

## **A STUDY ON THE IMPACT OF COVID 19 ON INVESTMENT DECISION IN THE BANKING SECTOR**

**Dr. T.N. Anuradha<sup>1</sup> , Indu Verma<sup>2</sup>**

**<sup>1</sup>Assistant Professor, Ramaiah Institute of Management.**

**<sup>2</sup>Student Ramaiah Institute of Management.**

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**KEYWORDS: Impact of COVID 19, Investment decision, Rate of Interest, Risk, Fraud, Liquidity of bank.**

### **ABSTRACT**

The outbreak of COVID 19 has triggered the investment pattern of individuals. This research was undertaken to find the impact of COVID 19 on investment decision in banking sector of India. The dependent factors that affect investment decision of investors were taken into consideration such as past investment experience, rate of interest, confidence, culture, conservatism bias etc. Even to find relationship between factors which make individuals insecure at time of their investment decision such as risk, fraud, service quality, liquidity of bank, security were also considered in this study. For this study primary data was collected through questionnaire. The findings of this study states that respondents prefer investing to earn returns and due to COVID 19 it would be seen that respondents investment pattern is effected because Pre COVID 19 majority of the respondents preferred investing monthly whereas after Post COVID 19 it could be seen that they prefer yearly due to reduced interest rates.

### **INTRODUCTION**

The banking sector is the life line of the modern economy and also an important financial pillar of the monetary economy. It always deemed to be one among the foremost vital sectors for the economy to be able to function. In India, the banking sector collects from customers/depositors the surplus funds within the sort of deposits and then channelizes them to borrowers in sort of loans. The Reserve Bank of India is the central banking institutions which regulates and operates banking system in India. Additionally, to cooperative credit institutions it also consists of public sector banks, private sector banks, international banks, regional rural banks, urban cooperative banks and rural cooperative banks.

Investments are important because in today's time, just earning money is not enough. People keep on working hard for the money they earn. But that may not be adequate to lead a comfortable lifestyle or fulfill dreams and goals. To do that, they need to make their money work hard for them as well. This is why they invest. Money lying idle in bank account is just like an opportunity lost. It should be invested smartly to get good returns out of it. Some people invest because they need financial security, whereas others invest to achieve their investment goals. The investment option chosen depends on their appetite, investment horizon, financial goals and liquidity needs. Few saving schemes provided by banks are Fixed deposits, Public Provident Fund, Kisan Vikas Patra (KVP), Sukanya Sam Riddhi Account and Senior Citizen Savings Account. Now, the Government has extended the services of banks and they also accept deposits under National Saving Scheme (NSC), recurring deposits and monthly income plan. Non-financial assets consist of real estate, gold investment, treasury bills etc.

The interest rate helps in determining the amount that borrowers need to pay for loans and tells about the reward that lenders receive on their savings. Like any other market, the marketplace for money is coordinated through supply and demand. When the relative demand for loanable funds increases, the rate of interest goes up. When the relative supply of loanable funds increases, the rate of interest declines. The demand for loanable funds is downward-sloping and its supply is upward-sloping. This supply and demand in an economy can be balanced by the natural rate of interest. This mechanism sends a sign to savers about how valuable their money might be. Similarly, it informs possible borrowers about how valuable their present use of the borrowed money must be to justify the expense. The natural rate of interest is usually a theoretical construct in contemporary economies. Central banks, such as the Federal Reserve, manipulate interest rates to influence monetary policies.

In this research, the impact of COVID-19 on investment pattern in the banking sector has been focused with respect to the reduced interest rate on investment options provided by banks in India. It also focuses on the factors that impact their decisions and for this primary data has been used.

## REVIEW OF LITERATURE

**Title of the study** – Abdussalam, “The influence of culture and religion on trust in the emerging financial market in Libya”, (2014)

Libya stock exchange was the population of this study and the sample size was 16 respondents, 11 officers and six brokers and thematic analysis was applied with pre-structural statements to this research data. Findings of the study were there is a relation between culture and religion in Libya. Culture is uncertain; they are willing to take risk for making profit, but in Libya stock market we can see religion affects negatively on stock market. For this solution Islamic finance started to overcome this issue and complete the market. Trust was for investors to trust in goods that were according to their requirements and were important for investors in their decision-making of their investments in the latest culture and religion.

**Title of the study** – Gauri Prabhu and Vechalekar.N.M, “Perception of Indian Investor towards investment in mutual funds with special reference to MIP Funds”, (2014)

A sample of 150 individual mutual fund investors were surveyed through a pre-tested questionnaire in Pune city during the period June 2013 to September 2013. In their research it was found out that various factors affecting perception of investors regarding investment in mutual funds are - importance of liquidity, importance of higher return, importance of low risk and company reputation. They say that mutual fund investment is less risky than directly

investing in stocks and is therefore a safer option for risk averse investors.

