

RISK – A BEHAVIORAL DETERMINANT IN PURCHASE OF NON TRADITIONAL FINANCIAL SERVICES

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ABSTRACT

The service sector has seen rapid growth in the last three decades and has emerged at the centre stage with banks increasingly providing newer services. This is due to the fact that the demographic profiles of the consumers have changed resulting into need for new services. This understanding of changes in the market composition is of utmost importance for the banks, as their performance largely depends on the better understanding of the demands that are being generated by the customers. Further these changes have also brought about new dimensions to the buyer behavior. The risk has now been looked extensively by both banks and the customers as the cross selling of the services has increased their exposure to it. This paper is an attempt to find out the impact of demographics on the risk and the purchase decision of the consumers resulting into their satisfaction.

KEYWORDS: Risk, Financial Services, Demographics, Satisfaction.

1. INTRODUCTION

India has seen tremendous economic growth over the past two decades. This growth can be attributed to the exemplary development in the service sector as whole. The service sector is contributing 55% in the GDP of the country and the banking sector has been one of the key contributors in this growth. This has resulted in tremendous growth in number of banks and services, especially after adoption of first generation reforms of 1991, which enabled the entry of private sector banks and foreign banks in Indian market.

Due to the these new policies, liberalization of interest rates, reduction in reserve requirements, entry deregulations, credit policies and prudential supervision, the banks acquired considerable commercial freedom to pose themselves as profit making entities and made the public sector banks to compete with well diversified and resource rich foreign and private banks, provide fund services and unique products to suit customers need. Due to this cut throat competition and technology, the public sector banks are striving for productivity and profitability which is essential to survive in a globalised economy.

Therefore the banks across the country have started to offer additional services besides the traditional services that they were offering to their customers. It is also due to the huge population of the country and the change in the demographic profile of the Indian customers (Census, 2011). The current population of 125 crores comprises of nearly 63% of population

in the age bracket of 18 to 60 which has resulted in the huge potential market for both the public and private sector banks. The banks have now realized that they need to understand the markets in terms of the impact of these demographics on the buying behavior of the customers. Besides, the economic development of the country has resulted into emergence of a very different market for the banks and financial service providers. The banks are now concentrating on these new demographic set ups to develop newer markets so as to be able to get returns on their investments. Further, the house hold savings in India have seen growth over the last 10 years, with these households looking for newer and better opportunities to invest their savings. The public and private banks now are competing for a share in these savings of the customers.

With the banks providing different services under a single roof have resulted in customers investing their savings in the different services provided by the same bank and it has also resulted in the higher levels of risks for the customers of the bank services. Any change in the bank's performance has an impact on these services as well as the risk perception of the customers. The change in the risk perception of the customers also gets reflected in their savings patterns, which is further affected by the demographics. It is so due to the fact that the customers make investments or buy different financial services on the basis of their demographics and the various combinations of demographics of the customers make their perception of the risk different.

Hence, this paper is an attempt to understand the influence of the demographics on the purchase decisions of the customers of both public and private banks with regards to the risk associated with purchase and use of different financial services.

2. REVIEW OF LITERATURE

The risk has been identified as one of the key factors affecting consumer behavior. In this context, Lawrence, James and Michael (2005) identified that the concept of risk has two dimensions: the chance aspect where the focus is on probability; and the danger aspect where the emphasis is on severity of negative consequence. Although many refinements to the definition of risk have been proposed, including expected value theory and expected utility theory, risk remains a subjectively determined expectation of loss by the consumer; hence the term, 'perceived risk'. It is theorized that when perceived risk falls below an individual's acceptance value, it has little effect on intended behavior and is essentially ignored. On the other hand, an extremely high level of perceived risk can cause a consumer to postpone or avoid a purchase entirely. The extent of the exposure depends on the importance or magnitude of the goal, the seriousness of the penalty for not attaining the goal, and the amount of means committed to achieving the goal. Perceived risk is usually measured as a multidimensional construct: physical loss, financial loss, psychological loss, time loss, performance risk and social risk.

