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Investment decisions under perceived banking stock volatility: Evidence from Indian equity investors

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Abstract

Volatility in banking stocks creates uncertainty that affects how investors assess market conditions, information and institutional stability. Few studies examine these influences together for Indian banking stock investors. This paper examines how financial crisis perception, investor sentiment, market information quality, risk perception and government confidence influence investment decisions among Indian equity investors who perceive banking stocks as volatile. Perceived volatility is treated as the uncertainty context of the study, not as a measured market variable. The study uses a quantitative, cross sectional design and collects primary data through a structured questionnaire from 400 Indian equity investors, using convenience and snowball sampling. Descriptive statistics, exploratory factor analysis, correlation analysis and multiple regression were run in IBM SPSS Statistics. The measurement model was assessed in SmartPLS using indicator loadings, Cronbach's alpha, composite reliability, average variance extracted, the Fornell Larcker criterion and the heterotrait monotrait ratio. The regression model was significant and explained 27.1 percent of the variance in investment decisions. Market information quality was the strongest predictor ($\beta = 0.288$), followed by investor sentiment ($\beta = 0.248$), financial crisis perception ($\beta = 0.234$) and government confidence ($\beta = 0.218$), all significant. Risk perception had no significant effect ($\beta = -0.062$, $p = 0.345$). The findings contribute to behavioural finance by combining behavioural, informational and institutional dimensions in one framework for an emerging market. They suggest that reliable information and trust in regulators matter more to investors than perceived risk. Practical implications include improving disclosure quality and regulatory communication.

***Keywords*:** Banking Stock Volatility, Investment Decisions, Investor Sentiment, Behavioural Finance, Market Information Quality, Government Confidence, Risk Perception

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JEL Classification: G11, G14, G21

1. Introduction

The banking industry (Li, 2022) is a fundamental element of economic development since it helps in the allocation of funds, financial intermediation, and the sustainable growth of the economy. In developing countries like India, stocks of the banking sector comprise a large percentage of the capitalization in equity markets and are viewed to be market indicators. Therefore, movements in the stock prices of the banking sector are not only affected by changes in the macroeconomic environment but also affect investor sentiments and financial market stability (Naik, 2022).There has been considerable uncertainty in financial markets in recent times owing to issues like the spread of the novel Coronavirus, wars, inflation, and fluctuation in interest rate policies. This has led to volatility in bank shares as well as changes in investment behavior in the world and emerging markets. In the case of India, the financial market reforms carried out by Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI), along with the digitization of banking, have brought about investment opportunities, but also uncertainty in the financial markets (Thomas & Kumar, 2025).

Traditional finance theories (Saivasan & Lokhande, 2022) such as the Efficient Market Hypothesis (EMH) assume that people act rationally through efficient information processing, hence creating stock prices that capture all aspects of market fundamentals. Nevertheless, many empirical studies have proven that investment decisions are made based on human psychology rather than pure rationality. Human emotions, psychological factors, market sentiment, and uncertainty have been known to affect investment behavior, particularly during times of high market volatility. The drawbacks of traditional finance have brought about the significance of behavioral finance in analyzing investors' behavior (Arenas et al., 2024).Investor Sentiment (Peng et al., 2023) is one of the behavioral determinants that have been considered important by many researchers because it measures whether the investors are optimistic or pessimistic about future performance of the market. Generally, positive sentiment increases market participation and risk-taking capacity while the negative sentiment leads to cautious investment behavior and decreases market participation. Financial Crisis Perceptions also play an important role in how the investors perceive future market conditions. Even if the actual economic fundamentals stay the same, perceptions of financial instability can make people avoid investing (Korneev et al., 2023) .

The next important factor affecting the investment decisions is that of the risk perception (Mieg, 2022). The way people perceive risk depends upon their experiences, financial knowledge, and psychological traits. The higher level of risk perception can decrease the intentions to invest even if the overall outlook in the markets is positive. Hence, it is crucial to investigate the risk perception among bank stock investors (Singh, 2026).Information quality in the market is yet another factor that affects investment decisions. Proper and clear market information leads to information

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symmetry in the market and thus investors will be able to make an effective evaluation of their investments. Poor information on the other hand leads to higher uncertainty and thus makes investors speculate, especially during times of market uncertainty. Besides information quality, institutional confidence in government policies and regulation of the financial market also shapes investors' expectations about market stability (Hedau, 2024).Despite prior research having thoroughly explored the concepts of bank stock volatility, behavioral finance, and investment decisions, some problems still persist. First of all, previous research mostly explores each concept separately, either concentrating on the issue of volatility modeling, stock prices behavior, or behavioral issues, without taking into account different behavioral and institutional factors in one model. Second, the empirical study of the impact of crisis perception, investor sentiment, information quality of the market, risk perception, and government confidence on investment decisions amid bank stock volatility has not been researched adequately enough, especially for the case of India. Due to the growing number of retail investors in the Indian equities market, further research is required (Abaidoo et al., 2023) (Mishra et al., 2022). The present study (Owusu, 2023) attempts to fill the above mentioned gaps by designing a holistic behavioral framework for the study of impact of financial crisis perception, investor sentiments, quality of market information, risk perception, and government confidence on the investment decisions of Indian equity investors (Albaity et al., 2024). Quantitative research method has been used for the purpose of data collection from 400 investors in the form of survey. Proposed relationships have been tested using IBM SPSS employing the techniques of descriptive statistics, reliability test, exploratory factor analysis, correlation analysis, multiple regression analysis, independent samples t-test, and ANOVA. The expected results of the study will help the body of literature on behavioral finance by generating empiricism from an emerging economy (Tan et al., 2022).The rest of the paper is structured as follows. Section 2 provides a review of the literature on the topic and formulates the theoretical base of the research. Section 3 discusses the conceptual model, whereas Section 4 formulates the research hypotheses. Section 5 explains the methodology of the research, after which Section 6 provides the empirical results of the research. Section 7 analyzes the results with regard to existing literature, whereas Sections 8 and 9 provide the practical implications, limitations, future research and conclusion. The term 'banking stock volatility' used in this study is meant to imply investors' perception of the uncertainty and volatility associated with the banking stocks and not the stock price volatility per se. This is because the investors may behave in a manner that reflects their perception about the uncertainties of the market even when the actual realizations of the market are not consistent with the investors' perceptions. It is for this reason that this study will concentrate on the factors that influence investments when investors perceive the banking stocks to be volatile or uncertain.

