



# A STUDY ON UNDERSTANDING CUSTOMER DECISION-MAKING PROCESS IN THE PURCHASE OF DEBT ORIENTED FINANCIAL PRODUCTS AMONG ADULTS IN THE AGE GROUP OF 30 TO 45 IN VASAI VIRAR CITY MUNICIPAL CORPORATION REGION

**Dr. Balaji Sadavarte 1**

Associate Professor and Head, Ph.D. Research Centre

Chetan's Ramprasad Khandelwal Institute of Management and Research, Mumbai, India

[sadavarte.balaji@crkimr.in](mailto:sadavarte.balaji@crkimr.in) ORCID- 0009-0004-8588-6214

**Mr. Nitin Kulkarni 2**

Ph. D. Scholar, Chetana's Ramprasad Khandelwal Institute of Management & Research,  
Mumbai, India

[nitinkulkarni@vivacollege.org](mailto:nitinkulkarni@vivacollege.org)

## **Abstract**

**Purpose:** This study aims to comprehensively understand customer decision-making processes when selecting debt oriented financial products. It investigates the factors influencing decisions, information sources, and behavioral biases, providing insights into the intricate dynamics that guide customers' choices.

**Design/Methodology/Approach:** A quantitative cross-sectional approach was employed, utilizing a survey distributed among 200 participants. The research analyzed diverse factors such as financial product attributes, information sources, and behavioral biases through descriptive and regression analysis. The study delved into the micro-level decision-making processes of customers, focusing on qualitative understanding facilitated by interviews, surveys, and comprehensive analysis.

**Findings:** The study revealed the significance of competitive interest rates, fees, benefits, and service quality in customers' financial product choices. Information sources varied, with online reviews, financial institution websites, and personal recommendations playing pivotal roles. The data showcased diverse attitudes towards risk and highlighted the interplay between emotional factors and decision-making.

**Practical Implications:** The findings provide valuable insights for financial institutions seeking to tailor their offerings to customer preferences. Acknowledging behavioral biases and addressing risk perception can guide institutions in enhancing customer education and guidance. The study's insights can refine communication strategies and product offerings to improve customer satisfaction and loyalty.

**Originality/Value:** This research contributes to the understanding of customer decision-making in the purchase of financial products. It emphasizes the significance of both quantitative and qualitative insights in analyzing decision dynamics. The study's exploration of diverse factors, information sources, and behavioral biases adds to the existing literature, offering valuable insights for researchers and industry professionals.

**Keywords:**

Debt oriented financial products, Customer Decision-Making, behavioral biases, Risk Perception, information sources.

**1. Introduction**

In the contemporary landscape of financial markets, comprehending the intricacies that underlie customer decision-making processes in financial product purchases carries profound significance.

The financial sector has experienced significant growth in recent years, with financial products and services becoming increasingly essential for individuals to manage their finances and achieve financial security. However, choosing the right financial product can be challenging and complex, as customers have to navigate through different options that may vary in terms of cost, features, and benefits. As such, it is important to understand the factors that influence customer decision-making in the purchase of financial products and the strategies that can be employed to improve customer decision-making.

According to a study by McKinsey & Company (2019), the financial services industry is facing several challenges, including increased competition, changing customer preferences, and the need for digital transformation. To overcome these challenges, financial institutions need to understand their customers' needs and preferences, which can help them design and offer products that meet those needs. Similarly, a study by Deloitte (2021) highlights the importance of customer experience in the financial services industry, as customers increasingly expect personalized and seamless experiences. Understanding customer decision-making in the purchase of financial products can therefore help financial institutions improve customer experience and remain competitive.

**2. Review of literature**

The financial sector in India has experienced significant growth in recent years, and financial products and services have become increasingly essential for individuals to manage their finances and achieve financial security. However, choosing the right financial product can be challenging and complex, as customers have to navigate through different options that may vary in terms of cost, features, and benefits. As such, it is important to understand the factors that influence customer decision-making in the purchase of financial products and the strategies that can be employed to improve customer decision-making.