**Title of the study** – Meutia ,“Empirical research on rate of return, interest rate and Mudarbah deposit”, (2016)

Interest rate, profit loss share, Mudarbah deposit and rate of return were the variables used in his analysis and the dependent variable was decision making. Data was obtained from Indonesia's monthly statistical bulletin between 2012 and 2015. After regression analysis the findings were the negligible impact of rate on return on Islamic bank deposit and interest rate also has negligible effect on bank deposit.

**Title of the study** – Renuka N and Prabhakar, “A study on investors perception towards investment prospect in Hyderabad, Telangana state”,(2016)

The researcher selected a sample size of minimum of 100 investors from stock broking agencies and collected information with the help of questionnaire. The secondary data was gathered from the reports, books, journals, periodicals, dailies, magazines, and websites. Findings of the study were that people were aware of the saving schemes and considered bank deposits and shares/debentures as the safest investment.

**Title of the study-** Zakiah, F. & Al-Aidaros, A, H ,“Behavioral determinants and their impacts on customers saving deposits in Islamic banks”,(2016)

In this methodology the people were bank customer of all Islamic banks and the sample size was 530 of banking customer and research was conducted with survey method through online questionnaires. In conclusion they tested the Islamic ethical behavior of customers with different factors such as demographic factors, the bank's credibility, as Muslim religious obligations that are positively impacted during decision making process of investors to deposit in Islamic bank because it gives confidence that banking is according to Sharia.

**Title of the study-** Zohaib Yaseen and Syeda Rabia Naqvi, “Factors Affecting investment Decision in banking sector of Pakistan: Analysis of Islamic and conventional Banks”,(2018)

This research focuses on the factors affecting individual investors when they invest in the banking sector in Pakistan. The information was collected from customers and financial officers of the traditional and Islamic banking sectors of Pakistan through the survey process. The testing of hypotheses was also carried out and resulted in several factors influencing investment decision-making excluding culture and consumer understanding, as they had an insignificant impact on investment decision-making.

## STATEMENT OF THE PROBLEM

This study emphasizes on factors that impact the decision to invest in the banking sector. Rate of interest plays a major role because banking sector profitability increases with interest rate hike. For making huge profit people invest in stock market, derivatives, portfolio etc. but the risk involved in this is very high. Most people tend to invest in bank accounts, gold, silver, mutual funds, post offices because there is very little risk involved here. So, this study helps in knowing the factors that make people uncomfortable during their investment decision and to find out find that even when the interest rates have decreased because of COVID 19 will their investment pattern will be affected whether they will still prefer to investment in banks or they will invest in any other sector.

## **OBJECTIVES**

- To determine the driving forces that affect investment decision in banking sector.
- To understand the factors that make individual insecure during their investment decision
- To analyze the impact of rate of interest on investment pattern due to COVID 19

## **SCOPE OF THE STUDY**

This study was conducted in India for a duration of three months focusing on banking industry.

## **HYPOTHESIS**

1. Ho- There is no significant impact of the reduced interest rates on investment pattern in banking sector due to COVID 19

H1 – There is significant impact of the reduced interest rates on investment pattern in banking sector due to COVID 19

2. Ho – There is no significant relationship between number of times investor invest in banking sector Pre and Post COVID 19

H1- There is significant relationship between number of times investor invest in banking sector Pre and Post COVID 19

3. Ho- There is no significant relationship between risk and liquidity of bank that make individual insecure during investment decision.

H1- There is significant relationship between risk and liquidity of bank that make individual insecure during investment decision.

## **METHODOLOGY**

Research Design – Experimental Research

Data Collection - Primary Data

Population – Banking service users

Target Sample – All the people of age group 18 and above

Sample Method - Non-Probability Sampling

Sample Size – 174

Data Collection Tool - Questionnaire

Evaluating data – Editing and coding by using SPSS and MS Excel

## **PLAN OF ANALYSIS**

Graphical representation of collected information using bar chart.