1.1 Why banking stock volatility?

The volatility in banking stock is especially relevant in the discussion of investment decisions under behavioral finance because banks are strongly linked with the monetary conditions, credit

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conditions, financial stability, policies, and investor sentiment. This implies that any changes in economic conditions, economic policies, central bank policies, or financial sector news will result in the fast change in expectations about banking stocks. According to the literature discussed in this paper, banking stocks react very sensitively to economic and policy uncertainties, interest rate changes, and investors' sentiment changes.

The banking sector is theoretically suitable for the present study in addition to the reason above because the perceived uncertainty increases the significance of the subjective evaluation of investors. In the case of uncertainty, investors may not consider only the fundamental financial information; investors might also take into account their sentiments, perception of crises, perception of risks, quality of information, and trust in regulatory authorities. Hence, Behavioural Finance Theory could be considered an appropriate theory for studying the investment decisions under such conditions. Furthermore, the Indian setting is a relevant emerging economy where the participation of individual investors, trading by means of digital platforms, fast distribution of information, regulatory developments, and changing macroeconomic environment increased the importance of the examination of investor perceptions. From the literature review, it becomes clear that the current body of knowledge includes relatively few studies on behavioural investment decisions in the case of banking stock uncertainty among Indian equity investors. Consequently, the volatility of banks' stocks is not seen as just an element of the study but as an uncertainty context in which the importance of the subjective, informational, and institutional perceptions should be investigated.

Although there is substantial research literature on investor sentiment, risk perception, financial uncertainty and investment behavior, the empirical literature is quite scarce in explaining how behavioral, informational, and institutional perceptions together affect investment behavior in the presence of banking stock price volatility in India. The current research literature tends to look at all these factors individually, making it hard to measure the contributions of each within the same analysis framework. This paper tries to address this issue by looking at financial crisis perception, investor sentiment, quality of market information, risk perception and government confidence vis-a-vis investment decision. The banking stock price volatility is considered as the perception of uncertainty in which investment decision is made rather than the actual stock price volatility. The analysis is conducted using data from 400 Indian equity investors.

2. Literature Review

2.1 Banking Stock Volatility

Volatility in banking stocks is the measure of variation in the price levels of stocks issued by banking companies in a certain time frame. This phenomenon is influenced by the reactions of investors towards changes in macroeconomic environment, monetary policy, interest rates, regulatory changes, company performances, and other economic surprises. Increased volatility implies higher uncertainty, while decreased volatility signifies relatively constant expectations of

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investors. Considering the importance of the banking industry as a financial intermediary, changes in banking stocks can affect stock markets and their performance in general (Batten et al., 2023).The recent times have seen increased levels of volatility in banking stock prices owing to the coronavirus pandemic, global politics, rising inflation, and tight monetary policies. All these factors have made the business environment uncertain and have forced investors to reevaluate risks and change their investment plans (Antonopoulou et al., 2022). It has been found through empirical evidence that the stocks of banks are more responsive to economic policy uncertainty, fluctuations in interest rates, and central bank activities because all these factors impact the profitability of banks. Volatility in developing countries like India gets even higher owing to market sentiments and other factors (Lee et al., 2023).

A number of scholars have pointed out the fact that the volatility of banks' stocks does not depend only on financial performance but rather increasingly on behavioral factors as well. When there is higher uncertainty, the reaction of the investors is mostly emotional in response to bad news, which leads to an overreaction in buying and selling activities and increases the level of price fluctuations. Thus, fear, overreaction, and herd behavior can be considered important drivers of short-term volatility, regardless of financial performance of banks (Ma & Cheok, 2023).(Manujakshi et al., 2022) Amongst all the sectors in the Indian stock market, the banking industry is amongst the largest and actively traded. It thus becomes more vulnerable to shifts in investor confidence due to regulations introduced by the RBI, innovations in digital banking, asset quality issues and other macro economic policy statements. Perceived banking stock volatility (Galil & Varon, 2024) is thus an important variable to consider in explaining how investors perceive and assess financial risks associated with investment decisions in uncertain markets. In this study, it is the contextual environment in which the behavioral aspect influences investment decision making (Daraei, 2018).

2.2 Financial Crisis Perception

Crisis perception (Almansour et al., 2023) in finance is the subjective perception of the occurrence and effect of financial crises on the performance of the market and investments. Contrary to objective economic measurements, financial crisis perception is affected by personal opinions, past experiences, news media, and perceptions of future economic situations. During times of uncertainty, investors react to financial crisis perception more than any other factor related to the state of the market.Financial crisis perceptions (Asghar et al., 2023) arising from the current financial disruptions in the world such as the COVID-19 pandemic, inflation risks, bank instabilities, and geo-political tensions have changed the way investors perceive financial risks. The analysis demonstrates that when the perceptions of financial crises are higher among the investors, then there will be lower levels of confidence amongst the investors, leading to adopting conservative approaches towards investments. In anticipation of negative economic times, investors tend to delay their investment decisions or invest in less risky areas and away from risky areas like the banking industry (Rodrigues et al., 2023).

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The theory of behavioral finance shows that people tend not to perceive any financial crisis using a purely rational approach. Rather, emotions such as fear and worry increase their perception of an unfavorable situation, leading to overreaction and market volatility. Furthermore, according to the Prospect Theory, investors tend to pay more attention to the possibility of losing money rather than gaining it; therefore, investors react to information associated with the crisis disproportionately (Maghyereh & Abdoh, 2022).Perceptions about economic slowdowns, banking reform, changes in monetary policies, and the instability of the international economy have had a great impact on expectations in the Indian financial market. In the case of retail investors, they tend to be vulnerable to crisis-related information due to their inability to gain professional analysis of financial situations, coupled with the availability of only publicly available information. Although there is an increasing number of studies related to the field of behavioral finance, there is a lack of studies empirically evaluating the impact of financial crisis perceptions on the investment decisions of Indian equity investors (Cevik et al., 2022).

2.3 Investor Sentiment

The term investor sentiment (Peng et al., 2023) can be defined as the optimism or pessimism of the investors concerning the future performance of the market, which cannot be fully explained using the economic fundamentals. This is an indicator of the feelings of the investors in relation to the market and influences their expectations, willingness to take risks, and investment decisions. While the rational approach to investments suggests that investment decisions are purely based on information available, the behavioural finance approach emphasizes the influence of emotions and perceptions on investment decisions.The impact of investor sentiment on trading has been so strong that the construct is considered to be one of the most powerful in the finance domain, given that it influences trading, asset pricing, and market volatility. Investor sentiment that is positive tends to drive investors to actively engage in the stock market by taking up more risks and buying growth stocks. On the other hand, negative investor sentiment tends to make investors adopt a conservative attitude towards investments and trading in the stock market (Ung et al., 2024).