- Previous research has identified several factors that influence customer decision-making in the purchase of financial products. One such factor is trust, which has been found to have a significant impact on customers' willingness to purchase financial products (Agarwal & Ramaswami, 2018). Customers are more likely to purchase financial products from institutions they trust, and trust can be built through transparent and ethical business practices, good customer service, and effective communication (Kang, Kim, & Lee, 2016).
- Another factor that influences customer decision-making is perceived risk, which refers to customers' perceptions of the potential negative consequences of a financial decision (Hira & Mugenda, 1999). Customers who perceive financial products to be risky are less likely to purchase them, and perceived risk can be reduced through effective risk communication and education (Lusardi & Mitchell, 2011).
- Financial literacy is another important factor that influences customer decision-making in the purchase of financial products. Research has shown that financial literacy is positively associated with financial behavior, as individuals with higher levels of financial literacy are more likely to make informed financial decisions (Lusardi & Mitchell, 2014). However, many individuals lack adequate financial literacy, which can lead to poor financial decision-making (Hastings, Madrian, & Skimmyhorn, 2013).
- Providing customers with information and guidance can also improve their decision-making in the purchase of financial products. Research has shown that financial education programs and financial counseling can improve financial literacy and decision-making (Hastings et al., 2013; Lusardi & Mitchell, 2011). Additionally, digital solutions, such as online calculators and comparison websites, can provide customers with easy access to information and help them make informed decisions (Van Rooij, Lusardi, & Alessie, 2011).
- Research has also highlighted the importance of emotions in customer decision-making. Emotions such as fear, anxiety, and excitement can have a significant impact on customers' purchase

decisions and can even override rational decision-making processes (Loewenstein, Weber, Hsee, & Welch, 2001). Understanding customers' emotional states and how they influence their decision-making can help financial institutions design products and marketing strategies that appeal to customers' emotions (Huang & Rust, 2018).

- Another important factor that can influence customer decision-making is social influence. Research has shown that customers are influenced by the opinions and behaviors of others, particularly those in their social networks (Goldsmith & Clark, 2011). This can be especially true in the purchase of financial products, where customers may seek advice and recommendations from family and friends (Lin, 2011). Financial institutions can leverage social influence by encouraging satisfied customers to share their positive experiences with others, and by using social media and other online platforms to reach and engage with potential customers (Hanna, Rohm, & Crittenden, 2011).

- Finally, research has also highlighted the importance of customer satisfaction in the purchase of financial products. Customers who are satisfied with their financial products and services are more likely to repurchase and recommend them to others, and customer satisfaction can be influenced by factors such as product quality, price, and customer service (Sureshchandar, Chandrasekharan, & Anantharaman, 2002). Financial institutions can improve customer satisfaction by offering high-quality products and services, providing personalized customer service, and addressing customer complaints effectively (Sureshchandar et al., 2002).

Overall, understanding the various factors that influence customer decision-making in the purchase of financial products is crucial for financial institutions to design effective marketing strategies and offer products that meet customers' needs and preferences. By considering factors such as trust, perceived risk, financial literacy, emotions, social influence, and customer satisfaction, financial institutions can improve customer decision-making and ultimately enhance customer experience and loyalty. Understanding customer decision-making in the purchase of financial products is important for financial institutions to design and offer products that meet customers' needs and preferences. Through building trust, reducing perceived risk, improving financial literacy, and providing customers with information and guidance, financial institutions can improve customer decision-making and ultimately enhance customer experience and satisfaction.

### 3. Objectives of the Study

The core objectives of this research are as follows:

1. To analyze key factors influencing customers' choices in selecting a debt oriented financial product, including rates, fees, benefits, and service quality.
2. To assess behavioral biases and risk perception impact on customer choices for debt oriented financial products.

### 4. Hypothesis

**Null Hypothesis:  $H_0$ :** There is no significant contribution of Financial Product Attributes & Information Sources in prediction of Behavioral Biases and Risk Perception of Customers.

