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# Navigating the Complexities of Individual Investor Behaviour: A study on employees of private sector bank and insurance companies

***Dr. Chandni Keswani**
Assistant Professor
Shri Vaishnav Institute of Management

****Dr. Rishu Roy**
Professor
Shri Vaishnav Vidyapeeth Vishwavidyalaya

*****Dr. Neha Sahu**
Assistant Professor
Prestige Institute of Management & Research

**Abstract:**
Throughout the years, the disposition, mindset, and approach of investors have undergone significant transformations. These changes have encompassed a shift from illogical to rational behavior, impulsive to composed decision-making, and passive to active engagement. Investors are becoming more cognizant of the advantages and disadvantages associated with a specific investing selection. Investors from financial service businesses, such as banking and insurance, exhibit distinct perspectives and behaviors when it comes to making investment decisions. The primary aim of this study is to identify and comprehend the influence of various factors on the investment behavior of employees in the Banking and Insurance sector. A well organized questionnaire is employed to gather data from a sample of 300 participants. The adoption of purposive sampling technique is employed. The data is analyzed using Factor Analysis, Correlation, and ANOVA. The study identified the primary characteristics that influence the investment behavior of individual investors as follows: (I) Security and Benefits, (II) Liquidity and Returns, (III) Influence of Peers, Family and Co-investors, and (IV) Risk Tolerance. These aspects exert a substantial influence on the process of making investment decisions. Consequently, investors must carefully plan and comprehend these factors before committing their funds.

Keywords: Investment Behaviour, Investments decisions, Investments, Investors, Income.

## 1. Introduction:

When making investment decisions, it is important to consider the interplay between income and savings, income and investments, and income and age. These complementary combinations should not be disregarded. The income, savings, and age of investors are crucial factors in the investment decision-making process. According to traditional and behavioral theories of finance, an investor is responsive, rational, and analytical. They react to many stimuli received by their analytical mind when putting their money into any avenue. Over the years, the allure, structure, and composition of investments have evolved. The traditional practice of investing in assets such as gold, real estate, and bank deposits has given way to meticulously studied and professionally managed portfolios that encompass a variety of investment alternatives. Individual or retail investors significantly contribute to the upliftment of the Indian economy by investing a substantial portion of their resources. Amidst the pandemic-induced global economic downturn, the Indian economy witnessed a surge in the count of retail investors.

Individual or retail investors play a crucial role in the financial system by allocating their valuable savings to it, with various aims. There are different classifications of investors, including those who independently assume risks and adhere to the principle of "no risk, no gain." However, there are a small number of individuals that prioritize risk reduction and maximizing

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returns by creating a strategic and effective investment portfolio. These individuals understand the need of diversification and the concept that it is unwise to rely just on one investment. Investors can be classified into two categories based on their attitude towards risk: (a) Risk Takers and (b) Risk Avoiders.

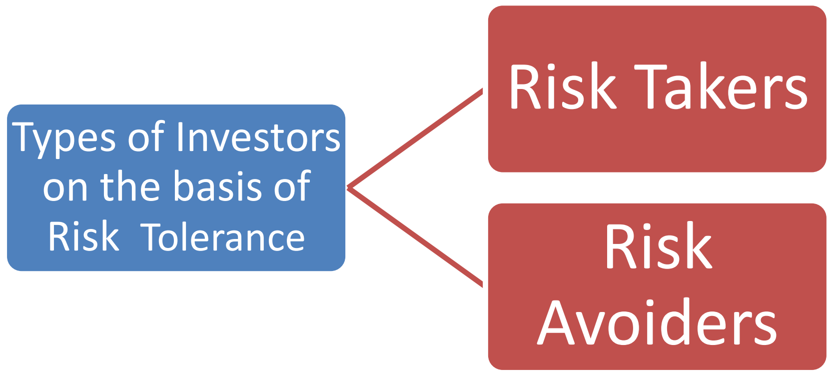


**Figure 1 Types of Investors on the basis of Risk Tolerance**

Investment is the act of allocating resources in the present with the expectation of future returns. The duration for which investments are held is a crucial factor in decision-making. Some investors prefer shorter-term investments, typically lasting a year or less. Others are indifferent to the maturity period and can hold investments for 1 to 5 years. Additionally, there are patient investors who wait for optimal conditions before reaping the benefits of their investments. Consequently, these investors might be classified as Short-term holders, Moderators, and Long-term holders.

