ANALYSING THE CUSTOMERS MINDSET AND FACTORS WHILE SELECTING A FINANCIAL ADVISORY FIRM FOR INVESTMENTS

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ABSTRACT

Understanding the investing behaviour of a customer is very critical to understand the mind-set and thought process related to financial investments. The purpose of this paper is to identify the factors which influence the selection of the financial advisory firm. This factors are also categorized in different segments. This study involves an exploratory and descriptive research design with Survey questionnaire and interviews of 100 selected High Net Worth Individuals (HNWI’s) who stayed in different cities, mostly metropolitan cities. The paper concludes with a discussion and opens the scope of further research related to Fintech and Wealthtech.

Keywords: Fintech, Wealthtech, Wealth Management, Investments, HNWI

INTRODUCTION

With Fintech being a booming industry in India, every financial firm is trying to gain the maximum advantage. Companies like Morgan stanley, JPMorgan, UBS etc. are using technologies and Artificial Intelligence (AI) and Blockchain as the base to develop their Fintech platform. Some of the Fintech types like crowdfunding, mobile payments and transfer services are kind of revolutionary services which are making it easier for the business to grow. To make the Fintech platform a success, every company has to understand the psyche of their target customers. The factors which influence the customers into their selection of a financial advisory firm need to be understood in order to design marketing strategies to achieve sales and long term customer relationships.
LITERATURE REVIEW:

Today wealth management plays an important role in individual’s life. Private wealth management is the investment management specialization focused on high net worth individuals and families. Portfolio design and investment solutions in private wealth management are customized to reflect the complexities of the investor’s unique circumstances. It is one of the fastest growing financial sectors in the country. It addresses every aspect of a client’s financial life in a highly consultative and individualized way. Wealth management involves connecting with a client on a personal level that is way beyond industry norm. Goal setting which was outside the scope is slowly becoming an integral part of these services.

With the phenomenal increase in in the number of super-rich in India, companies are devising new ways to reach out to them. Wealthtech is on these lines where wealth management services to HNWI and affluent people to protect and grow their health. In his article, (Budge, 2007) addressed a segment of the wealth management market which he believes is not yet served adequately. The trend suggests that the financial service institutions interest in the new wealth management is a natural evolutionary response of institutions seeking to regain and renew their competitive advantage and discuss the business the steps that wealthy individuals and their advisors can take to increase the efficiency and effectiveness of their wealth management efforts. In today’s highly complex and volatile financial market, the importance of financial advice in decision making is difficult to rebut. People may seek this type of help through close networks or professional advisors.

Investor’s main objective is to earn higher returns keeping in mind the risk and liquidity factor. With this objective, Syama Sundar (1998) conducted a survey with an objective to get an in-depth view into the operations of private sector mutual funds. The survey explains that knowledge about mutual fund, its concepts, its culture and other schemes where wealth Management Company’s brand is chief consideration to invest in different schemes. Anjan Chakrabarti and Harsh Rungta (2000) emphasized the importance of brand in ascertaining competence and capability of wealth management companies. They suggested that in order for the wealth management culture to penetrate deep further into the society, wealth management companies have to work and steer the culture in the consumer’s minds and in this regard, they are taking steps such as building AI based platform etc. they have started mapping customer’s mind-set which is based upon the investor’s psychology to overvalue wealth management firms recent performance in forming future expected results, which is known as endowment effect.

Various findings suggest that factors like demographic profile, socioeconomic features, and psychosocial characteristics are most likely to influence financial help-seeking behaviour. Financial literacy is having the knowledge and understanding of financial matters. India’s High net worth individuals are relatively young compared to the international counterparts and, hence take a different
approach to wealth management. Based on the literature, the demographic differences presents opportunities to create new products to address the needs of a young population and leverage new technologies, such as social and mobile apps which can play as a key differentiator.

