Review of Literature

Literature suggests that some research in the area of investor’s behavior has been done by behavioral scientists such as Weber (1999), Shiller (2000) and Shefrin (2000).

Gavini and Athma (1999) found that social considerations, tax benefits, and provision for old age were the reasons cited for saving in urban areas, whereas to provide for old age was the main reason in rural areas. Among the post office schemes, Indira Vikas Patra (IVP), KVP and Post Office Recurring Deposit Account (PORD) were the most popular, in both urban and rural areas.

Somasundaram (1998) has found that bank deposits and chit funds were the best known modes of savings among investors and the least known modes were Unit Trust of India (UTI) schemes and plantation schemes. Attitudes of investors were highly positive and showed their intention to save for better future. Nearly two-thirds of the investors were satisfied with their savings. Both income and expenses of a family influenced the level of satisfaction over savings. A large proportion of investors were concerned about their children's well-being. Among the dissatisfied investors, majority were of the opinion that cost of living was too high. The most common mode of investment was bank deposits. However, a shift was noticed from bank deposits to other forms of investment. Almost all the investors had invested in gold and silver. Among several parameters in investing, safety of money was considered to be the most important element. Next, the investors expected regular return from their investments.

Shefrin (1999) defined behavioural finance as a rapidly growing area that deals with the influence of Psychology on the behavior of financial practitioner.

Belsky and Gilovich (1999) have termed behavioural finance as behavioural economics and further defined behavioural economics as combining the twin discipline of psychology and economics to explain why and how people make seemingly irrational or illogical decisions when they save, invest, spend and borrow money.

Khorana and Servaes (1999) had experimented that the decision to introduce a new type of fund is affected by a number of variables, including investor demand for the fund’s attributes.
Chakrabarti and Rungta (2000) stressed the importance of brand effect in determining the competitive position of the AMCs. Their study reveals that brand image factor, though cannot be easily captured by computable performance measures, influences the investor’s perception and hence his fund/scheme selection.

Shanmugham (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions, and reports that among the various factors, psychological and sociological factors dominate the economic factors in investment decisions. In his study “Are Retail Investors Better off Today?” Black (2004) observed that in recent years, investors' attitudes towards the securities industry plummeted, in reaction to both the conflicted research and the mutual fund scandals. He concluded that the most optimistic assessment is that the SEC has plenty of unfinished business to attend to.

Shiller (2000) strongly advocated that stock market is governed by the market information which directly affects the behavior of the investors.

Karthikeyan (2001) has conducted research on Small Investors' Perception on Post Office Saving Schemes and found that there was significant difference among the four age groups, in the level of awareness for Kisan Vikas Patra (KVP), National Savings Schemes (NSS), and Deposit Scheme for Retired Employees (DSRE), and the overall score confirmed that the level of awareness among investors in the old age group was higher than in those of the young age group. No difference was observed between male and female investors except for the NSS and KVP. Out of the factors analysed, necessity of life and tax benefits were the two major ones that influence the investors both in semi-urban and urban areas. Majority (73.3 per cent) of investors of both semi-urban and urban areas were very much willing to invest in small savings schemes in future provided they have more for savings.

Johnsson Malena, Lindblom Henrik, Platan Peter (2002) in their thesis submitted to School Of Economics and management, Lund University on Behavioural Finance and the change of investors behaviour during and after the speculative bubbles at the end of 1990s stated that the apparent high price earnings ratios experienced by the equity market at the end of 1990s can be characterized as so called speculative bubbles. The study emphasized on finding out what factors lie behind the speculative bubbles and further investigates whether the investment objectives and the factors influencing investment decision-making are different today than during speculative
bubble. The result obtained from the study suggests that the behaviour of the market participants during the speculative bubble was to some extent irrational and that the composition of investments has undergone a lot of changes as a consequence of speculative bubbles.

**Jay R. Ritter (2003)** in his article on behavioural finance published in Pacific Basin Finance Journal Vol. No 4 has provided a brief introduction about behavioural finance. As per the article behavioural finance encompasses research that drops the traditional assumption of expected utility maximization with rational investors in efficient markets. The two building blocks of behavioural finance are cognitive psychology (how people think) and the limits to arbitrage (when market will be inefficient). The article further highlights that the growth of behavioural finance research has been fueled by the inability of traditional framework to explain empirical patterns, including stock market bubbles in Japan, Taiwan and the US.

**Lynch and Musto (2003)** were of the opinion that this decade will belong to mutual funds because the ordinary investor does not have the time, experience and patience to take independent investment decision on his own.