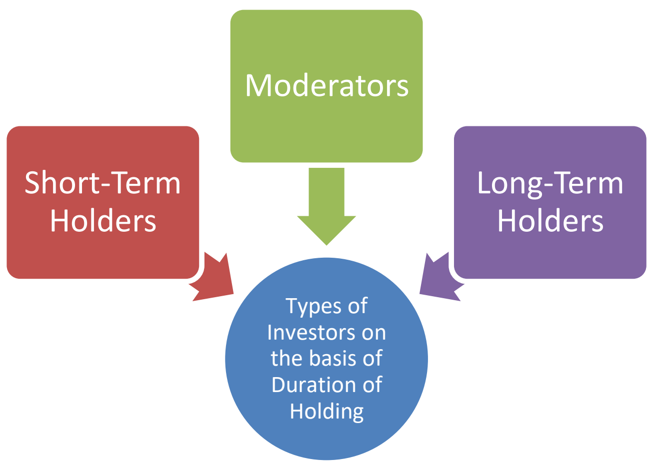


**Figure 2 Types of Investors on the basis of Duration of Holding**

The importance of individual investors, regardless of their category, is crucial and cannot be underestimated in the Indian financial system. However, the behavior, patterns, decisions, and preferences of investors are subject to constant change, influenced by different factors such as financial, psychological, and behavioral biases. This study aims to identify and classify the elements that affect the investment decisions of individual investors in the banking and insurance sectors. Additionally, it seeks to analyze the impact of these factors.

## 2. Review of Literature:

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Predicting and comprehending an investor's mindset during the investment process can be challenging. However, if we must categorize their mental state, nine key factors come into play: security, risk tolerance, lucrative return, investment duration, periodic return, share preference, long-term investment, futuristic return, and investment dynamics. These phrases will enable us to comprehend the behavior of investors and their mental state. Out of these factors, the ratio of Time to Returns is shown to be the most effective criterion for assessing their satisfaction level (Kumar, 2015).

Investors rely on the level of risk associated with investments, their desire for financial information, and their capacity to evaluate it in order to make decisions on "High Risk High Return" investments (Awais, 2016) and comprehend this information. Investors hold diverse perspectives on investing, including the concepts of a Perfect investing, Imperfect Investment, and Average Investment. Investors deem an investment to be ideal when it effectively fulfills their requirements, thus prompting most investors to be deliberate and deliberate extensively before finalizing a purchase (Manikandan A 2017).

Investors' attitudes and preferences are influenced by the level of savings and risk associated with investing. As a result, they tend to behave in predictable ways and show a preference for investing in gold and bank deposits (Selvi, 2015). This behavior of investors was further investigated by Reddy et al. (2015), who discovered that savings and risk tolerance can impact investment strategies. Extensive studies on preferences have revealed that factors such as the security of the initial investment, the ability to easily convert assets into cash, the stability of income, the potential for income growth, and the ease of transferring investments all play a significant role in determining the choice of investment avenue. Consequently, these factors lead to preferences for options such as shares, banks, companies, gold and silver, real estate, life insurance, and postal savings (Jayasatha et al., 2014). The above research indicates that investors, particularly individual investors who are part of the salaried class, invest with the aim of achieving specific goals such as funding their children's education, marriage expenses, and ensuring financial security after retirement. As a result, they perceive bank deposits as the safest option for safeguarding their savings and mitigating the risks associated with an uncertain and unpredictable future (Sathiyamoorthy, 2015).

In addition to behavioral and psychological considerations, there are other characteristics of individual investors' behavior that influence their preferred investment paths. Investors with varying income levels opt for different investment options, primarily based on the amount of money they have. Multiple studies have demonstrated that the most favored investment avenues include corporate securities, gold, real estate, shares, debentures, mutual funds, and fixed deposits. The selection of these options depends on a crucial factor: the level of education and awareness among investors regarding these available choices, as well as their investment and savings objectives. Recent studies on individual investors indicate that they prioritize future benefits when making investment decisions. Their primary concern is the safety of their investments rather than seeking high returns. These investors base their investment choices on their educational background and tend to focus on purchasing homes and making long-term investments. They adhere to criteria that prioritize safety and minimize risk (Shukla, 2016).