The wealth management and more wealthtech sector in India is largely fragmented considering that the industry is still in its early days. One-fifth of India’s high net worth individuals (HNWI) population are still untapped. The total size of the Ultra High Net Worth Individuals (UHNWI) and HNWI population is just 53000, which is a meagre figure compared to a mature market in the US. The total HNWI population in India is growing at a rate of 19.8% which is a health pace. While the first movers and established players have gained trust with potential investors and have good presence in the market, firms looking to enter the market have to focus strongly on building their brand to convey their trustworthiness. In this regard, the government is also taking initiatives to support the new and upcoming firms. The regulations are being formulated which is not just going to help the new players, but also the established players to expand their offerings.

Everyone, nowadays, is making investments virtually. Investors today have wide variety of options to choose from to deposit their savings. Hence, it becomes very imperative to analyze the existing investment process and investment management decision making in the substantially broader context.(Tao,2010) Every investor has objectives, often not designed very prudently and not consciously articulated, investors may land up making a decision which gives a suboptimal return. Empirical evidences identified various psychological biases and its impact on decision making. An investor may have a short term or long term time period in their mind. While investing, a systematic process is needed to reduce the risk, and eliminate the detrimental effect of fees, taxes etc. have on overall performance. Even if the investors are conservative in their approach of investing in mutual funds, stocks etc, there are always government pension plans and government saving programmes. This is where wealth management firms are coming in to the picture to take care of all these hassles.

The main challenge is of literacy about financial products which is low in the target population, especially in tier 2 and tier 3 cities. In addition to this, a large number of scams, detrimental practices of advisors with a short-term view and the lack of a strong protection environment – all these have contributed to investors being apprehensive about the security of such platforms and this is a major concern which many wealthtech platforms face (Pfeifer, 2016). It is also handling the ‘disposition effect’ of the investors where they hold onto the loss making portfolios for too long and profit making portfolios for a very less period of time. This is where wealthtech firms are working towards building a platform, based on artificial intelligence and big data, to do automatic ‘rebalancing’ based on market conditions and investor goals which will divert the funds in different portfolio solutions to reduce the risk.
What is the need of the hour and needs to be done by the wealthtech firms is to explore the internet and mobile technology penetration in the Indian market. Financial advisory regulations are still under the purview of ministry of finance. Hence, to create more comprehensive regulatory environment, all regulators will have to work together to address a variety of distribution segments in wealth management.

The wealth management industry in India is poised for a significant expansion, given the favourable market landscape and expected regulatory boosts for the sector. This provides for exciting growth opportunities which will drive rapid market expansion, coupled with an increase in the number of industry participants. To successfully tap into this potential, financial service organizations are undertaking a customized approach, taking into account specific attributes of Indian market. This will need to be supported by a robust and cost-effective business model focused on improved transparency, compliance and efficient technology solutions.

RESEARCH GAP

The research related to the influencing factors for selection of Fintech firm by High Net Worth Individuals (HNWI) and is limited to Bangalore region. There were very few articles related to the Fintech development in a business to business context in India.

OBJECTIVE

1. To identify the factors influencing the customers for selecting a financial advisory website for investments.

2. To analyse the factors for final selection of the financial advisory firm.

RESEARCH METHODOLOGY

This study primarily aims to identify and understand the factors influencing the customers for selecting a financial advisory website for investments. The study was conducted by focusing on selected high net worth individuals (HNWI) in the region of Bengaluru. In order to execute the study, exploratory and descriptive research design was adopted. In the study, the Data source was primary data which was collected from the respondents through surveys and interview methods. A questionnaire was also prepared for the same. There were 100 selected HNWI’s in total who were interviewed during the process so as to get some insights in the psyche of the individuals during their selection process of a financial advisory firm to handle their investments.
RESEARCH PROCESS

The research was conducted by using Survey Questionnaire and interviews. In total 100 carefully selected High Net worth Individuals were there. Respondents were interviewed individually in order to validate the responses and gather more insights about the factors.

The respondents were selected based on:

- Work Profile.
- Net Income Per year.
- Corpus of Wealth.

