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Post-COVID Transformation: Why Indian Investors are Moving from Traditional Brokers to Discount Platforms

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Abstract

This study investigates the transformation of investor behavior in the post-COVID era, with a comprehensive analysis that integrates both quantitative hypothesis testing and detailed empirical assessments. Employing one-sample t-tests to evaluate investor innovativeness, trust in digital platforms, and cost considerations, alongside a chi-square analysis of COVID-19's impact, this research challenges prevailing assumptions regarding investor digital literacy and behavioral adaptations. Our analysis reveals that while investor digital literacy does not deviate significantly from neutral expectations, there is compelling evidence of heightened technological innovativeness, robust security perceptions, and a pronounced sensitivity to cost considerations. Moreover, the chi-square test indicates a statistically significant non-uniform distribution in investors' responses to COVID-19, underscoring the pandemic's role in catalyzing shifts in investment behavior. These findings provide nuanced insights into the dynamics of digital finance, emphasizing that despite extensive digital access, practical competencies are varied—thereby necessitating targeted educational initiatives. The implications of this study are critical for financial institutions, regulatory bodies, and policymakers aiming to foster adaptive, resilient markets in an increasingly digital landscape.

Keywords: Digital Finance, Investor Behavior, Post-COVID Transformation, Technological Innovation, Digital Literacy, Cost Considerations, Quantitative Analysis, Financial Regulation

INTRODUCTION

The Transformation of India's Broking Industry

The Indian broking industry has undergone significant transformation, particularly with the rise of discount brokerage platforms. Traditional brokers, such as those at the Bombay Stock Exchange, have long influenced investor decisions, relying on personalized advisory services and trust (Lagerwaard, 2015). However, shifting consumer preferences, driven by technology readiness, interface design, and cognitive experience, have fueled the transition to digital platforms (Ding et al., 2011). Key factors like reliability, security, and cost efficiency play a pivotal role in this transition (Cheyne et al., 2006).

Investor sentiment is another crucial determinant, with behavioral biases such as herding, overconfidence, and information-seeking affecting trading choices (Ali et al., 2024). The integration of machine learning and AI has reshaped digital finance, enhancing user engagement (Ullal et al., 2021). Additionally, nomophobia and the fear of missing out (FOMO) contribute to impulsive trading behaviors (Shiva et al., 2020).

Digitalization and COVID-19's Impact

Over the past decade, the digitalization of financial services, accelerated by the COVID-19 pandemic, has improved financial inclusion in India (Alekseieva et al., 2021). Fintech companies have played a key role in bridging the gap for underbanked populations (Asif et al., 2023). The adoption of mobile trading apps has made investing more accessible, with technology adoption largely influenced by trust, security, and perceived risk (Chawla et al., 2023).

COVID-19 led to an increased reliance on e-banking and fintech solutions, particularly among senior citizens and first-time investors (Jena, 2023). The pandemic also reshaped global work structures and boosted e-commerce adoption (Nagel, 2020; Zou & Cheshmehzangi, 2022). However, economic uncertainty led to short-term volatility in digital banking adoption, though debit and credit card transactions continued to rise (Singh et al., 2023).

Gaps in Financial Research

Despite significant advancements, research on emerging economies like India remains limited (Prasad et al., 2022). Studies have explored derivatives, dividend policies, and green bonds, but the transition from traditional brokers to discount platforms is under-researched (Sahoo & Sahoo, 2020; Gupta & Aggarwal, 2018). The role of AI in stock market predictions and the influence of news-sensitive trading patterns also require deeper exploration (Sharma et al., 2020).

Investor Preferences and Digital Trust

Cost efficiency and price transparency have emerged as crucial factors in broker selection, particularly in omnichannel retailing and fintech adoption (Joshi et al., 2023). Investors prioritize advisory services, reliability, and security, with an identified 15% service quality gap in digital broking (Lee et al., 2010). Studies show that customer satisfaction and loyalty are heavily influenced by perceived value-added services across industries (Cronin et al., 1997).

Digital marketing strategies and mobile platforms have empowered marginalized communities, improving accessibility and financial participation (Castro et al., 2024). The COVID-19 pandemic further increased retail investor participation, as seen in speculative events like the GameStop short squeeze (Andreev et al., 2022).

LITERATURE REVIEW

1. Evolution of the Broking Industry

The broking industry has evolved significantly due to economic changes and technological advancements. Global financial hubs, such as Hong Kong, play a key role in connecting markets, while digitalization has reshaped traditional brokerage models (Fang et al., 2022). In emerging markets like Mumbai, local stockbrokers have adapted to changing global finance trends (Lagerwaard, 2015).