The previous empirical research has always shown a positive correlation between investor sentiment and investment decisions. Good market sentiment is related to more purchasing of stocks, portfolio diversification and investment confidence while pessimistic investor sentiment leads to delayed decision making about investments, excessive selling and market reactions. Investor sentiment has also been found to be a key factor of banking stock performance because of high sensitivity of financial firms to the change in investor sentiments. In times of uncertainty within the banking industry, investors base their investment decision-making not on the financial information but on their emotions and sentiments (Cheng, 2022).The role of investor sentiment (Guo, 2023) in the Indian equity market is very significant due to the fast increase in retail investors, digital trading platforms, and financial information from social media sources in the Indian stock market, making the investment behavior of the investors highly influenced by their

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sentiment. Retail investors tend to act on news, views of experts, and rumors in the market, which make their investment decisions based on sentiment, rather than fundamental factors. While there have been prior studies regarding investor sentiment and its impact in various market conditions, there have been few studies focusing on how investor sentiment affects investment decision in a volatile banking stock market condition in India (Khan et al., 2023)

2.4 Risk Perception

Risk perception (Ahmed et al., 2022) is described as the subjective assessment of the degree of uncertainty and risk that an investor is facing when investing in assets. As opposed to objective risk, which is quantified through statistical parameters like volatility or return variation, perceived risk is influenced by the experience of an individual, his or her financial knowledge, psychological factors, and the market environment. Therefore, people exposed to the same financial information will perceive risk differently when investing (Bauer et al., 2023).The theory of behavioural finance suggests that most investments decisions depend on the perception of risks as opposed to actual risk factors (Sengupta & Mitra, 2023). According to Prospect Theory, investors tend to be risk-averse and have higher aversion to losses than equivalent gains. This means that higher levels of risk perception tend to act as barriers to investments, lower risk-taking attitudes and prompt the use of conservative portfolios. In times of economic uncertainty, the reaction of the investor towards any negative information tends to be greater (Abdeldayem & Aldulaimi, 2024).

It has already been established that the risk perception has a considerable effect on investment behaviour of investors (Kamoune & Ibenrissoul, 2022). Higher risk perception decreases the willingness of the investors to make investments in risky assets while lower risk perception increases the willingness of the investors to make such investments. In case of the banks, any change in the prices of stocks, regulations, macroeconomic environment and the news about financial situation may increase the risk perception of the investors (Yeo et al., 2024).Amongst Indian equity market stocks, those from the banking sector are highly responsive to fluctuations in the economic environment and the confidence level of investors. Ordinary investors normally make decisions regarding their investments in banking stock on the basis of perception of financial security and not purely on financial measures. Since there have been increased levels of volatility in the past few years, an analysis of how investors perceive risks associated with banking stock volatility will help explain their investment behavior. Hence, this research focuses on risk perception as a behavioral determinant of investment decisions (Maharana et al., 2024).

Similarly, investor sentiment is not theorized as a causal antecedent of risk perception in the present model. Both constructs represent distinct aspects of investor appraisal: sentiment captures the affective orientation toward future market conditions, whereas risk perception captures the subjective evaluation of potential adverse outcomes. Because the present empirical design does not test a sequential relationship between these constructs, the study does not claim that sentiment causes risk perception. Instead, both are examined as parallel predictors of investment decision.

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2.5 Market Information Quality

Market information quality (Hamid et al., 2022) is described as the precision, dependability, relevance, completeness, and reliability of information that investors use to make investment decisions. Good market information quality lessens the problem of information asymmetry among market players, which enables investors to evaluate the viability of the investment opportunity, and makes sound financial decision-making. On the other hand, poor market information increases uncertainties, undermines investor confidence, and leads to bad investment decisions (Salisu et al., 2023).Modern investors (Dixit et al., 2022) utilize various information sources such as financial statements of companies, financial statements of stocks exchanges, analysts' reports, regulatory statements, financial news and digital investment platforms. The fast development of Internet trading and social media has made market information abundant, but at the same time has increased the issue of the verifiability of the information. Rumors, misinformation, and unconfirmed financial news may create false expectations of investors especially during volatile periods in the market (Yu et al., 2023).

From previous research, it is clear that information quality enhances investment confidence, minimizes uncertainty perceptions and encourages better decision-making on investments. With proper corporate disclosure and good communication by financial institutions, investors can assess the risk and probable returns effectively. Poor quality of information leads to speculation, emotions and overreactions in the market, particularly among retail investors who lack knowledge in finance. As such, information quality has emerged as a significant factor influencing investor behaviour (Hutahayan et al., 2024).In the Indian equity market, SEBI regulatory interventions have resulted in better disclosure practices and increased corporate transparency (Nair & Panda). Despite this, there remain many issues for the investor to grapple with in terms of over information, contradictory views in the market, and fast spread of unconfirmed information through the Internet. There is a possibility that these can affect an investor's decision beyond the actual financial results. Therefore, this research will consider the quality of market information as an important determinant of investment decisions and will hypothesize that investors who have access to good quality market information will make informed investment decisions despite banking stock volatility**.**

2.6 Government Confidence

Confidence in Government relates to the level of trust that investors have in the capabilities of the government institutions and financial regulators for ensuring economic stability and formulating policies and maintaining the integrity of financial markets. In the case of equity investments, the confidence of the investors in the regulatory bodies like the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) is an important aspect that impacts investors' expectations and behavior.Prior research reports that government intervention, monetary policy decisions, fiscal actions, and regulatory changes play an important role in influencing investor

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confidence, especially during times of financial turmoil. Appropriate policy action and proper communication from regulatory bodies can help prevent panic in the market and increase investor confidence in investing their money. On the other hand, improper policies may affect investor confidence.

In India, the constant changes in the banking sector and finance industry, improved corporate governance, disclosure policies, and campaigns for the use of digital financial services have helped improve investor confidence. However, the volatility of banking stocks, economic uncertainties, and financial crises around the world keep affecting the perception of investors concerning the effectiveness of the government's policies. As a result, investors normally take into account the reliability of the government while considering investments in the banking industry. While the significance of institutional trust is well-known, there have been few empirical studies focusing on the role of government confidence in determining investments amid perceptions of stock volatility in the Indian capital market. This paper thus seeks to include government confidence as one of the behavioral variables, where confidence in government and regulators would positively impact investors' decisions.