**Alternative Hypothesis:  $H_a$ :** There is a significant contribution of Financial Product Attributes & Information Sources in prediction of Behavioral Biases and Risk Perception of Customers.

### 5. Research methodology

This research employs a quantitative cross-sectional approach to delve into the customer decision-making process in financial product purchases. Through a survey distributed among 200 participants in the adults in the age group of 30 to 45 years, the study investigates the interplay of various factors such as product preferences, information sources, risk perceptions, and behavioral biases. The collected data is subjected to descriptive and regression analysis, aiming to uncover predictive relationships between Customer decisions and Financial Product Attributes, Information Sources, and Behavioral Biases / Risk Perception. While acknowledging potential limitations tied to self-reported data and respondent bias, this study holds the promise of enhancing our comprehension of decision-making processes in the realm of financial products.

## 6. Scope of the study

This research investigates customer decision-making when purchasing financial products, encompassing a broad spectrum including savings accounts, credit cards, loans, investments, and insurance. It examines factors shaping choices, information sources, and behavioral biases. Qualitative insights are gathered from diverse individuals considering age, gender, income, and education. Geographically diverse contexts are explored, with a focus on individual customer decisions rather than organizational choices.

While both quantitative and qualitative data are employed, emphasis lies on qualitative understanding through interviews, surveys, and analysis. The study does not assess specific product performance or market trends, instead focusing on micro-level customer decision processes and psychological influences. Ultimately, this research aims to provide valuable insights for researchers and industry professionals to tailor financial products and enrich customer experiences via an enhanced understanding of decision dynamics.

## 7. Limitations of the Study

While this study provides valuable insights, it has certain limitations.

- 1} The research was conducted using a specific demographic sample, and the findings might not be fully representative of all customer groups.
- 2} Additionally, the study did not explore the potential interplay between demographic factors and decision-making, which could be a fruitful avenue for future research.
- 3} This research pertains only to debt (fixed income) oriented financial products, equity (stock market) products are not included.

## 8. Findings & Result Analysis

### A. Descriptive Analysis (Demographics)

Gender of the respondent	Count (out of 200)	% of Total Respondents
Female	67	33.5 %
Male	133	66.5 %

### B. Financial Product Attributes

What are the most important factors that you consider when selecting a financial product?	Yes	No
Interest rates	83.80%	16.30%
Fees and charges	55.80%	44.30%
Benefits (e.g. rewards)	66.50%	33.50%
Overall Selection	63.50%	36.50%
Service quality	75.30%	24.80%
Other	44.50%	55.50%

How important are the following factors in your decision to select a financial product?	Important	Moderately Important	Not Important	Slightly Important	Very Important
Interest rates	35.80%	2.80%	8.00%	7.20%	46.30%
Fees and charges	58.80%	1.80%	8.30%	6.00%	25.30%
Benefits (e.g. rewards, cashback)	46.00%	-	20.30%	8.00%	25.80%
Service quality (e.g. customer support)	35.80%	6.00%	25.30%	8.30%	24.80%
Reputation of the financial institution	34.80%	2.30%	30.30%	14.00%	18.80%

How often do you research financial products before making a decision?	% of Total Respondents
Always	31.8 %
Sometimes	9.8 %
Rarely	25.0 %
Never	33.5 %

### C. Information Sources

What are your primary sources of information when researching financial products?	Yes	No
Financial Institution's website	52.80%	47.30%
Online reviews and ratings	60.80%	39.30%
Advice from friends and family	49.80%	50.20%
Financial advisors	50.20%	49.80%
Social media	55.40%	44.60%
All sources	67.50%	32.50%

How important are online reviews and ratings in your decision to select a financial product?	% of Total Respondents
Very Important	22.3 %
Important	56.0 %
Moderately Important	3.5 %
Slightly Important	5.8 %
Not Important	12.5 %