Statistical tool used are correlation and regression for analysis

## **LIMITATIONS**

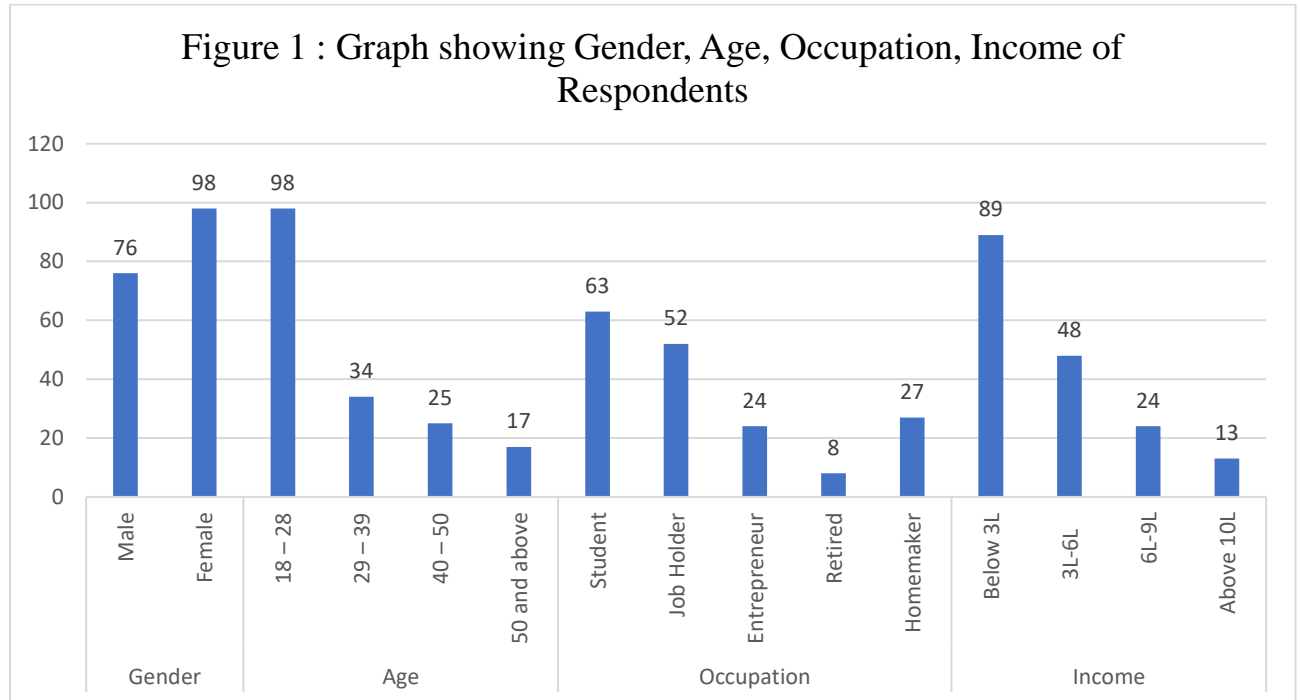
- The study does not cover people from all over country
- It was for a limited time period

## **DATA ANALYSIS**

In this, with the help of a questionnaire, data from 174 respondents were gathered to determine the impact of COVID 19 on the investment trend due to the reduced interest rate

and to determine the factors influencing investment decisions in the banking sector. To evaluate it correlation and regression test has been applied and also graphical representation of collected data through bar chart has been done.

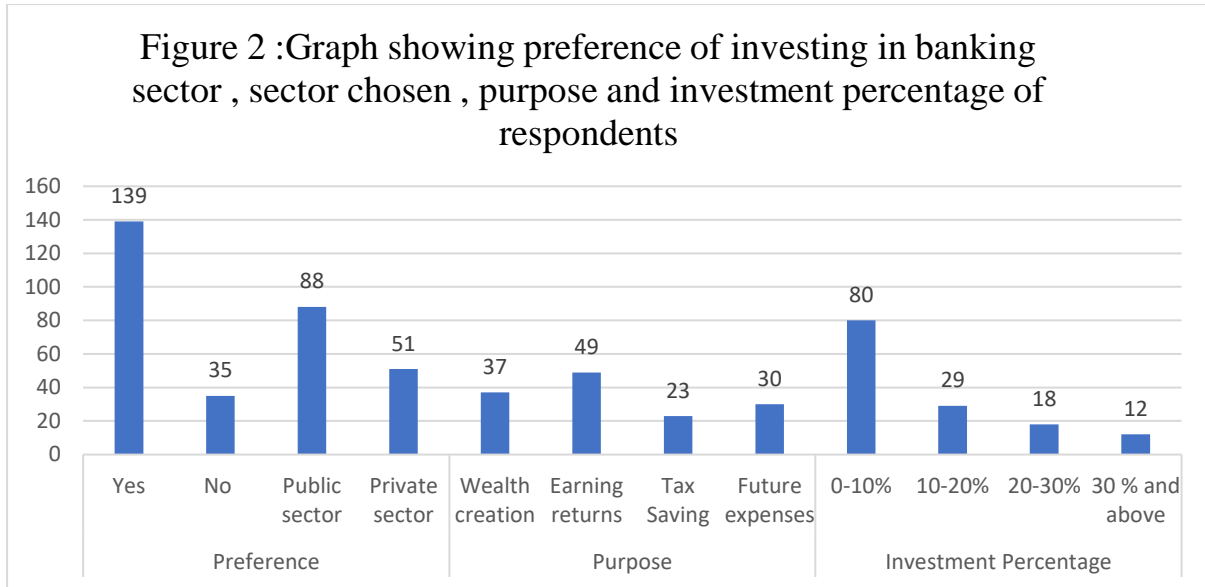
**Gender, Age, Occupation, Income of the Respondents**



**Inference –**

From the above graph it can be seen that majority of the respondents are female i.e., 56% whereas male are only 44% tried to get almost equal number of responses from both the gender and they fall under the age group of 18 to 28 followed by respondents of age group from 29 to 39 who are students and job holders. Their income is below three lakhs.