2.7 Investment Decision

Investment Decision is defined as the process through which the investor makes the decision of how to invest his funds amongst the various investment options, to meet his expected financial goals, keeping into account the various risk and returns involved. In the stock markets, investment decisions are taken after analyzing various financial, economic, and behavioral aspects before buying, retaining, or selling any security. Though the traditional finance theory believes in rational decision-making by investors, behavioral finance claims otherwise (Lathief et al., 2024).The investment process is affected by both internal and external forces. While internal forces consist of the investors' level of understanding of finance, investment expertise, risk appetite, and behavioral traits, the external forces entail the state of the market, economic policy, corporate disclosures, regulation, and macroeconomic uncertainty. When market volatility is high, behavioral forces tend to assume greater significance in decision making due to subjective judgment taking precedence over objective analysis.

The effects of financial crisis perception, investor sentiment, information quality, risk perception, and confidence in government institutions on investment behaviour have been proven by empirical studies conducted recently. Individuals who feel more financially stable, obtain trustworthy information about the state of the market, and have faith in the government institutions are usually ready for investment in equities. At the same time, higher financial risk perception, negative sentiment about the market situation, and economic uncertainty will result in decreased investment activity (Vuković & Pivac, 2024).Investment decisions within the equity markets of India have been greatly affected by developments in technology and improvements in financial inclusion, which have made retail participation increase significantly in the markets. On the other hand, this

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development has made it necessary to take into account the importance of behavioral aspects of investments in investment decisions. Retail investors tend to make investment decisions very quickly in reaction to market news, bank-related developments and policy pronouncements, thereby becoming highly sensitive to the state of the market environment (Nair et al., 2023).From the view of behavioural finance theory, this research work is concerned with investment decision, which is taken to be the dependent variable, as affected by financial crisis perceptions, investor sentiments, market information quality, risk perceptions, and confidence in the government, under the condition of perceived stock volatility of banks. Investigation of these relationships gives an insight into how behaviour drives investment decisions by Indian equity investors and adds to the body of behavioural finance literature.

2.8 Behavioural Finance Theory

The theory of Behavioural Finance forms the major theoretical underpinning for the influence of psychology, emotion, and cognition on investors' financial decision making. Contrary to the conventional theories of finance that hold investors to be completely rational and utility maximizing at all times, the theory of behavioural finance appreciates that the financial decisions of investors are often influenced by biases, emotions, and incomplete information. This behavioural element becomes more pronounced during market uncertainty when investors' decision-making becomes less rational. In relation to the volatility of banks' stocks, behavioural finance offers a complete theory for explaining investor behaviour (Akin & Akin, 2026).Amongst the many theories in behavioral finance, one of the most prominent is the Prospect Theory. The Prospect Theory states that people consider their potential gains and losses in relation to a reference point as opposed to their absolute gain or loss. More importantly, the investors are said to be loss averse, such that losses have a greater effect on their psyche than any equal gain. This leads to investors becoming increasingly risk averse in situations of uncertainty and makes them reluctant to invest even when there are future possibilities of success.

Another theoretical framework is the Heuristic theory, which argues that investors always utilize heuristic tools or simplified decision rules in decision-making in investments in uncertain situations. Investors usually do not perform complete financial analysis but rather depend on their recent experience in the markets, the media, their beliefs or even other people's advice. While heuristics make decision-making easier for investors, they can cause cognitive biases such as overconfidence, representativeness and availability bias and lead to irrational behavior in investments. Such biases become very useful in the case of the volatile banking markets because of fast changes in the market environment (Gadzinski et al., 2022).Information Processing Theory gives more insight into the process through which investors obtain, interpret, and use information in their decision-making processes. As per this theory, the quality of decisions is based on the quality of information. High-quality information makes it easy for investors to make objective evaluations, while poor quality leads to increased uncertainties that drive behavior towards some

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cognitive distortions. In today's world of online finance, information processing becomes extremely important due to the large amount of information available to the investors from various online sources.

Though the Efficient Market Hypothesis (EMH) makes the assumption that the prices of stocks take into account all public information and investors act rationally, several studies have challenged the underlying assumptions of EMH. Anomalies, overreactions, speculation, and sentiment-induced price changes suggest that markets do not always operate at maximum efficiency (Khairajani, 2023). This is especially true in times when the banking industry experiences fluctuations in performance levels, as the emotional behavior of the investors leads to the temporary deviation of prices from fundamental values. This has led to the development of behavioral finance as a supplementary approach.Based on these theories, the findings suggest that investment decisions are affected by not only economic and financial variables but also investors' behavioural reaction to the volatility of banking stocks. Perception of financial crisis, investor sentiment, information quality, perception of risk, and government confidence jointly affect investors' perception, which ultimately affects their investment decisions. Hence, Behavioural Finance Theory is a strong theoretical basis for the development of the proposed research model. The previous researches conducted have produced varying findings on the effect of risk perceptions and behavioral variables on investments. Where some studies say that the effect of risk perception is that it makes people less willing to invest, some other researches reveal that investors continue investing even if they perceive risks in the investments because of some opportunities in the market. The current study will contribute to the literature available in the area of study by taking into consideration risk perceptions alongside other variables.

2.9 Research Gap

Literature Review demonstrates that a great deal of empirical support is provided for the role that investor sentiment, perception of financial risk, financial crises, market information, and institutional perceptions play in affecting the investment behavior of individuals. However, the relationships discussed above need further investigation in terms of their applicability to the problem of banking-stock volatility in the emerging economy such as India. Thus, the research gap does not lie in the choice of variables used in the research but rather in the lack of theoretical and empirical knowledge about the way behavioral, informational, and institutional perceptions affect investors' decision-making process under the conditions of perceiving banking stocks to be volatile. First, the research gap is connected with the specific Indian context and the question of how Indian equity investors make investment decisions under the conditions of banking stock being perceived to be volatile. In fact, there is much research conducted concerning the issues of stock price volatility, investor sentiment, risk, and behavioral responses of investors, yet comparatively little is known about the way the Indian equity investors behave when making decisions about their investments under the conditions of perceived banking-stock volatility. Such

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context is especially relevant for the current situation in India as the Indian banking sector is extremely dependent on the monetary policy, regulatory changes, economic instability, financial sector reforms, and investor sentiments.