In India, economic liberalization in the 1990s triggered rapid financial reforms, leading to an expansion of the broking industry (Singh, 2003). The rise of discount brokers has disrupted traditional brokerage services, making stock market participation more cost-effective and technology-driven.

2. Technology and Digitalization in Broking

The integration of Industry 4.0 technologies, such as artificial intelligence, blockchain, and robotic process automation (RPA), has enhanced efficiency and transparency in financial markets (Yaqub & Alsabban, 2023). Mobile trading applications have further transformed investment accessibility, reducing costs and improving decision-making (Carlin et al., 2022).

Despite these advantages, challenges such as resistance to change, cybersecurity risks, and regulatory con-

cerns persist (Gonçalves et al., 2022). The ability of digital platforms to ensure security, ease of use, and real-time data availability plays a crucial role in investor adoption (Shengelia et al., 2022).

3. Impact of COVID-19 on Financial Services

The COVID-19 pandemic accelerated digital financial services (DFS) globally, with fintech solutions replacing traditional banking methods (Ravikumar et al., 2022). Government relief funds and financial transactions were largely conducted through digital payment platforms, driving fintech adoption (Pellegrino & Abé, 2022).

Investor behavior also changed, with an increase in herding tendencies and portfolio reallocations to safer assets (Bouri et al., 2021). The crisis boosted interest in sustainable and ESG investments, highlighting the need for financial literacy to enhance investment decision-making (Mavlutova et al., 2021).

4. Investor Behavior and Market Preferences

Investor decisions are influenced by service quality, trust, and cost efficiency (Suebsaiaun & Pimolsathean, 2018). A 15% service quality gap has been observed in digital brokerage services, emphasizing the need for improved reliability (Lee et al., 2010).

The rise of mobile trading platforms has made investing more accessible but also raised concerns about risk perception, data privacy, and regulatory oversight (Gupta & Dey, 2023). Events like the GameStop short squeeze highlight how digital platforms encourage retail investor participation and speculative trading (Andreev et al., 2022).

5. Trust, Loyalty, and Digital Finance Adoption

Trust plays a critical role in digital finance adoption, with factors such as platform security, transparency, and reputation influencing investor decisions (Moysidou & Hausberg, 2020). Improved platform usability and customer engagement enhance investor confidence (Penttinen et al., 2018).

However, trust is often affected by biased user reviews and rating systems, which can mislead investors (Berg et al., 2020). Regulations must ensure platform security and transparency to maintain investor confidence in online brokerage services (Tang et al., 2023).

6. Theoretical Perspectives on Investment Behavior

6.1. Behavioral Economics and Prospect Theory

Prospect Theory explains investor tendencies such as loss aversion and risk perception, which influence financial decision-making (Wee, 2010). The theory suggests that investors are more sensitive to losses than gains, leading to emotion-driven trading behaviors (Avineri & Chorus, 2010).

6.2. Diffusion of Innovation Theory

The Diffusion of Innovation (DOI) Theory explains how new financial technologies gain market acceptance (Spencer et al., 2023). The adoption of fintech platforms depends on perceived advantages, ease of use, and demographic factors (Mascia & Mills, 2018). This framework has been applied in various industries, including finance, healthcare, and technology, to study innovation adoption patterns (Call & Herber, 2022).

Research Problem

The study explores the transformation in investment behaviors among Indian investors in the post-COVID era by investigating the shift from traditional brokerage services to digital discount platforms. Key aspects include understanding the influence of digital literacy, technological readiness, service value perception, cost-benefit analysis, and the direct impact of COVID-19 on this shift. The central research questions are:

- What factors drive the transition from traditional brokers to discount platforms?

- How do digital competencies and platform-specific features influence this decision?
- In what ways has the COVID-19 pandemic affected investor attitudes and behaviors regarding digital platforms?

Variables

Dependent Variables:

1. Platform Adoption: The extent to which investors have shifted from traditional brokers to discount platforms
2. Investment Behavior Change: Changes in trading frequency, investment strategy, and decision-making processes
3. Platform Satisfaction: Overall satisfaction with discount broking platforms

Independent Variables:

1. Demographic Factors:
2. Digital Literacy:
3. COVID-19 Impact:
4. Technology Readiness:
5. Cost-Benefit Perceptions:
6. Platform-Specific Features:

Sample Size Calculation

Based on Cohen's (1988) methodology for multiple regression analysis, the required sample size was calculated using the following parameters:

- Confidence Level: 95.0%
- Z-score for 95.0% confidence: 1.9600
- Margin of Error: 9.0%
- Population Proportion: 0.5 (assuming maximum variability)

  Calculation:

  $n = z^2 \times p \times (1 - p) / e^2$

  $= (1.9600^2 \times 0.5 \times 0.5) / 0.0900^2$

  $=118.\ 5635 \approx 119$

Participants and Sampling

- Participants: The study targets individual investors in India who have experience with both traditional brokerage services and digital discount platforms.
- Sampling Method: Non-probability purposive sampling to select respondents who actively participate in digital investment and online trading.
- Sample Size: 118

Data Analysis Techniques

- Exploratory Factor Analysis (EFA):
  Conducted to validate the constructs measured (e.g., Digital Literacy, Technology Readiness) using Likert-scale items.
- Reliability Analysis:
  Cronbach's Alpha was calculated for multi-item scales to assess internal consistency.
- Inferential Statistics:
- Correlation Analysis: To assess relationships among digital literacy, technology readiness, cost-saving perceptions, and platform adoption.

- Multivariate Analysis: To explore the differences in responses among various demographic subgroups.

Exploratory Factor Analysis

- Digital Literacy: A single latent factor explained 73.35% of the variance, indicating strong internal consistency and a unified construct of digital competence.
- Platform Preference: A bifactorial structure emerged, accounting for 60.44% of the variance. One factor relates to economic considerations (e.g., brokerage fees, cost efficiency), while the other captures qualitative aspects (e.g., platform reputation, value-added services).
- COVID-19 Impact: A three-factor solution explained 73.93% of the variance, reflecting distinct behavioral shifts such as increased comfort with digital transactions, trading frequency changes, and strategic investment adaptations. Bartlett's test and the KMO measure confirmed dataset adequacy for factor analysis.

Reliability Test

Table 1: Reliability Test

Subscale	Cronbach's Alpha	N of Items	Mean Score
Digital Literacy	0.906	4	5.338
Technology Adoption	0.866	8	5.279
Trading Behavior	0.836	8	5.397
Feature Importance	0.767	7	5.647
Covid 19 Impact	0.764	8	5.478
Information Research	0.724	3	5.255
Cost and Value	0.66	6	5.01
Trust and Security	0.598	3	5.294
Investment Goals	-0.453	5	4.624

Reliability Analysis (Cronbach's Alpha)

Cronbach's Alpha was computed to assess internal consistency across survey subscales using a 7-point Likert scale (1 = Strongly Disagree, 7 = Strongly Agree).

Digital Literacy ($\alpha = 0.906$, $N = 4$) – Excellent reliability, indicating a strong measure of digital competence.

Technology Adoption ($\alpha = 0.866$, $N = 8$) – High reliability, confirming a consistent assessment of financial technology adoption.

Trading Behavior ($\alpha = 0.836$, $N = 8$) – Strong reliability, effectively capturing active trading tendencies.

Feature Importance ($\alpha = 0.767$, $N = 7$) – Moderate reliability, indicating consistency in real-time data and analysis tool preferences.

COVID-19 Impact ($\alpha = 0.764$, $N = 8$) – Moderate reliability, reflecting pandemic-driven shifts in investor behaviour.

Information & Research ($\alpha = 0.724$, $N = 3$) – Acceptable reliability, evaluating platform research and advisory sufficiency.

Cost & Value ($\alpha = 0.66$, $N = 6$) – Below-threshold reliability, suggesting the need for further refinement.

Trust & Security ($\alpha = 0.598$, $N = 3$) – Lowest reliability, indicating possible heterogeneity in security perceptions.

