The important statement constituting this factor include; I have been offered a better deal in terms of coverage (.840), I have been offered a better deal in terms of service/claims handling (.807). I have been offered a better deal in terms of premium/excess (.801), I have a poor experience with my previous provider (.735), price is comparable with competitive products (.725), I can cope with an unexpected expense easily (.634), earn rewards points for a variety of transactions that pertain to debit card, mobile banking, internet banking, paytm etc. (.613) and promotional schemes that offer good value for money (.523) (Figure 1).

Factor Two: Focusing on Needs

The total Eigen value of this factor is 1.299, which has emerged as the second most important determinant of

Table 3: Factor Description on Behavior Economics

<i>Variable</i>	<i>Eigen value</i>	<i>Variance</i>	<i>Statement</i>	<i>Loading value</i>
Promotional Schemes	8.453	31.816	I have been offered a better deal in terms of coverage	.840
			I have been offered a better deal in terms of service/claims handling	.807
			I have been offered a better deal in terms of premium/excess	.801
			I have a poor experience with my previous provider	.735
			Price is comparable with competitive products	.725
			I can cope with an unexpected expense easily	.634
			Earn rewards points for a variety of transactions that pertain to debit card, mobile banking, internet banking, paytm etc.	.613
			Promotional schemes that offer good value for money	.523
			My needs and/or circumstances are changed	.851
Focusing on Needs	1.299	26.696	I focus excessively on the present and fail to appreciate events happening in the future	.811
			I tend to focus more easily on salience and may in turn overweight its importance	.799
			I do not think there would be any better offers in the market	.765
Financial Decision	1.095	13.801	Receiving extra rewards points on higher spending	.506
			I take the financial decisions in the household	.780
			I look at alternatives and my current provider have the best	.514

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations

behavior economics and explains 29.696 % of variance of behavioral economics. The important statement constituting this factor include; My needs and/or circumstances are changed (.851), I focus excessively on the present and fail to appreciate events happening in the future (.811), I tend to focus more easily on salience and may in turn overweight its importance (.799), I do not think there would be any better offers in the market (.765) and Receiving extra rewards points on higher spending (.506).

Factor Three: Financial Decision

The total Eigen value of this factor is 1.095 and this factor has emerged as the third most important determinant of behavior economics and explains 13.801% of variance of behavioral economics. The important statement constituting this factor include; I take the financial decisions in the household (.780) and I look at alternatives and my current provider have the best (.514).

CONCLUSION & SUGGESTIONS

Behavioral economics is not a "one-size-fits-all" answer. It, too, has problems and has been criticized. However, when used wisely and integrated into a company's communication policy, it can have a major influence. According to the results of the banking and insurance industries, there is a significant boost in clients' interest in the identical offer that they would typically receive. Many clients felt forced not to say "no," but to explain why they are interested, but that now is not the right moment to contact the bank, and that they will contact the bank later. As previously stated, the goal is not to force the customer to accept a product or service that he does not want. The main purpose should be to motivate and intrigue the buyer. Making him an active participant in the sales process and providing him with easily understandable and relatable information. This is how banks (and any insurance company) can raise sales without changing their products to minimize the external environment's negative effects.



These tactics are an important aspect of communication and should be used with caution. This article convincingly demonstrates that nudges work, and we expect that it will be the catalyst for future practical deployment in the banking and insurance sectors. More experiments must be performed, and various nudges must be balanced in a "controlled" setting to assess their benefits in order to provide a deeper knowledge of the clients. Some nudges perform better than others, and for understandable reasons, they must be used with caution. More trials in the subject of behavioral economics are needed, and it would be very fascinating to see if these nudges influence both men and women equally

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