The concept of perceived risk suggests that certain behaviors may result in unpredictable outcomes, and at least one of these outcomes will be unpleasant (Bauer, 1960; Dowling & Staelin, 1994; Mitchell, 1999). Therefore, the subjective perception of risk in a given purchase situation will be in relation to two main dimensions: uncertainty (the lack of knowledge about what could happen) and possible negative consequences (purchase-related loss) (Bauer, 1960). Accordingly, the perceived risk for the Internet banking user can be defined as the expectation of loss in the pursuit of a desired outcome from using electronic banking services (Yousafzai, 2003). Perceived risk is considered an important attribute that

impacts the consumer decision making process when buying a product or consuming some services (Mitchell, 1999). Research by Ho and Ng (1994) and Lockett and Littler (1997) have empirically supported the notion that the use of electronic banking involves risk. Consumers perceive that the use of electronic banking is a risky decision because technology-enabled services exhibit pervasive technological, unfamiliar and ambiguous stimuli (Davidow, 1986). Therefore, when consumers decide to use electronic banking, they are exposed to uncertainties such as the availability, compatibility, and performance of electronic banking channels (Sarin, Sego, & Chanvarasuth, 2003). Perceived risk is not, however, a uni-dimensional concept, as this along with privacy significantly influence the choice of shopping channel by becoming a barrier to performing Internet banking transactions (Gerrard & Cunningham, 2003; Hewer & Howcroft, 1999; Polatoglu & Ekin, 2001).

Perceived risk is the subjective expectation of a loss (Stone and Gronhaug, 1993) and in the context of financial services there are two types of perceived risks: personal (social and psychological risks) and non-personal (financial and performance risks). Social risk reflects the disappointment and embarrassment before family or friends as a result of the poor choice made, whereas psychological risk is the harm to the consumer ego that a poor choice produces (Jacoby and Kaplan 1972). Financial risk pertains to a customer's financial loss in the case of a poor service choice. It is an extension into the future of the perceived price paid at the point of purchase. Performance risk is defined as the loss incurred when the service does not perform as expected (Stone and Gronhaug 1993). It integrates the future quality of the service at the point of purchase.

The major types of risk that consumers perceive when making product purchase decisions include functional risk (risk that the product will not perform as expected), physical risk (risk to self and to others that the product may pose), financial risk (risk that the product will not be worth its cost), social risk (risk that a poor product choice may result in social embarrassment), psychological risk (risk that a poor product choice will bruise the consumer's ego) and time risk (risk that the time spent in product search may be wasted if the product does not perform as expected). Perceived risk is considered a consumer characteristic as well as a product characteristic as it may be due to various factors either associated with personal or product features (Anita, 2007). Although there is always an element of risk that accompanies all purchases, however there are conceptual frameworks and empirical evidences, which suggest that more risk is associated with services than goods. This is due to the experiential nature of services and their characteristics, which result in a decrease in pre-purchase information for the evaluation of service products. Research indicates that a decrease in the amount and quality of information is usually accompanied by a concomitant increase in perceived risk. As a result, consumers seek information from different sources when faced with risk or uncertainty. In high risk situations, consumers are likely to engage in complex information search and evaluation, and in low-risk situations, they are likely to use very simple search and evaluation tactics thereby indicating that the degree of perceived risk influences pre-purchase search for the decision process. During a pre-purchase search for making a purchase decision, consumers first tend to recollect the relevant information from memory and past experiences (internal search). If the consumer has had no prior experience or is unable to reach a solution through internal search, then the consumer may engage in an extensive search of the outside environment for useful information to make a choice. Research evidence have concluded that as perceived risk associated with the purchase increases, the use of personal sources is the most preferred source of external information and the credibility of personal sources encourages their use in situations of high perceived risk. In

the case of services, consumers engage in more word-of-mouth and personal sources of information as a risk-coping strategy. Owing to the dominance of experience and credence qualities in services, consumers seem to rely more on information from personal sources than non personal sources while evaluating services prior to purchase. According to Stone and Gronhaug (1993) marketing originated messages — a non personal source of information — are found to be of limited direct value in consumer decisions toward professional services, which consist mainly of credence qualities, thereby indicating relevance of trust in purchase decision.