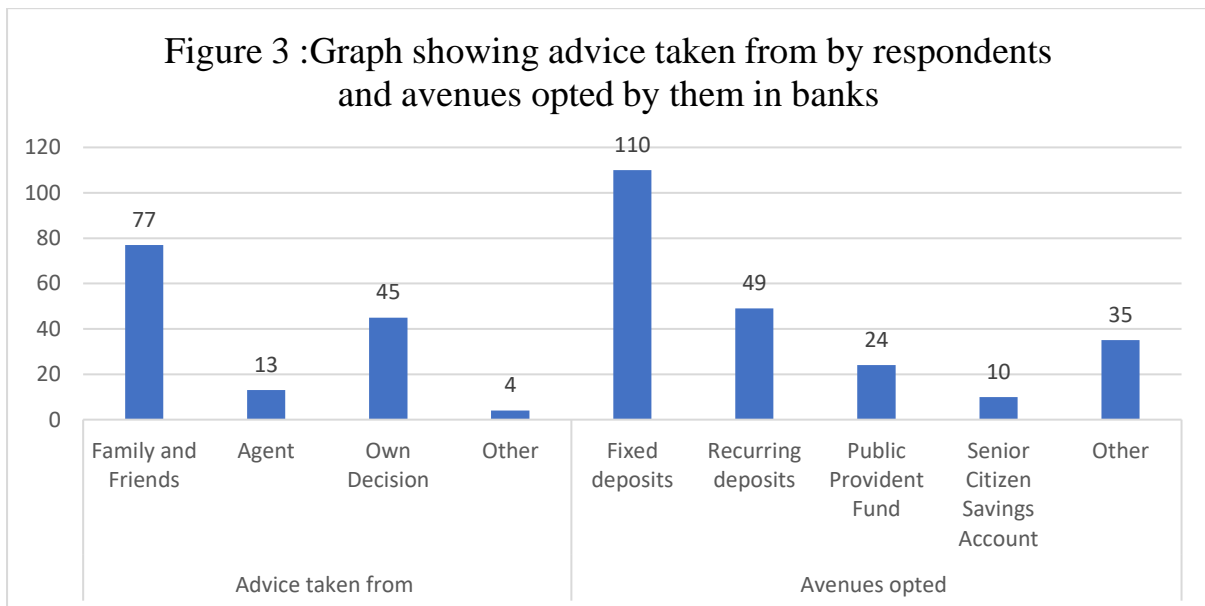
**Preference of investing in banking sector, the sector chosen by them, purpose and the investment percentage of respondents**



**Inference –**

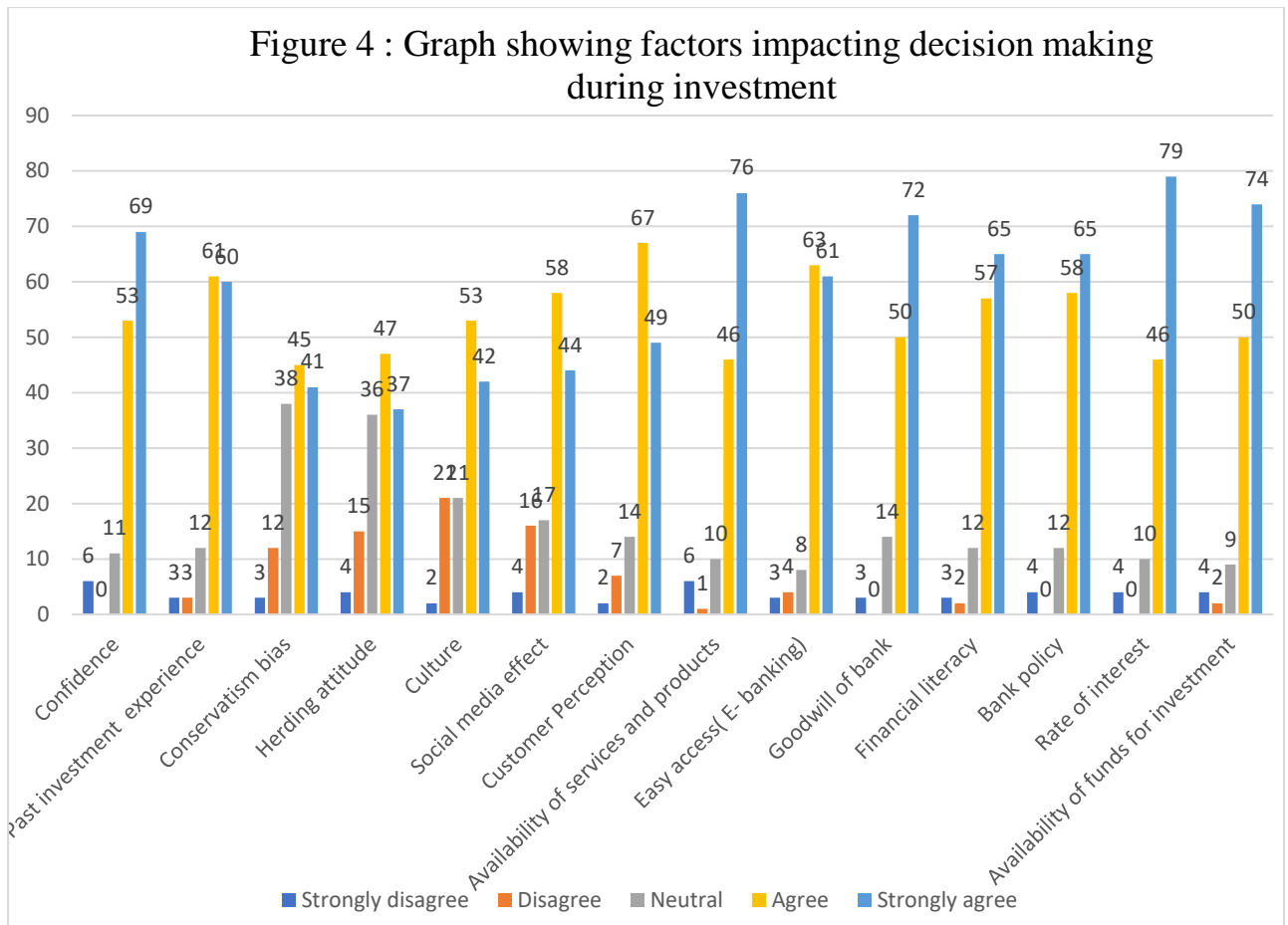
From the above graph it can be seen that 80% of the respondents prefer to invest in banking sector and that could be because they consider it as safe investment whereas 20% respondents don't prefer and these 80% prefer public sector more than private sector. They invest for the purpose of earning return while other prefer for wealth creation, future expenses or tax saving and prefer investing between 0 to 10%.