The second research gap concerns the lack of consideration of interactions between behavioural, informational and institutional perceptions. Prior studies have established the role of various individual perceptions such as investor sentiments, risk perceptions and crisis perceptions in influencing investment decisions, whereas other strands of research have focused on the importance of information quality or institutional confidence. However, not much empirical attention has been devoted to the interactions of the different dimensions together in the context of investment decisions under a single behavioural-finance lens. Especially, the impact of investor confidence in government policies and financial regulators such as RBI and SEBI on investment decisions under conditions of percieved banking-stock volatility has been comparatively less explored. The reason behind this is because the investor decisions do not merely depend upon the market information and individual perceptions but also the perception about regulatory credibility and stability that influences market expectations. Thirdly, a research gap pertaining to the temporal nature of the Indian investment environment emerges due to changes in the Indian investment environment after the pandemic era. The post-pandemic investment environment has been witnessing a very high level of financial digitalization, active participation of retail investors, inflationary pressure, changed monetary policy conditions and availability of real-time financial information through digital means. These changes have brought changes in the information environment in which the investors make their decisions. On the other hand, just because of availability of more financial information does not mean that the information received by investors would be of the same quality. Thus, the findings obtained in earlier market conditions cannot fully explain the investment decisions in current Indian banking stock market conditions.

Fourth, there is an empirical gap relating to the relative significance of various determinants of investment choices. Investigating individual determinants separately allows establishing if there is a connection between a certain determinant and investment activity, but does not tell much about the determinants that retain their significance while multiple behavioural, informational, and institutional perspectives compete with each other. Examining the determinants in the framework of the same empirical model makes it possible to find out what factors are relatively more significant in explaining investment choices. In other words, the current study will allow understanding whether information quality, investor sentiment, financial crisis perception, risk perception, or government confidence provide more valuable explanatory power for the investment choices. So, the novelty of the current research is not in the fact that several factors have been introduced into the model, but in the fact that the investigation of the various dimensions of the investors' decision-making process has been done in the context of emerging market and banking stock volatility. In other words, the research gap covered by the current study concerns the issue of the coexistence of context, construct dimensions, market changes, and comparative

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empirical analysis. Through the empirical investigation of financial crisis perception, investor sentiment, market information quality, risk perception, and government confidence as distinct dimensions of investment decisions in the context of Indian banking stock volatility, the study contributes to the behavioural-finance literature.

2.10 Theoretical Motivation and Integrated Logic of the Model

Financial crisis perception, investor sentiment, market information quality, risk perception and government confidence have been chosen as dimensions because of the belief that in the presence of perceived banking-stock volatility, an investment decision will be governed by three dimensions – behavioural dimension (financial crisis perception, investor sentiment, and risk perception), information dimension (market information quality) and institutional dimension (government confidence). This is justified by Behavioural Finance Theory, Prospect Theory and Information Processing Theory that acknowledge the importance of subjective perceptions, information, and institutional confidence as ways of interpretation of uncertainty. Thus, the analysis of three dimensions will make it possible to evaluate the relative role of each of them in investment decision making without considering five constructs as some random grouping of previously used variables. The study does not develop any new causal mechanism of mediation or moderation; it just extends the Behavioural Finance Theory with regard to Indian banking-stock environment by taking into account behavioral, information and institutional aspects.

2.11 Theoretical Advancement and Conceptual Extension

The literature suggests that financial crisis perception, investor sentiment, information quality in the market, risk perception, and institutional confidence are important aspects of investment behavior. However, how much each aspect contributes is yet to be sufficiently analyzed in the context of volatility perceptions in the banking stocks in India. This study bridges the empirical gap in the literature by analyzing these five aspects and their interrelationship with investment behavior. What this study offers is not a novel behavioral finance model but a comprehensive analysis of behavioral, informational, and institutional aspects.

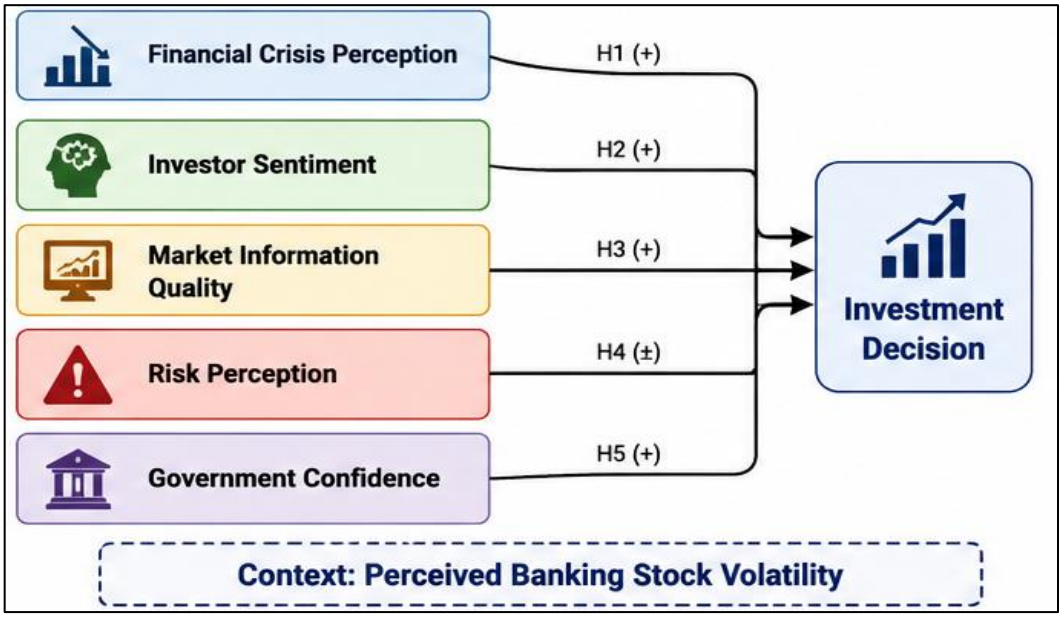
3. Conceptual Framework

The theoretical framework is anchored on Behavioural Finance Theory and seeks to explore the relationships between five independent variables namely Financial Crisis Perception (FCP), Investor Sentiment (IS), Market Information Quality (MIQ), Risk Perception (RP), and Government Confidence (GC) with the dependent variable, which is Investment Decision (ID) by Indian equity investors. The framework considers the behavioral, information, and institutional approaches to evaluate the contribution made by these variables to investments. Volatility of banking stocks represents the uncertainty context within which this study is conducted and is not considered a measurable market variable.