### D. Behavioral Biases and Risk Perception

How comfortable are you with taking financial risks?	% of Total Respondents
Very uncomfortable	22.3 %
Somewhat uncomfortable	16.8 %
Neutral	3.5 %
Somewhat comfortable	40.3 %
Very comfortable	17.3 %
How much does your perception of risk influence your decision to select a financial product?	% of Total Respondents
Not at all	30.3 %
Somewhat	52.5 %
To a great extent	17.3 %

Have you ever made a financial decision based on emotional factors (e.g. fear, excitement)?	% of Total Respondents
Maybe	39.5 %
No	27.8 %
Yes	32.8 %

How important is it for you to have a clear understanding of the risks associated with a financial product before you make a decision?	% of Total Respondents
Important	28.5 %
Moderately Important	14.8 %
Not Important	32.8 %
Slightly Important	6.8 %
Very Important	17.3 %

Have you ever regretted a financial decision you made?	% of Total Respondents
No	49.0 %
May be	20.0 %
Yes	31.0 %

## 9. Testing of Hypothesis

**Null Hypothesis: H<sub>0</sub>:** There is no significant contribution of Financial Product Attributes & Information Sources in prediction of Behavioral Biases and Risk Perception of Customers.

**Alternative Hypothesis: H<sub>a</sub>:** There is a significant contribution of Financial Product Attributes & Information Sources in prediction of Behavioral Biases and Risk Perception of Customers.

The output from a linear regression analysis, focusing on the relationship between customer decisions or preferences for financial products and the independent variables of Behavioral Biases and Risk Perception, Financial Product Attributes, and Information Sources.

### Model Fit Measures:

- The model has been tested overall.
- R-squared ( $R^2$ ) value is 0.148, indicating that approximately 14.8% of the variance in the dependent variable (customer decisions or preferences) is explained by the independent variables in the model.
- The F-statistic is 34.5, with 2 degrees of freedom for the numerator and 197 degrees of freedom for the denominator. The p-value for the overall model test is less than 0.001, suggesting that the model as a whole is statistically significant.

### Model Coefficients:

- Intercept: The estimated intercept is 4.074. It represents the predicted value of the dependent variable when all independent variables are zero.
- Financial Product Attributes: The coefficient estimate is 0.169. This suggests that, holding other variables constant, for each unit increase in Financial Product Attributes, the predicted value of the dependent variable increases by 0.169 units.
- Information Sources: The coefficient estimate is 0.2. This implies that, keeping other variables constant, a one-unit increase in Information Sources leads to a predicted increase of 0.2 units in the dependent variable.

### Assumption Checks:

1. Normality Tests: Several tests (Shapiro-Wilk, Kolmogorov-Smirnov, Anderson-Darling) have been conducted to assess whether the residuals (errors) of the model follow a normal distribution. The p-values for these tests indicate that the assumption of normality might hold.

2. Heteroskedasticity Tests: Heteroskedasticity refers to the non-constant variance of residuals. The p-values for the Breusch-Pagan, Goldfeld-Quandt, and Harrison-McCabe tests are relatively high, suggesting that the assumption of constant variance might be met.
3. Durbin–Watson Test: The Durbin–Watson statistic measures the presence of autocorrelation (correlation of errors across observations). The DW statistic of 1.82 and its corresponding p-value suggest that there might be some autocorrelation present.
4. Collinearity Statistics: Variance Inflation Factor (VIF) and Tolerance values have been provided to assess collinearity between independent variables. VIF values around 1.4 and Tolerance values around 0.714 suggest low collinearity between the independent variables.

**QQ Plot:** A Q-Q plot is a graphical tool to help us assess if a set of data plausibly came from some theoretical distribution such as a Normal or exponential. If the data is normally distributed, the points on the Q-Q plot will lie along a straight line. If the data is not normally distributed, the points will deviate from the straight line. It appears that the data points are normally distributed and the line of best fit appears to be a good fit for the data.