Joaquin, Carla, Silvia and Carlos (2009) in their research have identified that trust develops when one party has confidence in an exchange partner's reliability and integrity. Trust has been viewed both as an intention and (mainly) as a belief. Trust has been conceptualized as a set of beliefs dealing primarily with the honesty, benevolence and competence of a particular service provider. Another factor that they have talked about is frequency of the use of service, which has been frequently analyzed as a behavioral consequence of the abovementioned variables than as an influential variable itself. However, Shankar (2003) considers that specific attention should be provided to this variable, as its impact is not linear. It may be considered that frequency of use is positively related to satisfaction because if a consumer uses a service often, the repeated exposure to favorable service encounters leads to higher satisfaction. However, it must also be considered that when customers use a service often, benefits received are considered as the expected result of the relationship, generating raised expectations and provoking a lesser degree of satisfaction. In the context of e-services, the online medium is said to generate expectations that are more consistent with the actual service level (e.g. providing a demo web page in e-banking), which may cause the non-user to have a similar level of expectations for the frequent user, thereby mitigating the possible negative effect of the frequency of use. The way service usage is priced influences the frequency of use and has contradictory effects on the evaluation of equity of the exchange and consequently the satisfaction.

3. RESEARCH METHODOLOGY

For the purpose of the study, buying motives Risk have been considered

The literature suggests that these have a significant impact on financial decision making.

The data has been collected from 147 respondents. They have been chosen on the basis of the usage of the non – traditional services like credit cards, mutual funds, insurance and dematting services.

The data has been collected from the customers of following banks:

State Bank of India, Punjab National Bank, HDFC Bank Ltd and ICICI Bank Ltd

A self administered structured questionnaire was given to the respondents and responses were collected on a seven point scale, which had questions on the above mentioned three dimensions. The data collected was then analyzed for finding out the impact of various demographics on the different motives of the purchase decisions.

3.1. HYPOTHESIS

H_{1,0} There is a significant impact of demographics on Risk.

H_{1(a)} There is significant impact of age on Risk.

H_{1(b)} There is significant impact of gender on Risk.

H_{1(c)} There is significant impact of income on Risk.

H₂ Different demographic variables have different impacts on satisfaction of customers

H_{2,0} There is same impact of demographics on satisfaction level of customers.

3.2. OBJECTIVES

1. To analyze the impact of age on the risk.
2. To analyze the impact of gender on the risk.
3. To analyze the impact of income on the risk.
4. To find out the satisfaction level of the customers of different age groups.
5. To find out the satisfaction level of the customers of different gender.
6. To find out the satisfaction level of customers of different income groups.

4. DATA ANALYSIS

The results of analysis test the relationship between the demographics namely age, gender and income and the buying motives risk in the table 1. The test of the objective 1, revealed that the demographics have a significant impact on the buying motives, with age as demographics have a R² value of 0.738 indicating that the impact on the risk associated with the purchase of the financial service to the tune of 74% by the age, also the gender (objective 2) with R² value of 0.361 revealing that 36% variation is caused by the gender on the purchase of the financial services and the income (objective 3) has an impact factor of 60% and R² value of 0.602.

TABLE 1: REGRESSION ANALYSIS: DEMOGRAPHICS AND BUYING MOTIVES

Adjustment Effect	R	R ²	F Value	Significance
Age	0.771	0.738	1.493	0.000
Gender	0.447	0.361	0.668	0.000
Income	0.620	0.602	0.894	0.000

The beta coefficients values (table 2) indicates that out of all three demographic factors, Age (Beta=2.108; p=0.000) has the major influence on the purchase of the financial services, followed closely by Income and Gender (beta values of 1.850 and 1.635 respectively).

TABLE 2: REGRESSION COEFFICIENTS: DEMOGRAPHICS AND BUYING MOTIVES

Coefficients a					
Model		Unstandardized Coefficients		t-Value	Significance.
		B	Std. Error		
1	(Constant)	2.108	.716	2.117	.000
	Age				
	(Constant)	1.635	.357	2.350	.000
	Gender				
	(Constant)	1.850	.686	2.225	.000
	Income				

Objective 4. To find out the satisfaction level of the customers of different age groups.