The degree of education, qualifications, and access to financial information influence investment behavior and awareness. It is possible to educate individuals with lower qualifications about the advantages of investing. The prevailing notion that only affluent individuals may participate in major investment opportunities needs to be altered, and investors from all social backgrounds should be encouraged to take part. The issue of non-participation can be resolved through assertive advocacy conducted by agents and marketing executives, aimed at educating and dispelling misconceptions held by investor (Azhar et.al 2020).

## 3. Objectives of the study:

1. To study the investment behavior of the individual investors of bank and Insurance sector.


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2. To study the demographic variables affecting the investment behavior of individual investors of bank and Insurance sector.
3. To identify the factors which influence the investment behavior of individual investors of bank and Insurance sector.
4. To study the impact of each factor on the investment behaviour of individual investors of bank and Insurance sector.
5. To study the overall impact of such factors on investment behaviour of individual investors belonging to bank and Insurance sector.
6. To study the association between the investment behaviour and type of industry of the individual investors.

## 4. Research Hypotheses:

**HO1**: There is no significant impact of factors related to security and benefits on the investment behaviour of individual investors of Bank and Insurance Sector.

**HO2:** There is no significant impact of factors related to Liquidity and Returns on the investment behaviour of individual investors of Bank and Insurance Sector.

**HO3:** There is no significant impact of factors related to Influence of Peers, Family and Co-investors on the investment behaviour of individual investors of Bank and Insurance Sector.

**HO4:** There is no significant impact of factors related to Risk Tolerance on the investment behaviour of individual investors of Bank and Insurance Sector.

**HO5:** There is no significant interactive effect of all the factors on the investment behaviour of individual investors of Bank and Insurance Sector.

**HO6:** There is no significant correlation between the type of industry and the investment behaviour of individual investors of Bank and Insurance Sector.

## 5. Research Method:

The current study relies on primary data obtained from 300 participants working in the Bank and Insurance sectors. The sample consists of 300 participants, including 150 individuals from the banking sector and 150 individuals from the insurance sector. The study's respondents were chosen using a purposive convenience sampling technique. The primary data is gathered using a well designed questionnaire that utilizes a five-point Likert scale. The distributed questionnaire consisted of 19 statements. Secondary data from multiple sources is utilized to gain a comprehensive picture of the behavior of individual investors and the factors that influence them while making investment decisions. The study is characterized by its analytical nature, employing a range of statistical tools and techniques such as percentage calculations, bar charts, factor analysis, correlation analysis, and ANOVA. SPSS 25 and MS EXCEL are utilized to attain precise outcomes.

## 6.0 Results and Analysis:

Results of the study are based on the analysis performed on the data collected from the respondents:

### 6.1. Reliability:

Chronbach's Alpha test was applied to check the reliability of the data. And the results of the test are as follows:

**Table – 1** ***Results of Reliability test***


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**Reliability Statistics**

| Cronbach's Alpha | N of Items |
|---|---|
| .873 | 19 |

**6.2. Demographic Distribution:**

**Table -2**

***Distribution table of demographic variables***

| VARIABLE | | No. Of Respondents | Percentage |
|---|---|---|---|
| **Age Group** | **20-30 years** | **51** | **17.1%** |
| | **35-45 years** | **212** | **70.9%** |
| | **50-55 years** | **18** | **5.9%** |
| | **Above 60 years** | **19** | **6.4%** |
| | | | |
| **Gender** | **Male** | **200** | **68%** |
| | **Female** | **100** | **32%** |
| | | | |
| **Monthly Income** | **Rs. 10,000 – 20,000** | **46** | **15.2%** |
| | **Rs.25,000 to Rs.35,000** | **206** | **69%** |
| | **Rs.40,000 to Rs. 50,000** | **32** | **10.5%** |
| | **Above Rs. 50,000** | **16** | **5.3%** |
| | | | |
| **Education** | **UG** | **95** | **31.25%** |
| | **PG** | **190** | **66.77%** |