**Advice taken from while investing in banking sector and avenues opted by them in banking sector**



**Inference** -It can be seen from the graph that majority of the respondents either taken advice from their family and friends or depend on their own decision and they opt for fixed deposits in bank followed by recurring deposits, public provident fund and senior citizen savings account.

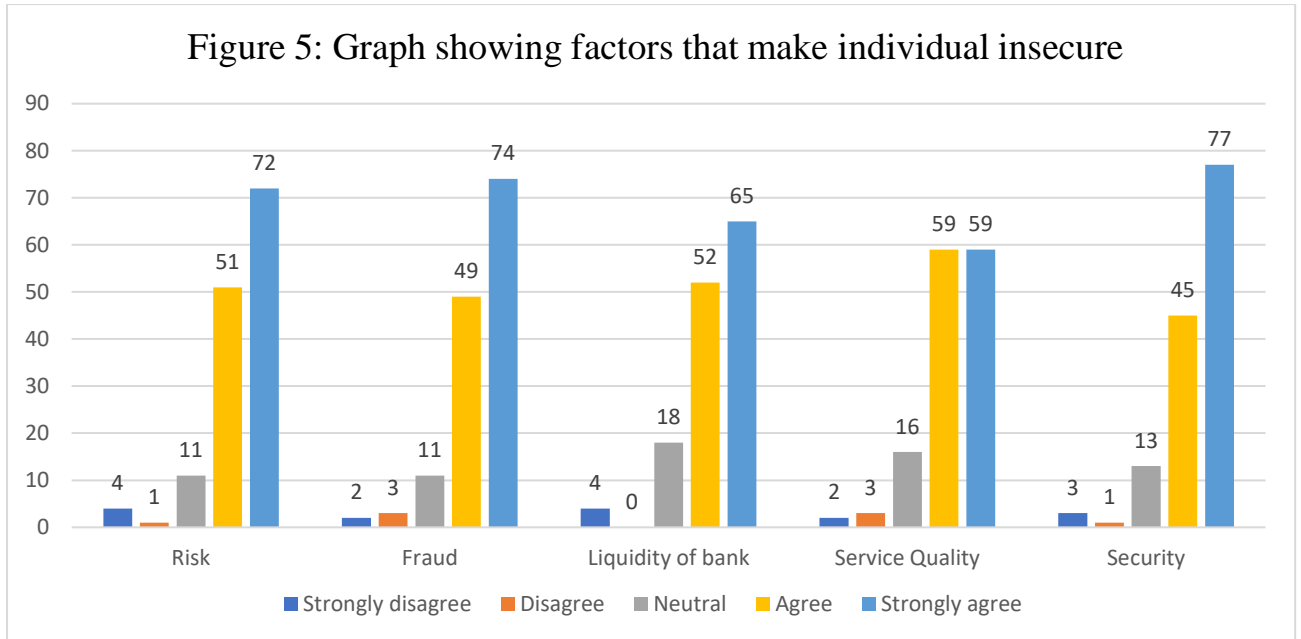
**Factors impacting decision making related to investment in banking sector**



**Inference-**

- It can be seen from the above graph that majority of respondents strongly agree that factors such as confidence, availability of services and products, goodwill of bank, financial literacy, bank policy, rate of interest and availability of funds for investment impact decision making related to investment in banking sector.
- Majority of respondents agree that factors such as easy access (E- banking), past investment experience, conservatism bias, herding attitude, culture, social media effect and customer perception impact decision making related to investment in banking sector.