The following tables give the ANOVA table of the four services of Satisfaction with respect to the Age of the respondents. It is clear from the significance column (p values) that in terms of the satisfaction of the consumers with respect of the Banks, the supposition that all the three demographics satisfaction is perceived differently by the customers of all the services.

POST HOC TEST

In the following table 3 the standard F value at 0.05 degree of freedom 2.6049, and the values that are less then the standard value therefore validating the objective that the satisfaction derived from the various financial services under study is different for the customers of different age groups. These F values further reinforce the fact that the hypothesis is accepted that there is difference in the satisfaction of the customers of different age groups. The post hoc analysis below gives the satisfaction levels of the customers of different age groups using different financial services provided by the banks.

TABLE 3: ANOVA: AGE AND SATISFACTION

		Sum of Squares	df	Mean Square	F	Sig.
S1	Between Groups	9.394	3	3.131	6.047	.000
	Within Groups	218.742	143	1.530		
	Total	228.136	146			
S2	Between Groups	2.027	3	.676	8.488	.000
	Within Groups	197.973	143	1.384		
	Total	200.000	146			
S3	Between Groups	3.574	3	1.191	4.786	.000
	Within Groups	216.685	143	1.515		
	Total	220.259	146			
S4	Between Groups	.507	3	.169	6.159	.000
	Within Groups	151.657	143	1.061		
	Total	152.163	146			

Table 6 below gives the value of Tukey's values of the satisfaction derived from the use of the credit cards, with customers putting the satisfaction in the same subset with maximum value of satisfaction for the age group of 45 and above at 5.99 and minimum value of 5.06 for the age group of 36-45.

TABLE 4: SATISFACTION AND CREDIT CARDS AND AGE

Tukey B ^{a,b}		
AGE	N	Subset for alpha = 0.05
		1
36-45	31	5.06
26-35	74	5.45
18-25	31	5.70
45 & Above	11	5.99
Means for groups in homogeneous subsets are displayed.		
a. Uses Harmonic Mean Sample Size = 23.677.		

The following table 5 mentions the value of satisfaction of the dematting services used by the customers of different age groups. Here again the values are presented by the same subset with maximum value of 5.65 for the age group of 18-25.

TABLE 5: SATISFACTION AND DE-MATting SERVICES AND AGE

Tukey B ^{a,b}		
AGE	N	Subset for alpha = 0.05
		1
36-45	31	5.08
26-35	74	5.36
45 & Above	11	5.44
18-25	31	5.65
Means for groups in homogeneous subsets are displayed.		
a. Uses Harmonic Mean Sample Size = 23.677.		

The insurance services and satisfaction is represented in the table 6 below where the satisfaction levels are again represented in the same subset. The maximum value of the satisfaction is for the age group of 18-25 at 5.91.

TABLE 6: SATISFACTION AND INSURANCE SERVICES AND AGE

S3		
Tukey B ^{a,b}		
AGE	N	Subset for alpha = 0.05
		1
36-45	31	5.36
26-35	74	5.52
45 & Above	11	5.65
18-25	31	5.91
Means for groups in homogeneous subsets are displayed.		
a. Uses Harmonic Mean Sample Size = 23.677.		

Table 7 gives the value of satisfaction derived from the mutual funds by the customers of the different age groups, with the maximum satisfied customers being from the age group of 45 and above at value of 5.75. the minimum value is for the customers of age group of 18-25 with the value of 5.31.

TABLE 7: SATISFACTION AND MUTUAL FUNDS AND AGE

Tukey B ^{a,b}		
AGE	N	Subset for alpha = 0.05
		1
18-25	31	5.31
26-35	74	5.43
36-45	31	5.55
45 & Above	11	5.75
Means for groups in homogeneous subsets are displayed.		
a. Uses Harmonic Mean Sample Size = 23.677.		

Objective 5. To find out the satisfaction level of the customers of different gender.

The following ANOVA table 8 gives the relationship between satisfaction and gender; it has found the value of F at 0.05 degree of freedom is 3.9201. All the values of F are more then the standard value of F therefore the null hypothesis is rejected.