Correlation heatmap

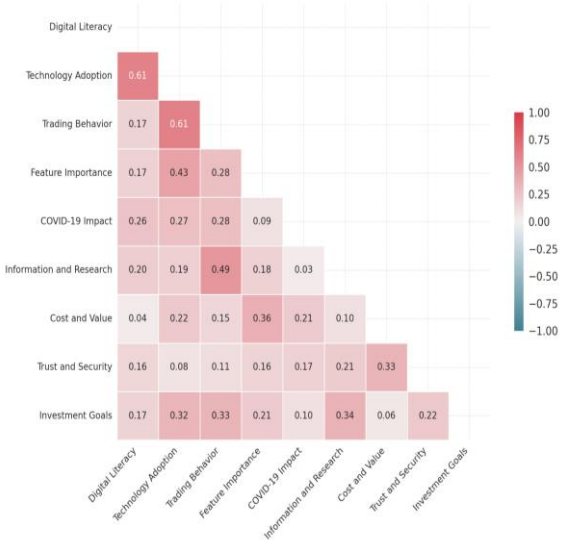

Figure 7: Correlation Heatmap

Scatterplot Matrix

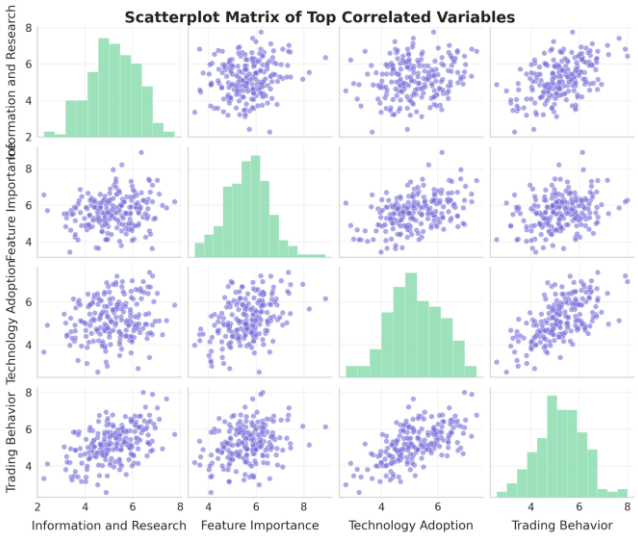

Figure 8: Scatterplot Matrix

Strong bivariate associations:

- Digital Literacy and Technology Adoption: The analysis revealed a robust positive correlation ($r \approx 0.61$, $p < 0.001$), suggesting that increased digital literacy may significantly facilitate the adoption of new technological platforms among investors.
- Technology Adoption and Trading Behavior: A similarly strong association ($r \approx 0.62$, $p < 0.001$) indicates that as investors adopt new technologies, their trading behavior tends to be more dynamic, potentially reflecting increased confidence and engagement in digital trading environments.

Moderate correlations with substantive implications:

- Trading Behavior with Information and Research: A moderately strong correlation ($r \approx 0.49$, $p < 0.001$) implies that investors who actively engage in research and information-gathering are also likely to exhibit distinct trading patterns.

- Technology Adoption and Feature Importance: The moderate relationship ($r \approx 0.43$, $p < 0.001$) suggests that the perceived importance of platform features can play a significant role in driving technology adoption, highlighting the need for user-centered design in digital brokerage platforms.

Multiple Regression

Table 3: Regression Model Summary Table

Statistic	Value
R- Squared	0.652
Adjusted R- Squared	0.638
F - Statistic	44.781
Prob.	0
Std. Error of Estimate	0.582

The regression model explains approximately 65% of the variance in Trading Behavior (with R2=0.652R2=0.652 and an Adjusted R2=0.638R2=0.638). The F-statistic is highly significant ($F(8, 191) = 44.781$, $p < 0.0001$), indicating that the model, as a whole, provides a significant fit for the observed data.

Several predictors were identified as significantly associated with Trading Behavior:

- Digital Literacy:
  A negative standardized coefficient (Beta = -0.437, $p < 0.001$) suggests that higher levels of digital literacy are associated with lower scores in Trading Behavior, potentially indicating more conservative or discerning trading habits among digitally literate investors.
- Technology Adoption:
  Exhibiting a strong positive effect (Beta = 0.790, $p < 0.001$), Technology Adoption is the most prominent predictor. This implies that investors who are quick to adopt new technological platforms are significantly more likely to engage actively in trading behavior.
- COVID-19 Impact:
  With a positive coefficient (Beta = 0.180, $p < 0.001$), the impact of the COVID-19 pandemic has contributed to a shift in trading behaviors, possibly by altering risk perceptions or enabling a transition to online trading platforms.

DISCUSSION AND CONCLUSION

The empirical investigation into investor behavior amidst post-COVID transformation has yielded noteworthy insights, synthesizing both quantitative hypothesis testing and interpretative analyses. Our study set to examine critical premises regarding investor digital literacy, innovativeness, trust in digital platforms, the influence of cost considerations, and the transformative impact of COVID-19 on investor behavior. In a nut cell the study observes a comprehensive analysis of the post-COVID transformation in investor behavior by applying rigorous statistical methods to test salient hypotheses. Although the anticipated surge in digital literacy was not affirmed, the acceptance of the hypotheses related to innovativeness, trust, cost considerations, and the COVID-19 impact marks a significant contribution to understanding contemporary investor dynamics. The findings suggest that while investors are receptive to technological innovations and protective of their digital security, there remains an educational gap regarding the effective utilization of digital tools—a gap that financial institutions and educators must address. The study illustrates the pandemic's role as an accelerant, prompting both market actors and

regulatory frameworks to reconsider traditional paradigms and adopt more responsive strategies in the digital age. Collectively, the research offers critical implications for financial service providers, policymakers, and investors. It underscores the necessity for a recalibrated approach that integrates education, technological innovation, and cost management to foster a resilient financial ecosystem.

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