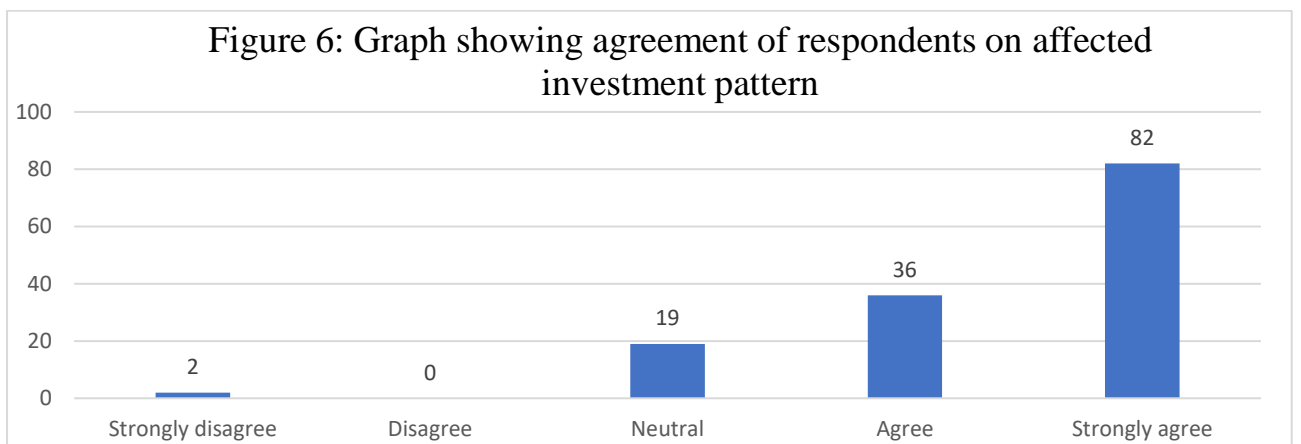
**Factors that make individuals insecure while taking investment decision in banks**



**Inference-**

- It can be seen from the above graph that majority of respondents strongly agree that factors such as risk, fraud, liquidity of bank, service quality and security make individuals insecure while taking investment decision in banks.

**Agreement on whether outbreak of COVID 19 has affected investment pattern due to reduced interest rate**

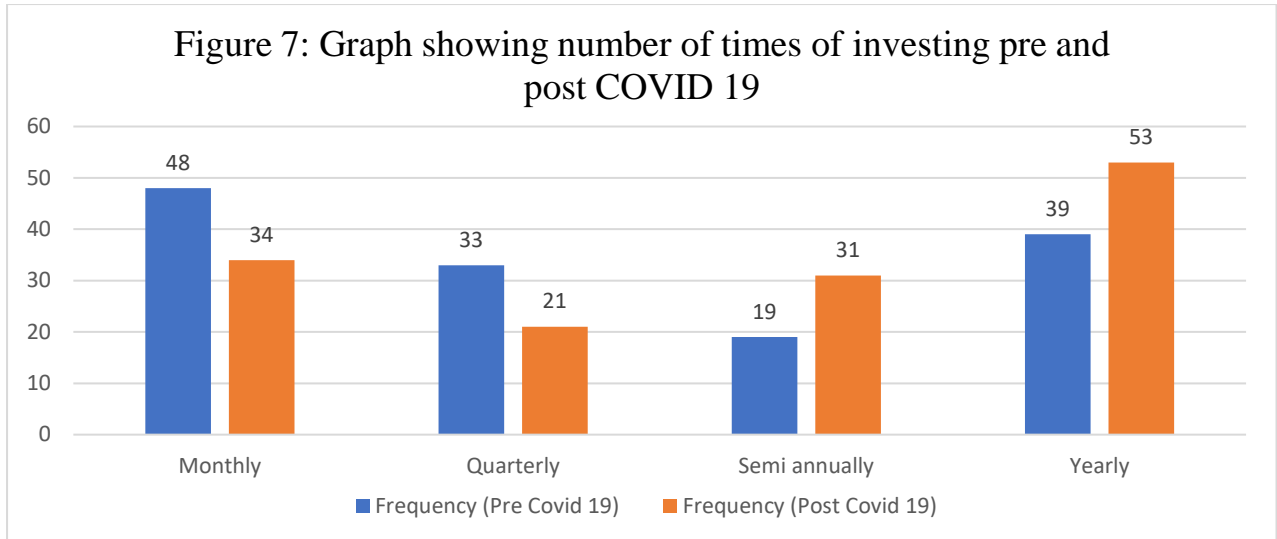


**Inference –**

Majority of the respondents strongly agree that outbreak of COVID-19 has affected the investment pattern due to reduced interest rate.