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| | | | |
|---|---|---|---|
| | **Professional** | **15** | **4.93%** |
| | | | |
| **Marital status** | **Married** | **89** | **32.16%** |
| | **Unmarried** | **197** | **63.9%** |
| | **Divorced** | **14** | **3.94%** |
| | | | |
| **Type of Industry** | **Bank** | **150** | **50%** |
| | **Insurance** | **150** | **50%** |

The above table shows that 17.1% of the respondents are between the ages of 20 and 30. The majority of the respondents, approximately 70.9%, are between the ages of 35 and 45. About 5.9% of the respondents are between the ages of 50 and 60, and the remaining 6.4% are above the age of 65. This indicates that individuals between the ages of 35 and 45, commonly referred to as middle age, are actively engaged in investment activities. The table indicates that 685 investors are male, while 32% are female.

Based on the respondents' monthly income, over half of them (69%) earn between Rs.25,000 to Rs.35,000. Approximately 15.2% of the working respondents earn less than Rs.10,000 - Rs.20,000, while around 10.5% earn between Rs.40,000 to Rs.50,000. The remaining respondents (5.3%) earn a monthly income exceeding Rs.50,000.

Regarding education, the table shows that the majority of respondents (66.77%) have completed postgraduate studies. Additionally, there are approximately 98 respondents who have completed undergraduate studies, accounting for 31.25% of the total respondents. Furthermore, around 4.93% of the respondents are professionals.

The table above shows that a majority of the respondents (63.9%) are married, while approximately 85 respondents, accounting for 32.16% of the total, are unmarried. Additionally, around 3.94% of the respondents are divorced.

**6.3. Factor Analysis:**

A factor analysis was conducted using SPSS 25 to identify the factors that influence the investment behavior of individual individuals. Using Dimension Reduction Method, the 19 variables that are associated with the investment behavior of individual investors were condensed into 4 possible components. The criteria derived from DRM encompassed (i) Security and Benefits, (ii) Liquidity and Returns, (iii) Influence of Peers, Family and Co-Investors, and (iv) Risk Tolerance. The following table shows the factor load:

**Table – 3 Results of *Factor Analysis***

| S.No. | Factor Name | Factor load |
|---|---|---|


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| | | |
|---|---|---|
| **1.** | Factors related to Security and Benefits | 4.293 |
| **2.** | Factors related to Liquidity and Returns | 2.863 |
| **3.** | Factors related to Influence of Peers, Family and Co-investors | 2.025 |
| **4.** | Factors related to Risk Tolerance | 1.412 |

The component with the highest factor load of 4.293, which has the most significant impact on the investment behavior of individual investors, is related to security and benefits. The second most significant component is the relationship between Liquidity and Returns, with a factor load of 2.863. The influence of factors connected to Peer, Family, and Co-investors is ranked third in terms of priority, with a factor load of 2.025. Conversely, variables related to Risk Tolerance have the lowest factor load of 1.412.