**Research Design** : Exploratory and Descriptive Research

**Data Source** : Primary Data

**Primary Data Collection** : Survey Method

**Primary Data Collection Instrument** : Questionnaire

**Sampling methods and techniques** : Convenience Sampling

**Sample Size** : 100 selected HNWI (Existing and Potential)

**Tool Used:**

- Pie Charts and tables.
- Interview Method.

<table>
<thead>
<tr>
<th>Age of the Respondents</th>
<th>No. of the Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 25</td>
<td>6</td>
</tr>
<tr>
<td>26 – 42</td>
<td>57</td>
</tr>
<tr>
<td>&gt; 42</td>
<td>37</td>
</tr>
</tbody>
</table>

Table 1- Responses based on the age of Respondents
CONCEPTUAL MODEL

Credibility
Ease of Understanding the information
Safety/Security
Service Offerings
Ease of Onboarding
Customer Testimonials
Level of Customization of Portfolios
Amount of Portfolio being handled
Social Media Presence

Selection of Financial Advisor

YES

Figure 1- Conceptual Model of the Study
FACTORS INFLUENCING THE SALES CONVERSION CYCLE

There are some basic qualities of financial services that are expected by the consumers while purchasing the financial product. To list some of them are security, returns, quick services, information and relationship management. To study the most expected services respondents were asked to rank them.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Quality</th>
<th>Rating %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Security</td>
<td>35.71</td>
</tr>
<tr>
<td>2</td>
<td>Return</td>
<td>31.63</td>
</tr>
<tr>
<td>3</td>
<td>Quick Services</td>
<td>17.35</td>
</tr>
<tr>
<td>4</td>
<td>Informative</td>
<td>7.14</td>
</tr>
<tr>
<td>5</td>
<td>Relationship Management</td>
<td>8.16</td>
</tr>
</tbody>
</table>

Table 2- Distribution as per quality of Financial Services expected from the company

It was found that the most expected service was “Security” securing 35.71 per cent. From the table, it was found that the respondents get influenced by returns and profits whereas they rated security 1st rank as the expected services from the financial companies.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Quality</th>
<th>Rating %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Need Recognition</td>
<td>7.56</td>
</tr>
<tr>
<td>2</td>
<td>Personal Interest</td>
<td>8.24</td>
</tr>
<tr>
<td>3</td>
<td>Tax deduction Benefits</td>
<td>22.53</td>
</tr>
<tr>
<td>4</td>
<td>Profits/Returns</td>
<td>32.42</td>
</tr>
<tr>
<td>5</td>
<td>Money security</td>
<td>21.43</td>
</tr>
<tr>
<td>6</td>
<td>Investment</td>
<td>7.69</td>
</tr>
</tbody>
</table>

Table 3- Motivating factors affecting the purchase of Financial Services

Out of these returns and profits are the most influencing factor securing 1st rank with 32.42 per cent then follows tax benefits (22.53 per cent), money security and followed by investments.
Logistics Regression

**Case Processing Summary**

<table>
<thead>
<tr>
<th>Unweighted Casesa</th>
<th>N</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selected Cases</td>
<td>96</td>
<td>96.0</td>
</tr>
<tr>
<td>Missing Cases</td>
<td>4</td>
<td>4.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
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<tr>
<td>Unselected Cases</td>
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<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
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</table>

**Block 0: Beginning Block**

**Classification Tablea,b**

<table>
<thead>
<tr>
<th>Observed</th>
<th>Predicted</th>
<th>Selection</th>
<th>Percentage Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Step 0</td>
<td>Selection No</td>
<td>0</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>0</td>
<td>58</td>
</tr>
<tr>
<td>Overall Percentage</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Block 1: Method = Enter**

**Omnibus Tests of Model Coefficients**

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Step</th>
<th>Chi-square</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block</td>
<td>23.257</td>
<td>11</td>
<td>.016</td>
<td></td>
</tr>
<tr>
<td>Model</td>
<td>23.257</td>
<td>11</td>
<td>.016</td>
<td></td>
</tr>
</tbody>
</table>

**Model Summary**

<table>
<thead>
<tr>
<th>Step</th>
<th>-2 Log likelihood</th>
<th>Cox &amp; Snell R Square</th>
<th>Nagelkerke R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>105.630a</td>
<td>.215</td>
<td>.291</td>
</tr>
</tbody>
</table>
As can be seen, in the Block 0, the number of cases in which the respondents have replied positively is close to around 58 which take the overall percentage to around 60.4 per cent.