**Number of times of investing in banking sector Pre and Post COVID 19 by respondents**

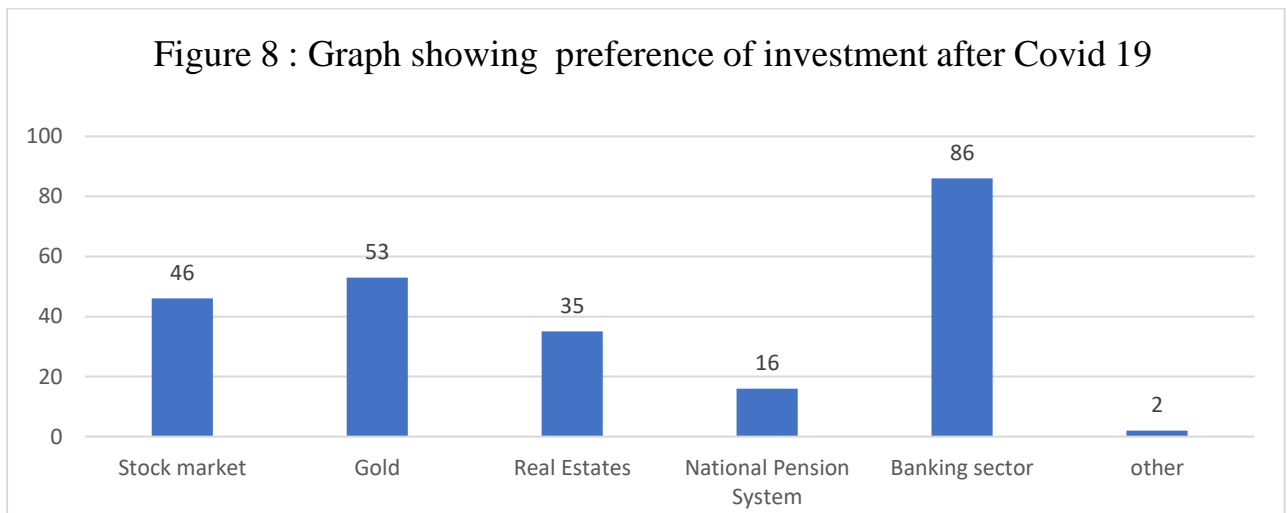




**Inference-**

From the graph of pre and post COVID-19 it has been seen that majority of the respondents preferred investing yearly rather than monthly pre COVID-19.

**Preference of investment after COVID-19**



**Inference-**

Majority of the respondents prefer to invest in banking sector even after COVID-19 because they don't want to any kind of risk.

**HYPOTHESIS TESTING**

**REGRESSION TEST**

Ho- There is no significant impact of the reduced interest rates on investment pattern in banking sector due to COVID 19

H1 – There is significant impact of the reduced interest rates on investment pattern in banking sector due to COVID 19

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.209 <sup>a</sup>	.044	.037	.817

a. Predictors: (Constant), Rate of interest

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.186	1	4.186	6.272	.013 <sup>b</sup>
	Residual	91.440	137	.667		
	Total	95.626	138			

a. Dependent Variable: affected investment pattern

b. Predictors: (Constant), Rate of interest

**Interpretation –**

It can be seen from the table that significance value is 0.013

**Inference –**

From the regression test it can be seen that R value is 0.209 so the regression coefficient is positive and there is 4.4% (R<sup>2</sup>) impact of reduced interest rates on investment decision in banking sector. As significance value is 0.013 which is less than 0.05 so null hypothesis is rejected which says that there is no significant impact of the reduced interest rates on investment decision in banking sector due to COVID 19 whereas alternative hypothesis is accepted which says there is significant impact of the reduced interest rates on investment decision in banking sector due to COVID 19.

**CORRELATION TEST**

Ho – There is no significant relationship between number of times investor invest in banking sector Pre and Post COVID 19

H1- There is significant relationship between number of times investor invest in banking sector Pre and Post COVID 19

**Correlations**

		pre covid	post covid
pre covid investment pattern	Pearson Correlation	1	.380 <sup>**</sup>
	Sig. (2-tailed)		.000
	N	139	139
post covid investment pattern	Pearson Correlation	.380 <sup>**</sup>	1
	Sig. (2-tailed)	.000	
	N	139	139

<sup>\*\*</sup>. Correlation is significant at the 0.01 level (2-tailed).