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Figure 1. Proposed Research Framework



The suggested research framework is shown in Figure 1 and has been derived on the basis of Behavioural Finance Theory. This framework is premised on the notion that uncertainty does not affect investment decisions through a single psychological process. Rather, uncertainty is evaluated through several appraisal processes. In situations where banking stocks are considered as being volatile, behavioral perceptions are formed in relation to how serious the financial environment is, the future expectations of the market, and the investment risks. Behavioral perceptions are symbolized by financial crisis perception, investor sentiment, and risk perception. In addition to this, the investors appraise how good the information provided is to help evaluate the uncertain environment. This is captured as market information quality. Lastly, the investors evaluate the adequacy of the institutional environment in terms of policy and regulatory certainty, which is symbolized by government confidence. Accordingly, the theory distinguishes uncertainty perception, uncertainty interpretation, and institutional reaction to uncertainty assessment as distinct theoretical variables. The perception of financial crisis and risk captures the perceived threat due to the financial situation, the investors' attitude towards future financial situation represents the attitude towards the market situation, market information quality accounts for the information basis used in the assessment of the financial situation, while the government confidence accounts for the institutional security regarding the financial system.

4. Hypothesis Development

4.1 Financial Crisis Perception and Investment Decision

Perception of financial crisis involves the level at which the investors understand the financial instability and its potential impacts on market performance. From a behavioural finance point of

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view, a higher level of recognition of the conditions surrounding the crisis makes the condition of uncertainty more salient and causes the investors to re-evaluate their expectations of future returns and investment opportunities. Re-evaluation can lead to either of two behavioural outcomes; investors may withdraw from investment due to deteriorating market conditions, or they may continue to invest because of the opportunity the market disruption presents. Thus, it cannot be argued theoretically that recognition of crisis situation equals to investors' withdrawing from investments. On the contrary, the theoretical argument is that perception of crisis alters the investor's assessment of investment opportunities and influences his/her investment decisions.

H1: Financial Crisis Perception Significantly influences the investment decisions of Indian equity investors under perceived banking-stock volatility.

4.2 Investor Sentiment and Investment Decision

The investor sentiment is the overall positive or negative mood investors have about the future market conditions. The theory of Behavioural Finance argues that investment behaviour might be affected by expectations and evaluations that go beyond the objective aspects of financial fundamentals. Positive expectations about future market performance would make the investment projects more appealing and make investors more willing to invest. On the contrary, negative expectations would make the investors more cautious about investing. Therefore, this theoretical explanation works based on the evaluation of future market conditions, meaning that investor sentiment affects the evaluation of investment opportunities, and thus makes investments happen.

H2: Investor Sentiment significantly influences the investment decisions of Indian equity investors under perceived banking-stock volatility.

4.3 Market Information Quality and Investment Decision

Information quality is related to the perception of the reliability, relevance, completeness, and value of the market information that investors have. Importance of information quality from a theoretical point of view can be seen through the process of making a decision. Investors need information in order to understand the market situation and to make comparisons between different investment opportunities. According to Information Processing Theory, high-quality information makes the analysis of complex environments easier, while low-quality or inconsistent information increases the level of ambiguity, leading the investors to rely on subjective opinions. From the viewpoint of behavioral finance, information quality impacts the situations where investors form their perceptions and expectations.

H3: Market information quality significantly influences the investment decisions of Indian equity investors under perceived banking-stock volatility.

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4.4 Risk Perception and Investment Decision

Perception of risk involves how the investors subjectively view the uncertainty and the possible bad outcomes of an investment. According to behavioral finance theories, the difference between the perception of risk and objective risk is that the perception of risk is done through subjective opinions and expectations by investors regarding uncertainty. When there is an increase in the perception of downside risk of the investment, then the investment may turn out to be less attractive, possibly leading to reduction in participation or adopting a different behavioral approach altogether. This is not always the case since there are varying degrees of risk tolerance among investors and they may invest despite their risk perception.

H4: Risk perception significantly influences the investment decisions of Indian equity investors under perceived bankin-stock volatility.

4.5 Government Confidence and Investment Decision

The level of institutional trust is a major influence on the behavior of investors, as there is a positive relationship between the level of trust in the government and investments made. When investors see that regulatory bodies and state policies can be trusted, the expectations regarding the macroeconomic environment rise, thus reducing uncertainty within the system. In this regard, it is especially true of the banking sector, which is one of the most regulated in the world. Moreover, from the point of view of theory, such institutional trust is an independent factor.

H5: Government confidence significantly influences the investment decisions of Indian equity investors under perceived banking-stock volatility.

5. Research Methodology

5.1 Research Design

The analysis utilized a quantitative research method to assess the impact of the financial crisis perception, investor sentiments, information quality of the market, risk perception and confidence in the government on investment decisions amid perceived volatility of banking stocks. Cross-sectional design was used for this research due to the ability of such method to obtain uniform data from a number of respondents and conduct statistical analysis of the relationship between several variables.

5.2 Operational Scope of Perceived Banking-Stock Volatility

In this study, volatility in the banking stock market is considered a perceived market condition and not an objective measurement of a financial market variable. The study relies on the investors' perception of uncertainty and volatility in the banking stock market and does not measure actual volatility based on historical returns or any implied volatility or market volatility index. In this regard, this study analyses the relationship between financial crisis perception, investor sentiment,

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quality of information in the market, perception of risk, government confidence, and investment decisions in relation to perceived banking stock market volatility.

5.3 Assessment of Common Method Bias

To address potential common method bias (CMB) from using a cross-sectional, self-administered questionnaire, the study implemented both procedural and statistical remedies.

- Procedural Controls: Minimized response bias by ensuring respondent confidentiality, clarifying item wording to reduce ambiguity, and conceptually separating predictor and outcome constructs.
- Statistical Assessment: Evaluated CMB using Harman's single-factor test via unrotated exploratory factor analysis.

The Results section confirms whether the first factor accounts for the majority of the variance, indicating if CMB threatens the findings.

5.4 Population and Sampling

The target population was made up of individual equity investors that had already been trading within the stock markets of India. In light of the fact that there was no complete sampling frame available for all equity investors, a mixed strategy of convenience and snowball sampling was used. Individuals who had investing experience in equity markets were chosen, focusing mainly on banking stocks. The survey was conducted through online forums and social media platforms.