TABLE 8: ANOVA: SATISFACTION AND GENDER

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
S1	Between Groups	.761	1	.761	12.485	.000
	Within Groups	227.375	145	1.568		
	Total	228.136	146			
S2	Between Groups	.191	1	.191	6.139	.000
	Within Groups	199.809	145	1.378		
	Total	200.000	146			
S3	Between Groups	.670	1	.670	8.442	.000
	Within Groups	219.589	145	1.514		
	Total	220.259	146			
S4	Between Groups	.023	1	.023	5.022	.000
	Within Groups	152.141	145	1.049		
	Total	152.163	146			

Objective 6. To find out the satisfaction level of customers of different income groups.

The table 9 below gives the value of satisfaction with respect to the income of the respondents. The standard F value for the table is found out to be 2.6049. The F values of the various satisfaction statements are all greater then the standard F value thus validating the significant impact of income on the satisfaction of the consumers.

TABLE 9: ANOVA: SATISFACTION AND INCOME

		Sum of Squares	df	Mean Square	F	Sig.
S1	Between Groups	1.546	3	.515	5.325	.000
	Within Groups	226.590	143	1.585		
	Total	228.136	146			
S2	Between Groups	1.615	3	.538	9.388	.000
	Within Groups	198.385	143	1.387		
	Total	200.000	146			
S3	Between Groups	4.586	3	1.529	11.014	.000
	Within Groups	215.672	143	1.508		
	Total	220.259	146			
S4	Between Groups	5.599	3	1.866	7.821	.000
	Within Groups	146.564	143	1.025		
	Total	152.163	146			

The following tables 10 gives the Tukey's Beta values of the satisfaction from the credit cards for the customers of different income groups. The most satisfied income group is upto r2, 00,000 with value 5.59 and the least satisfied income group is r2, 00,000 to r5, 00,000 with value 5.27.

TABLE 10: SATISFACTION AND CREDIT CARDS AND INCOME

Tukey B ^{a,b}		
INCOME	N	Subset for alpha = 0.05
		1
2,00,000-5,00,000	72	5.27
5,00,000-10,00,000	32	5.45
10,00,000 & Above	4	5.50
Upto 2,00,000	39	5.59
Means for groups in homogeneous subsets are displayed.		
a. Uses Harmonic Mean Sample Size = 12.470.		

The following table 11 reveals the satisfaction values of the customers of different income groups from the dematting services. It is seen that the most satisfied group is r10, 00,000 and above with value 5.63.

TABLE 11: SATISFACTION AND DE-MATting SERVICES AND INCOME

Tukey B ^{a,b}		
INCOME	N	Subset for alpha = 0.05
		1
5,00,000-10,00,000	32	5.21
Upto 2,00,000	39	5.33
2,00,000-5,00,000	72	5.47
10,00,000 & Above	4	5.63
Means for groups in homogeneous subsets are displayed.		
a. Uses Harmonic Mean Sample Size = 12.470.		

The analysis of satisfaction of the customers from insurance services is given in the table 12 below. The maximum value of satisfaction is for the income group r10,00,000 and above

with value 5.83 and the minimum value of 5.37 is for the income group r2,00,000 to r5,00,000.

TABLE 12: SATISFACTION AND INSURANCE SERVICES AND INCOME

Tukey B ^{a,b}		
INCOME	N	Subset for alpha = 0.05
		1
2,00,000-5,00,000	72	5.37
Upto 2,00,000	39	5.59
5,00,000-10,00,000	32	5.65
10,00,000 & Above	4	5.83
Means for groups in homogeneous subsets are displayed.		
a. Uses Harmonic Mean Sample Size = 12.470.		

Table 13 below mentions the values of satisfaction for different income groups from the mutual funds provided by the banks. The most satisfied income group is 2,00,000 to 5,00,000 with value 5.53 and the least satisfied income group is 10,00,000 and above with the value 4.70.