**Interpretation –**

From the above table it can be seen that significance value is less than 0.0005 (value less than 0.0005 are shown as 0.000 in SPSS output)

**Inference –**

From the correlation test it can be seen that as significance value is 0.000 which is less than 0.05 so null hypothesis is rejected which says that there is no significant relationship between number of times investor invest in banking sector Pre and Post COVID 19 whereas alternative hypothesis is accepted which states that there is significant relationship between number of times investor invest in banking sector Pre and Post COVID 19.

Ho- There is no significant relationship between risk and liquidity of bank that make individual insecure during investment decision.

H1- There is significant relationship between risk and liquidity of bank that make individual insecure during investment decision.

**Correlations**

		Risk	Liquidity of bank
Risk	Pearson Correlation	1	.747**
	Sig. (2-tailed)		.000
	N	139	139
Liquidity of bank	Pearson Correlation	.747**	1
	Sig. (2-tailed)	.000	
	N	139	139

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

**Interpretation –**

From the above table it can be seen that significance value is less than 0.0005 (value less than 0.0005 are shown as 0.000 in SPSS output)

**Inference –**

From the correlation test it can be seen that as significance value is 0.000 which is less than 0.05 so null hypothesis is rejected which says that there is no significant relationship between risk and liquidity of bank that make individual insecure during investment decision whereas alternative hypothesis is accepted which states that there is significant relationship between risk and liquidity of bank that make individual insecure during investment decision. So, it can be said that there is positive correlation between both the factors.

**FINDINGS**

- From the analysis it has been seen that 56% of the respondents were female whereas male were only 44% trying to give equal weightage to both and majority of the respondents fall under the age group of 18 to 28.

- Income was below three lakhs of 51% of the respondents as 36% of the respondents were students followed by job holders who were 30%.
- 80% of the respondent prefer to invest in banking sector and that could be because they consider it as safe investment and during their investment, they either taken advice from their family and friends or depend on their own decision.
- 63% of the respondents prefer to invest in public sector while 37% prefer to invest in private sector because public sector banks function with the aims of ensuring banking accessibility throughout the country whether it is urban or rural.
- Majority of the respondents opt for fixed deposits in bank who invest between 0 to 10% and their purpose of investment is for earning returns.
- Majority of respondents agree and strongly agree that factors such as confidence, past investment experience, conservatism bias, herding attitude, culture, social media effect, customer perception, availability of services and products, easy access (E-banking), goodwill of bank, financial literacy, bank policy and rate of interest impact decision making related to investment in banking sector
- Majority of respondents strongly agree that factors such as risk, fraud, liquidity of bank, service quality and security make individuals insecure while taking investment decision in banks
- 59% of the respondents strongly agree that outbreak of COVID 19 has affected the investment pattern and there is 4.4% impact of reduced interest rate on investment pattern in the banking sector as from the data of pre and post COVID 19 it has been seen that investment pattern of the majority of the respondents has changed because they preferred investing yearly rather than monthly pre COVID-19 due to reduced interest rate.
- 61.9% of the respondents still prefer to invest in banking sector even after COVID-19 because they don't want to take any risk followed by gold and stock markets.
- There is positive correlation between risk and liquidity of the bank which means they both will either increase or decrease jointly.

## CONCLUSION

Individual investor trust banks for their investments as they want their savings to be secure and free from any type of risk. There are also many behavioral as well as financial factors that affect investment decisions.

Based upon the objectives it has been that rate of interest has impacted the investment pattern because before COVID 19 people used to investment monthly but it has been seen that during COVID 19 they were investing yearly and it is due to reduced interest rate and also because of low availability of savings as during COVID 19 people savings got reduced and they were more focused towards the essential items. It also has been observed that after banks they were mainly preferring gold and stock market as their investment options.

In today's time people have become so much aware related to technology that they mainly prefer online mode for their investment option before making any kind of investment they search website of particular bank for getting any information so bank should make sure that they provide all the relevant information on their website. During this pandemic people who never used to prefer online mode also were preferring it to avoid crowd so its responsibility of the bank to make sure that no fraud happen and their mobile applications and website are well protected to develop trust among the individuals so that they feel comfortable in their investment.

## SUGGESTIONS

- Series of educational seminars can be organized to help potential customer understand the banking options.
- As in this pandemic more focus is on online transaction so to perform their payment without any issues sense of security should be maintained and bank servers should be strong.
- Private sector banks should try to expand their reach to rural India.
- Banks should try to come up with such attractive schemes so that people get motivated to invest in their banks.
- Transparency of fees charges should be maintained.
- Banks should also update their customers about the new steps taken through digital channels in this pandemic.
- Knowledge of COVID-related phishing emails, unauthorized KYC requests, etc. should be disseminated via a digital network to prevent fraudulent activities.
- Feedback for customers should be taken regularly so that their issues can be solved as early as possible so that their needs are met and they become satisfied customers.

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