5.5.Sample Size

A total of 400 valid responses were obtained and used in the final analysis. The sample size meets the criteria set out by Hair et al. (2022), according to whom, for behavioral and multivariate statistical analysis, it is important to have a large enough sample to obtain accurate and reliable results. The sample size is sufficient to conduct reliability analysis, factor analysis, correlation analysis, and regression analysis.

5.6 Questionnaire Development

An instrument, consisting of a structured questionnaire, was devised using well-established measurement scales from previous literature on behavioral finance. The questionnaire was divided into two parts. The first part contained the respondents' demographic data, namely gender, age, educational background, investment experience, and annual income. The second part assessed six constructs, namely Financial Crisis Perception (FCP), Investor Sentiment (IS), Market Information Quality (MIQ), Risk Perception (RP), Government Confidence (GC), and Investment Decision (ID).These constructs were assessed with the help of five observed variables for each, which were derived from well-established literature, with minor alterations to make them more suitable for the Indian banking stocks market. These variables were rated by the participants on a five-point Likert scale from 1 = Strongly Disagree to 5 = Strongly Agree. The measurement items were selected by

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modifying scales that have been employed in previous studies on the topic. Five items were formulated for each of the constructs on a scale of 1 to 5 which ranged from "strongly disagree" to "strongly agree." The measurement items were modified in order to fit the context of investment in Indian banking shares. The questionnaire was reviewed by subject matter experts before administering the survey.

5.7 Pilot Study and Instrument Validation

The main survey was preceded by the review of the questionnaire by subject matter experts from academia and the field of finance. Changes to make the questions easier to understand and less ambiguous were made where necessary. The final version of the questionnaire was then used for the main survey. Reliability was tested using the Cronbach's Alpha while construct validity was checked using exploratory factor analysis (EFA).

5.8 Reliability and Construct Validity Assessment

To ensure instrument adequacy, this study evaluates reliability, convergent validity, and discriminant validity before conducting structural hypothesis testing (results in Table 4).

- Reliability: Internal consistency is examined using both Cronbach's alpha and composite reliability (CR).
- Convergent Validity: Assessed via standardized factor loadings to check indicator representation, and Average Variance Extracted (AVE) to capture construct variance over measurement error.
- Discriminant Validity: Evaluated strictly using the Fornell–Larcker criterion (comparing the square root of AVE to construct correlations) and the Heterotrait–Monotrait (HTMT) ratio to confirm distinct constructs.

5.9 Variables of the Study

The study examined five independent variables and one dependent variables.

Independent Variables: Perception of Financial Crisis (PCF), Investor Sentiment (IS), Quality of Market Information (QOMI), Perception of Risk (PR), Confidence in Government (CG)

Dependent Variable: Investment Decision (ID)

5.10 Data Collection Procedure

The primary data was collected by administering an organized survey questionnaire using online and offline modes. The responses on the online survey were received via Google Forms distributed in the investor groups and financial forums, whereas the offline surveys were distributed to the investors by the investment brokers and investors' networks. The participation in the survey was voluntary and prior to filling up the questionnaire, the respondents were made aware of the scholarly nature of the study.

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5.11 Data Analysis

Data were analyzed using IBM SPSS Statistics and SmartPls. To begin with, the descriptive statistics were calculated to present the demographic characteristics of respondents and their responses to constructs. The reliability test using Cronbach's alpha coefficient was run to check the internal consistency of each construct. Moreover, exploratory factor analysis (EFA) was done with the aid of KMO measure and the test of sphericity to check the validity of constructs.Furthermore, the Pearson correlation test was applied to find out the relationships between the variables under analysis and detect multicollinearity. Multiple regression analysis was used to find out the impact of financial crisis perception, investor sentiment, market information quality, risk perception, and government confidence on investment decision making. Besides, an independent samples t-test and one-way ANOVA were run to see if the investment decisions differ among various demographics such as gender and age. The threshold of significance was $p<0.05$ for all the tests. The chosen approach allows for conducting a thorough analysis of the hypotheses.Before testing the hypotheses, the measurement properties of the constructs were evaluated.Cronbach's alpha and Composite Reliability were used to verify internal consistency reliability.Standardized factor ladings and AVE Confirmed convergent validity, whereas the Fornell-Larcker criterion and HTMT ratio established discriminant validity.

Figure 2. Research Methodology Framework

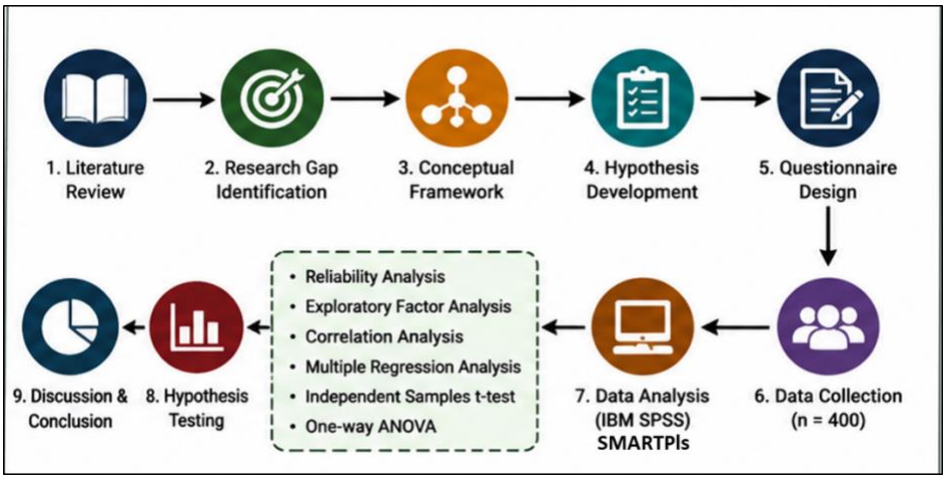


Figure 2 shows the general methodology used in the current research study. The research methodology starts with defining the research problem after undertaking a thorough literature review, followed by the development of the conceptual model and research hypotheses. After this, a structured questionnaire was developed and validated prior to data collection from 400 equity investors in India. The data collected were analyzed using IBM SPSS via descriptive statistics, reliability analysis, exploratory factor analysis, correlation analysis, multiple regression, independent samples t-test, and one-way ANOVA. Simultaneously, Partial Least Squares Structural Equation Modelling (PLS-SEM) was done with the aid of SmartPLS to check the

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reflective measurement properties as well as the latent structural paths. The analysis results from the both software packages were subsequently employed to conduct hypothesis testing and draw final conclusions.The findings generated from the aforementioned analyses were then used to test the hypotheses, discuss, and draw conclusions.