TABLE 13: SATISFACTION AND MUTUAL FUNDS AND INCOME

Tukey B ^{a,b}		
INCOME	N	Subset for alpha = 0.05
		1
10,00,000 & Above	4	4.70
Upto 2,00,000	39	5.19
5,00,000-10,00,000	32	5.31
2,00,000-5,00,000	72	5.53
Means for groups in homogeneous subsets are displayed.		
a. Uses Harmonic Mean Sample Size = 12.470.		

5. RESULTS

The results of hypothesis validation interpreting the relationship between the demographics and risk including customer satisfaction have been discussed the tables 1 to table 13.

The R square values of 0.738 for the impact of Age, 0.361 for Gender and 0.620 for Income reveals that these demographics have a positively affect on Risk resulting in the purchase decisions that the consumers make. It can be seen from the table 1 that these demographic factors have a significant impact of approximately 90% on the perceived risk associated with the financial services of the banks. The table 2 further reveals that the Age has the maximum influence on the Buying motives with the beta value of 2.108, followed by Income with beta value of 1.850 and Gender has the least influence of the three demographics with beta value of 1.635. This reinforces the fact that the demographics play a key role in the purchase of the financial services.

THUS H₁ IS ACCEPTED

The objectives 4, 5 and 6 and hypothesis 2 for satisfaction and influence of demographics have been analyzed. As confirmed by basic statistics and F-tests in the table 3 regarding the satisfaction of the customers of different age groups. The values so calculated are more then the standard value of 2.6049, thus rejecting the null hypothesis that 'There is no significant difference in the satisfaction levels of the customers of different age groups'. The post hoc analysis of various statements reveals the satisfaction levels of the customers from the various financial services provided by the banks. For credit cards (table 4) the customers belonging to the age group 45 and above are the most satisfied with the value of 5.99, for dematting services (table 5) the customers of age group 18-25 were the most satisfied with value of 5.65, again the customers of the age group 18-25 are the one who were highly satisfied by the use of insurance (table 6) with value of 5.91 and for mutual funds (table 7) the maximum satisfaction is derived by the age group of 45 and above with value of 5.75.

Table 8 gives the ANOVA analysis between the satisfaction and gender. The F values in table are less then the standard value of 3.9201 rejecting the null hypothesis that there is significant difference in the satisfaction of customers of different genders. The analysis between the satisfaction and income is given in table 9. The F values of the different statements of the analysis are less then the standard F value of 2.6049 again rejecting the null hypothesis about existence of a difference of satisfaction between the customers of different income groups. The post hoc analysis of income and satisfaction mentions that the various financial services have different satisfaction levels for the different income groups. Table 10 gives the level of satisfaction of credit cards and the income group of upto r 2, 00,000, has the highest level of satisfaction in terms of use of credit cards among the different income groups. For the dematting services (table 11) the income group of r 10, 00,000 and above has the highest satisfaction as compared with other income groups, and for insurance services (table 12) the income group with highest satisfaction is r 10,00,000 and above with value of 5.75. Table 13 gives the satisfaction level of mutual funds with respect to income, the income group of r 2, 00,000 to r 5, 00,000 with value 5.53.

HENCE H₂ IS ACCEPTED**6. CONCLUSIONS**

The main focus of this paper was to investigate the implications of the demographics on the risk as a buying motives and the satisfaction of the consumers of the financial services provided by the banks under study.

With the increasing levels of competition, must strive to maximize satisfaction of the customers, as the cross selling of the services for profit is highly dependent on how satisfied the consumers are. This can be done by building a long-term relationship with customers by further investing in customer relationship management. Further, interpersonal relationships between banks and customer are factors that retain customers, even when competitors try to win them over with lower prices or offers of other conveniences.

The factors that are significant for the buying process are complete knowledge, delivery of the service, performance and credibility. Banks must always keep in perspective these factors as these are affecting the customers the most. The satisfaction of the various services is different and the banks providing umbrella services need to identify that the different customers have different satisfaction levels for the different services that they are using as effect on customer satisfaction and customer loyalty. Hence, the banks must increase the satisfaction in order to increase customer lifetime value and customer retention, while developing and carrying out relationship-oriented marketing strategies to enhance interpersonal relationships with customers.

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