**Power David, Helliar Christine and Burton Bruce (2003)** in their research paper “A Behavioural Finance Perspective on IPO and SEO”, have detailed the findings of an extensive investigation into how and why UK firms raise equity capital. The study demonstrates that a negative interpretation of poor share prices performance is seen as having the potential to harm a firm’s business as well as market prospects. The study highlights the difficulty in undertaking an IPO and the new mind set is required to manage relationship with investors once the listing was obtained.

**Jawaharlal and Nikhil Pareek (2004)** analyzed the customer service in Life insurance. In Insurance chronicle he had analysed the different services of Life Insurance players in India.

**Keli (2005)** is of opinion that Past performance and Fund’s Investment Strategy continued to be the top two drivers in the selection of a new fund manager.

**Rajeswari and Moorthy (2005)** observed that investors are basically influenced by intrinsic qualities of product and general image of the fund / scheme in their selection of fund/schemes. They observed that investors demand inter-temporal wealth shifting as they progress through the life cycle.

at identifying factors influencing the UAE investor Behaviour by developing a modified questionnaire. The study identified six factors found to be most influencing the UAE investor behavior. The factors in order of importance were: expected corporate earnings, get rich quick, stock marketability, past performance of the firm’s stock, government holding and creation of organized financial markets, family member opinion etc.

Omar and Frimpong (2006) stressed the importance of life insurance and regarded it as a saving medium, financial investment, or a way of dealing with risks.

M. Sewell (2007) has stated that behavioural finance as a science regarding how psychology influences financial market. This view emphasizes that the individuals are affected by psychological factors like cognitive biases in their decision making, rather than being rational and wealth maximizing.

M. Schindler (2007) has given certain examples while defining behavioural finance:
1. Investors biases when making decisions and thus letting their choices to be influenced by optimism, overconfidence, conservatism.
2. Experience and heuristics help in making complex decisions.
3. The mind processes available information, matching it with the decisions maker’s own frame of reference, thus letting the framing by the decision maker to impact the decision.

Rajkumari (2007) in her study has undertaken to identify the customers attitude towards purchase of insurance products concludes that there is a low level of awareness about insurance products among customers in India.

Alinvi&Babri (2007) are of view that customers’ preferences change on a constant basis, and organizations adjust in order to meet these changes to remain competitive and profitable.

Bhagaban Das , Ms Sangeeta Mohanty &Mr. Nikhil Chandra Shil(2008) observed that different investment pattern do not provide the same level of services with respect to age of retail investors in India. It was also observed that graduate and post graduate investors invest more in life Insurance while professionals in Mutual Funds.

W. Forbes (2009) defined behavioural finance as a science regarding how psychology influences financial market. This view emphasizes that the individuals are affected by psychological factors like cognitive biases in their decision making, rather than being rational and wealth maximizing.

As per the study, a large body of psychology literature finds that people tend to be overconfident and overly optimistic. Because of self-selection, firm managers tend to be even more affected by these biases than the general population. Indeed the literature find that the biased managers over-invest their firm’s cash flows, initiate too many mergers, start more firms and more novel projects and tend to stick with unprofitable investment projects longer. Corrective measures to reduce the effect of manager biases include learning, inflated discount rates and contractual incentives but their effectiveness in curbing over investment appears to be limited.

Nagpal Sushant and Bodla B. S., (2009) brings out the demographic characteristics of investors, relationship between lifestyle clusters of the respondents and their investment patterns and sources of information tapped by them. The study concluded that investors prefer less risky investments such as insurance policies, fixed deposits with banks and post office, PPF and NSC.

Syed Tabassum Sultana (2010) concludes that Indian individual investor prefers to invest in financial products which gives risk free returns and use television as a marketing media as they seem to spend long time in watching televisions.

Studies on life insurance use dates back to Heubner (1942) who postulated that human life value has certain qualitative aspects that gives rise to its economic value.


Lu Zheng (1999) pointed out that investors use fund specific information in making their mutual fund investment decisions.

Black and Skipper (2000), is of opinion that life insurance becomes the mechanism to ensure a continuous stream of income to the beneficiaries. The two main services provided by life insurance: income replacement for premature death and long-term savings instruments, are the starting point for Beck et al.

The studies by Ward et al. (2003) and Beck et al. (2003) revolves around the issue of finding the cause behind variations in life insurance consumption across countries. After almost three decades of empirical work in this direction, they are of the opinion that “it is still hard to explain the anomalous behavior of Asian countries with higher savings rate, large and growing population, relatively low provision for pensions or
other security and a sound capital market but comparatively low per-capita consumption of insurance. Except Japan, most of the Asian countries have low density and penetration figures”.

Investors are generally more careful while making investment decision and presence of rationality in every investor demands higher return at minimum risk but when markets are efficient it is not possible to gain abnormal returns. Risk is generally, associated with various applications differently but in common it means negative connotation such as harm or loss or some undesirable action.