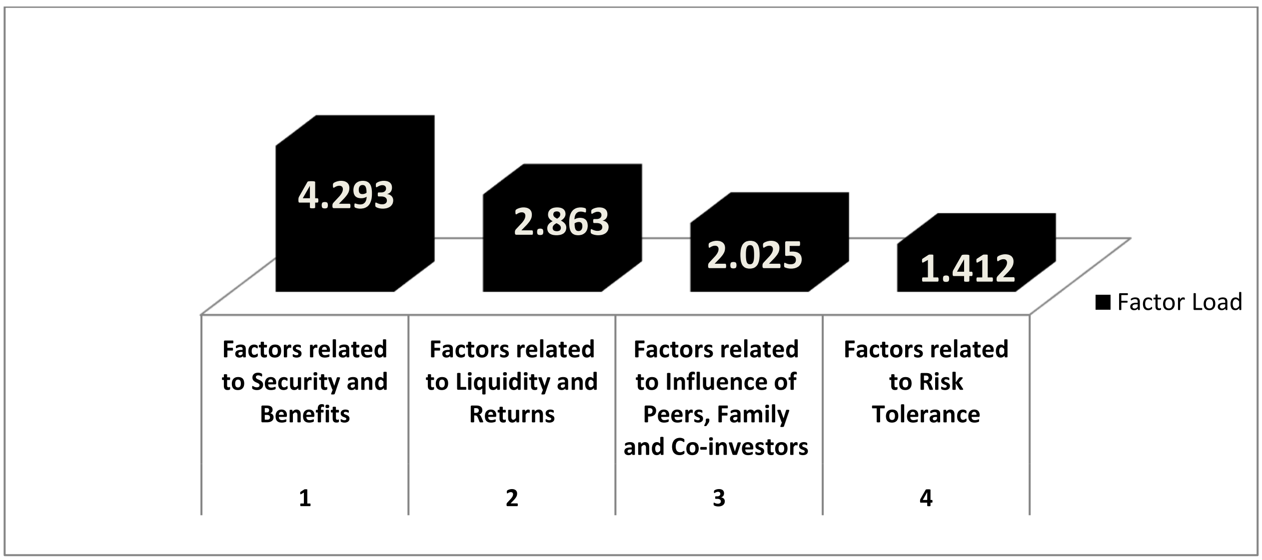


**Chart – 1** ***Factor Load***

**6.4. ANOVA:**

To find out the impact of each factor and over impact of factors on the investment behaviour of individual investors Analysis of Variance was applied.

Following hypotheses were framed to test the impact of individual factors:

**HO1**: There is no significant impact of factors related to security and benefits on the investment behaviour of individual investors of Bank and Insurance Sector.

**Table – 4**

| **Tests of Between-Subjects Effects** |
|---|


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| **Dependent Variable: Investment Behaviour** | | | | | |
|---|---|---|---|---|---|
| Source | Type III Sum of Squares | df | Mean Square | F | Sig. |
| **Factors related to Security and Benefits** | 18278.190 | 18 | 1015.455 | 68.014 | .000 |

Hypothesis 1: Null hypothesis stands rejected as the p value .000 > .05, which indicates that there is a significant impact of the factors related to Security and Benefits on the investment behaviour of individual investors of Bank and Insurance Sector.

**HO2:** There is no significant impact of factors related to Liquidity and Returns on the investment behaviour of individual investors of Bank and Insurance Sector.

**Table – 5**

| **Tests of Between-Subjects Effects** | | | | | |
|---|---|---|---|---|---|
| **Dependent Variable: Investment Behaviour** | | | | | |
| Source | Type III Sum of Squares | df | Mean Square | F | Sig. |
| **Factors related to Liquidity and Returns** | 15136.868 | 14 | 1081.205 | 38.167 | .000 |

Hypothesis 2: Null hypothesis stands rejected as the p value .000 > .05, which indicates that there is a significant impact of the factors related to Liquidity and Returns on the investment behaviour of individual investors of Bank and Insurance Sector.

**HO3:** There is no significant impact of factors related to Influence of Peers, Family and Co-investors on the investment behaviour of individual investors of Bank and Insurance Sector.

**Table – 6**

| **Tests of Between-Subjects Effects** | | | | | |
|---|---|---|---|---|---|
| **Dependent Variable: Investment Behaviour** | | | | | |
| Source | Type III Sum of Squares | df | Mean Square | F | Sig. |
| **Factors related to Influence of Peers, Family and Co-investors** | 14015.222 | 13 | 1078.094 | 32.609 | 0.000 |

Hypothesis 3: Null hypothesis stands rejected as the p value .000 > .05, which indicates that there is a significant impact of the factors related to Influence of Peers, Family and Co-investors on the investment behaviour of individual investors of Bank and Insurance Sector.

**HO4:** There is no significant impact of factors related to Risk Tolerance on the investment behaviour of individual investors of Bank and Insurance Sector.

**Table – 7**

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| **Tests of Between-Subjects Effects** | | | | | |
|---|---|---|---|---|---|
| **Dependent Variable: Investment Behaviour** | | | | | |
| Source | Type III Sum of Squares | df | Mean Square | F | Sig. |
| **Factors related to Risk Tolerance** | 12555.5 | 8 | 1569.446 | 40.716 | 0.000 |

Hypothesis 4: Null hypothesis stands rejected as the p value .000 > .05, which indicates that there is a significant impact of the factors related to Risk Tolerance on the investment behaviour of individual investors of Bank and Insurance Sector.