The dichotomous variable in this case: Selection of Financial Advisory Firm

1, if Yes
0, if No

The logistic regression model used is:

\[ \log(P) = 365.047 + 1.330(\text{Credibility}) + 1.442(\text{Ease of understanding}) + .538(\text{Safety/Security}) + .124(\text{Ease of onboarding}) + 2.476(\text{Level of Customization of portfolios}) \]

Regression analysis is conducted to explore the effect of some crucial factors on selection intention of a financial advisory firm. From the variables table, Credibility (0.006), Security (.041), Ease of onboarding (.001) and Level of Customization (.048) play a very significant role and statistical significance in the purchase behaviour and the selection of a financial advisory firm.
DISCUSSIONS

The average sales conversion cycle is very high which around 9 months is. Along with the internal factors the average sales cycle primarily, also depends on the external factors, which is beyond the control of the company at certain point of time. The entire focus of the companies is on the push strategy and the inbound strategy. There are only few resources for inbound marketing in the companies. The product features and its mapping for the prospects becomes difficult.

A sample of 100 respondents was used with logistics regression analysis to examine the proposed model. From the Regression analysis, it can be clearly inferred that Credibility, Ease of Understanding, Safety/Security, Ease of Onboarding and Level of Customization of portfolios hold the prime importance in the selection of the financial advisory. Other factors like existing customer testimonials, service offerings, amount of portfolio being handled, social media presence etc. also play a key role. All these factors lead to the fact that the investors are driven by objectives related to aspiration about having a better life and the need to build a financial buffer or save for retirement. Hence, it is critical for the companies to keep these factors in mind while designing solutions for the customers as Fintech and Wealthtech is a new concept for the customers.

IMPLICATIONS

Since Fintech and Wealthtech is a relatively new concept in India, more research needs to be conducted to design a fluidic approach for the customers overall experience. There needs to be proper information sharing with the customers about Diversification of investments in products and not putting the entire corpus in one basket. Fintech, with the new technologies like Artificial Intelligence etc. are helping various financial advisory firms to gain more accurate prediction about future performance of the market and this ultimately leads to the benefit of the customers.

Further research could be directed towards companies who have been doing wealth management and design new ways to manage the wealth of customers. More focus also has to be directed to understand the risk taking behaviour of the investors.

Marketing of the financial products will holds a key role as people are only aware about the traditional products of investment like Mutual Funds, Fixed Deposit etc. The new products like hybrid funds etc. has to be promoted by the financial advisory firms to gain strong prominence among investors.
CONCLUSION

Finding the key factors which will influence the selection of a financial advisory firm and eventually which will impact sales is not an easy process in a business to business scenario when the product offerings are technical in nature to understand.

It is very crucial for the salespersons to understand the product as well as the psyche of the customer they are dealing with so as to connect better and lead to a possible conversion. Factors like credibility, service offerings, Amount of portfolio handled, experience of the team etc. are few of the factors which needs to be kept in mind while handling customers about their selection of a financial advisory firm. This research was an attempt to assess its mediating effect on the investment objective of the customers along with touching upon the aspects of risk taking capability and asset familiarity. Investor behaviour influences the selection of the portfolio for the investors. Some investors have long term goals like investing for retirement, child education etc. while others have short term goals like buying a home or going on a holiday which influences the type of portfolio they choose and hence their portfolio returns.

Understanding these factors which influences the investors’ decision can help the financial institutions to design their marketing strategies accordingly. Since mental accounting affects to a great extent investors’ decisions, financial institutions should provide their potential customers with multi-function products.

REFERENCES