Elmiger and Kim (2003) elucidate risk as the trade-off that every investor has to make between the higher rewards that potentially come with the opportunity and the higher risk that has to be borne as a consequence of the danger. Risk from a strategic management perspective has been defined as one that is often taken as manager’s subjective judgment of the personal or organizational consequences and it may result from a specific decision or action.

Harrington Niehaus (2004) has given a broad conceptual framework of risk management emphasizing on traditional risk management and insurance.

Raman and Gayatri (2004) have observed the customers’ awareness towards insurance companies. They found that 53% of the respondents belong to the age group below 30, 24% to the age group 31-40, 2% belong to the age group of 41-50 and the rest to the age group of ‘above 50’. Further they also observed that a large percentage of the insured respondents (32%) are professionals, and 56% of the respondents are married. They have also found that 52% of the respondents have taken a policy to cover life risk, 44% of them to get tax advantage and the reaming to invest for growth of capital.

Zietz (2003) and Hussels et al. (2005) has reviewed the efforts of researchers to explain consumer behavior concerning the purchase of life insurance for almost 50 years. The review of earlier studies concludes that bulk of the empirical studies undertaken finds a positive association between increase in savings behavior, financial services industry and demand for life insurance. There are two detailed studies on the determinants of life insurance demand, one taking into consideration only the Asian countries and the other based on 68 economies.

Study by Laukkanen (2006) explains that varied attributes present in a product or service facilitate customer’s achievement of desired end-state and the indicative facts of study show that electronic services create value for customers in service
consumption. Return ambiguity and changes in risk perception of individual investor affect action taken in risky financial market. In a more complex situation taking rational decision is undoubtedly difficult but certainly not impossible.

_Chowdhury, Rahman and Afza (2007)_ have found in a survey that a good number of people are choosing insurance companies with a view to earn higher return on deposited money.

_Fatima Alinvi (2008)_ suggests that customers change their preferences according to their life circumstances. 93 preferences are well-defined others can be inconsistent. In an increasingly competitive environment, where insurance companies fight for the same customers, having a customer-oriented culture is extremely important not only to retain customers but also to acquire new ones.

_Sunita Abraham and Uma Shashikant (2008)_ have recommended an ideal model portfolio and suggested that life cycle and wealth cycle of investors need to be considered while considering a model portfolio.

_Binod Kumar Singh (2009)_ in his study pointed out that among the various players in the field LIC has emerged as dominant market player holding a maximum share in this sector.

_Gurusamy.S (2009)_ has given a comprehensive coverage of contemporary topics such as Mutual Funds, Pension funds, Venture Capital financing, Insurance, Factoring, Micro – Financial services and various other financial services offered by the Indian Financial System.

_Parihar, B B S; Sharma, Rajeev; Parihar Deepak Singh (2009)_ indicated that return potential and liquidity are perceived to be the most attractive feature of mutual funds. They also found that education and occupation do not have influence on the attitude of investors towards mutual funds.

_Nidhi Walia, Ravi Kiran Dr. (2009)_ highlighted in their study mutual funds can prove to be most preferred financial avenue if it is put forth to the investors in desired form.

_Anna A. Merikas, Andreas G. Merikas, George S. Vozikis, Dev Prasad_ studied the factors that exert influence on the individual stock investors and revealed that a certain degree of correlation exist between the factors that behavioral theory and previous empirical evidence identified as influencing factors for the average equity investor.
Clifford Paul S., Joseph Anbarasu D and Annette Barnabas (2010) revealed that educational qualification and total monthly income are the factors that influence the investors to invest in insurance policy.

Prasanna Chandra (2010) in his book has given a theoretical framework to behavioural finance and has suggested remedial measures to overcome psychological biases to earn market returns.

Shyan – Rong Chou, Gow- Liang Huang and Hui-Lin Hsu (2010) highlighted that there is no significant difference in the risk perception between males and females in Taiwan and that the investors having more experience have higher risk propensity.

Parag Parikh (2011) in his book emphasized on herd tendency, resistance to change, fear of failure, greed and envy and emotional and psychological weaknesses as important behavioural obstacles to value investing.

Santhi N.S., Balanaga Gurunathan K (2011) concluded in their study the investors in general are aware of the SEBI act and a majority of them invest in open – ended mutual fund schemes and consider safety of their investment, good return, reputation of the investing firm and capital appreciation as important criteria in selection of the scheme.

To sum up, the major issues that influence consumer evaluation of Mutual Fund and Life Insurance Policies are:

1. Social Considerations
2. Tax Benefits
3. Provision for Old Age