Table 1

Model Fit Measures						
Model	R	R <sup>2</sup>	Overall Model Test			
			F	df1	df2	p
1	0.385	0.148	34.5	2	397	< .001

Table 2

Model Coefficients - Behavioral Biases and Risk Perception				
Predictor	Estimate	SE	t	p
Intercept	4.074	0.9583	4.25	< .001
Financial Product Attributes	0.169	0.0358	4.73	< .001
Information Sources	0.2	0.0617	3.24	0.001

Table 3

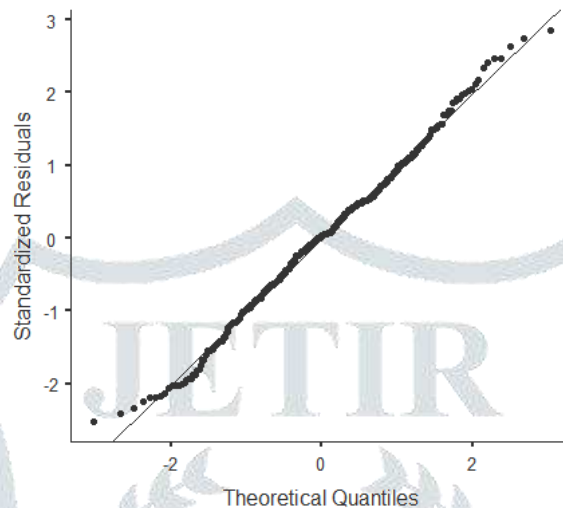
Data Summary				
Cook's Distance				
			Range	
Mean	Median	SD	Min	Max
0.00265	8.61E-04	0.00543	5.79E-09	0.0648

Table 4

Assumption Checks		
<b>1. Normality Tests</b>		
	<b>Statistic</b>	<b>p</b>
Shapiro-Wilk	0.995	0.212
Kolmogorov-Smirnov	0.0402	0.538
Anderson-Darling	0.502	0.205
<i>Note.</i> Additional results provided by <i>moretests</i>		
<b>2. Heteroskedasticity Tests</b>		
	<b>Statistic</b>	<b>p</b>
Breusch-Pagan	16	0.095
Goldfeld-Quandt	1.05	0.366
Harrison-McCabe	0.488	0.372
<i>Note.</i> Additional results provided by <i>moretests</i>		
<b>3. Durbin–Watson Test for Autocorrelation</b>		

Autocorrelation	DW Statistic	p
0.0921	1.82	0.062
<b>4. Collinearity Statistics</b>		
	VIF	Tolerance
Financial Product Attributes	1.4	0.714
Information Sources	1.4	0.714

## QQ Plot



(Figure 1: QQ Plot)

**10. Conclusion:** Overall, the results suggest that the model has some explanatory power, with Financial Product Attributes and Information Sources contributing to the prediction of customer decisions or preferences for financial products.

Since the **p value** is significant ( $< 0.005$ ), we reject the null hypothesis and accept the alternative hypothesis. There is a significant contribution of Financial Product Attributes & Information Sources in prediction of Behavioral Biases and Risk Perception of Customers.

The study aimed to comprehensively understand customer decision-making when selecting financial products by analyzing demographic data, financial attributes, information sources, behavioral biases, and risk perceptions.

Key findings include the significant importance of competitive interest rates for respondents (83.80%), followed by service quality (75.30%), benefits and rewards (66.50%), overall product attributes (63.50%), and fees and charges (55.80%). The interplay between immediate gains and holistic evaluation was highlighted, urging financial institutions to align offerings accordingly.

Information sources leaned towards a combination of multiple sources (67.50%), online reviews & ratings (60.80%), social media (55.40%), financial institution's website (52.80%), financial advisors (50.20%), and advice from friends and family (49.80%).

The study also revealed diverse attitudes towards financial risk, with varied comfort levels among respondents. Risk perception influenced decisions, along with emotional factors for a significant segment. The data analysis emphasized the need for a holistic approach by the financial institutions to address these biases with guidance and customer education, recognizing the intricate connection between emotions, risk, and decision-making.

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