**HO5:** There is no significant interactive effect of all the factors on the investment behaviour of individual investors of Bank and Insurance Sector.

**Table – 8**

| **Tests of Between-Subjects Effects** | | | | | |
|---|---|---|---|---|---|
| **Dependent Variable: Investment Behaviour** | | | | | |
| Source | Type III Sum of Squares | df | Mean Square | F | Sig. |
| **Factors related to :**<br>**(i)Security and Benefits**<br>**(ii) Liquidity and Returns**<br>**(iii)Influence of Peers, Family and Co-investors**<br>**(iv)Risk Tolerance** | .100 | 1 | .100 | .855 | .359 |

Hypothesis 5: Null hypothesis stands accepted as the p value .359 > .05, which shows that there is no significant interactive effect of all the factors on the investment behaviour of individual investors of Bank and Insurance Sector.

**6.5. Correlation:**

**HO6:** There is no significant correlation between the type of industry and the investment behaviour of individual investors of Bank and Insurance Sector.

**Table – 10**

| **Correlations** | | | |
|---|---|---|---|
| | | **Investment Behaviour** | **Type of Industry** |
| Investment Behaviour | Pearson | 1 | .254** |
| | Correlation Sig. (2-tailed) | | |
| | N | 300 | 300 |
| Type of Industry | Pearson | .254** | 1 |


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| | | | |
|---|---|---|---|
| | Correlation Sig. (2-tailed) | .000 | |
| | N | 300 | 300 |

**Correlation is significant at the 0.01 level (2-tailed).

The result of the correlation test shows that there is a positive correlation between the Investment Behaviour and the type of industry of the individual investors, as the value of Pearson's r is .254. The value .254 indicates a positive correlation with high significance as the two-tailed significance value is .000.

## 6. Findings of the study:

Following are the findings of the present study:

- The demographic characteristics of individual investors in the Bank and Insurance Sector encompassed age, income, education, marital status, and industry type.
- The majority of individual investors in the Bank and Insurance Sector fall within the middle age range, specifically between 35 and 45 years old.
- Over 50% of the respondents who are actively investing fall within the income bracket of Rs. 25,000 to 35,000.
- 66.77% of the respondents were identified as post grads, comprising the largest segment.
- The majority of the responders were married.
- Various elements that impact the investment behavior of individual investors in the Bank and Insurance Sector include: (I) Security and Benefits, (II) Liquidity and Returns, (III) Influence of Peers, Family and Co-investors, and (IV) Risk Tolerance.
- Based on the factor load, it was determined that factors linked to Security and Benefits had the greatest impact, while variables related to Risk Tolerance had the least impact among all the key factors.
- The investment behavior of individual investors in the Bank and Insurance Sector is significantly influenced by factors such as Security and Benefits, Liquidity and Returns, Influence of Peers, Family and Co-investors, and Risk Tolerance.
- The factors of Security and Benefits, Liquidity and Returns, Influence of Peers, Family and Co-investors, and Risk Tolerance were determined to have a negligible combined effect on the investment behavior of individual investors in the Bank and Insurance Sector.
- The study revealed a strong positive link between the kind of industry and the investment behavior of individual investors in the banking and insurance sectors.

## 7. Limitations of the study:

The study has the following limitations:

i. The study was limited to the urban centers of Madhya Pradesh alone.
ii. The study exclusively examined the financial elements that influence the investment behavior of individual investors.
iii. The study did not analyze how demographic characteristics affect the investment behavior of individual investors.

## 8. Scope for future research:

i. Additional research can be undertaken to explore other behavioral and psychological characteristics that might influence the investment behavior of individual investors.
ii. The influence of demographic characteristics on the investment behavior of individual investors can be examined.

## 9. Conclusion:

Individual investors are influenced by a range of factors, including financial considerations such as the security of their investment, the potential advantages and returns they can expect, and the liquidity of the investment. Investment necessitates a strategic approach, involving careful consideration of advice from peers, family, and co-investors. When making investments,

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it is crucial to take into account the associated risk, which can be tolerated based on the investor's risk appetite and financial position.

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