6. Results

6.1 Measurement Model Assessment

Measurement properties of the constructs used in the hypotheses were examined prior to examining the proposed hypotheses. Internal consistency reliability was examined using Cronbach's alpha and Composite Reliability. Convergent validity was examined through the standardized loading of indicators and AVE, whereas discriminant validity was examined through the Fornell-Larcker criterion and HTMT ratio.

6.2 Respondent Profile

A total of 400 valid responses made up the final analysis. 54.3% (n=217) of respondents were males, whereas 45.8% (n=183) were females. It could be said that there was a fairly even balance in terms of gender among the respondents. In terms of age, the most represented age group was those aged between 26-35 years (35.3%), followed by 36-45 years (24.0%), below 25 years (17.5%), 45-55 years (16.3%) and above 55 years (7.0%). From the demographic breakdown provided, one could observe that most of the respondents comprised of economically active persons engaged in investing in equities, thus making the sample suitable for behavioral investment studies in the Indian banks.

Table 1. Respondent Demographic Profile

Gender					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	**Male**	217	54.3	54.3	54.3
	Female	183	45.8	45.8	100.0
	Total	400	100.0	100.0	

Age Group

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		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**below 25**	70	17.5	17.5	17.5
	26 - 35	141	35.3	35.3	52.8
	36 - 45	96	24.0	24.0	76.8
	45 -55	65	16.3	16.3	93.0
	Above 55	28	7.0	7.0	100.0
	Total	400	100.0	100.0	

Table 1 indicates, the study included 400 valid responses from Indian equity investors. Male respondents Constituted 54.3% of the sample, while females accounted for 45.8%, indicating a balanced gender distribution. Most participants belonged to the 26-35 years age group (35.3%), followed by the 36-45 years group (24.0%).The demographic characteristics indicate that the respondents represent economically active investors with practical exposure to equity investments, thereby providing an appropriate sample for investigating behavioural factors influencing investment decisions under banking stock volatility.

6.3 Descriptive Statistics

Descriptive statistics were computed to test the central tendency and dispersion of the variables used in the study. The highest mean score was obtained for the Financial Crisis Perception (Mean = 3.9835, SD = 0.4835). This is an indication that the respondents perceived financial uncertainty as affecting their banking stock investments. Risk Perception also obtained relatively high means (Mean = 3.9580, SD = 0.6058) implying that the investors were cautious of any risks of financial loss associated with fluctuations in the banking stocks. The Market Information Quality had a mean of 3.8320 (SD = 0.4944). This shows the moderate level of confidence of the respondents regarding the information available on the financial situation. Similarly, the Investor Sentiment had a mean of 3.7575 (SD = 0.6022). This indicates that there were some positive investor expectations regarding the banking stocks. The Government Confidence had the least mean (Mean = 3.6445, SD = 0.5091) implying lower confidence in government actions and interventions. Investment Decision obtained a mean of 3.7790 (SD = 0.3703).

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Table 2. Descriptive Statistics

Variable	Mean	SD
FCP	3.984	0.484
IS	3.758	0.602
MIQ	3.832	0.494
RP	3.958	0.606
GC	3.645	0.509
ID	3.779	0.370

Table 2 indicate generally positive perceptions across all constructs. Financial Crisis Perception recorded the highest mean score, followed closely by Risk Perception, whereas Government Confidence exhibited the lowest mean. The relatively low standard deviations indicate consistent responses among participants.

6.4 Reliability Analysis

Internal consistency of all the constructs was determined using the Cronbach's alpha coefficient. The value of Cronbach's alpha for each construct exceeded 0.70, which is considered to be an acceptable level of reliability. Financial Crisis Perception obtained a Cronbach's alpha of 0.826, Investor Sentiment – 0.896, Market Information Quality – 0.835, Risk Perception – 0.889, Government Confidence – 0.842, and Investment Decision – 0.702.

Table 3. Reliability Analysis

Construct	Cronbach's α
Financial Crisis Perception	0.826
Investor Sentiment	0.896
Market Information Quality	0.835
Risk Perception	0.889
Government Confidence	0.842

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Investment Decision	0.702

Table 3 indicates, Cronbach's alpha values ranged from 0.702 to 0.896, exceeding the recommended threshold of 0.70. These findings demonstrate satisfactory internal consistency and confirm that the measurement scales reliably captured their respective constructs.

6.5 Exploratory Factor Analysis

Table 4. Exploratory Factor Analysis

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.697
Bartlett's Test of Sphericity	Approx. Chi-Square	683.405
	df	15
	Sig.	.000

Table 4 (EFA) was conducted to measure construct validity of the measurement model. The value of Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was found to be 0.697, which showed adequate sampling for conducting factor analysis. The result of Bartlett's Test of Sphericity was found to be significant ($\chi^2 = 683.405$; $p < 0.001$).The Principal Component Analysis identified two components with an eigenvalue higher than 1, accounting for 63.15 percent of the total variance. The factor loadings were between 0.540 and 0.905, being higher than the threshold value of 0.50. Measure of Sampling Adequacy (MSA) known as Kaiser-Meyer-Olkin (KMO) was 0.697, which means adequate sampling adequacy for exploratory factor analysis (EFA). But this measure should be considered as moderate rather than good. The results suggest that there are enough interrelations between the observed variables, but the common variance is not high. The result of Bartlett's Test of Sphericity was statistically significant ($\chi^2 = 683.405$; $p < 0.001$), what means that the correlation matrix is not identical matrix. Taking all these results into account, one can say that the data set was suitable for performing exploratory factor analysis. But taking into account the moderate measure of sampling adequacy, it is necessary to approach the result carefully. Despite the fact that KMO was not strong measure of sampling adequacy, it was acceptable for performing exploratory factor analysis.

6.6 Correlation Analysis

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Pearson correlation analysis was employed to establish the connections among the research variables. It emerged that the Financial Crisis Perception variable was significantly correlated positively with the Investment Decision variable ($r = 0.333$, $p < 0.01$). The investor sentiment variable was also positively and significantly correlated with investment decision ($r = 0.348$, $p < 0.01$). On the other hand, the market information quality variable was positively correlated ($r = 0.282$, $p < 0.01$) while government confidence was positively but weakly correlated ($r = 0.187$, $p < 0.01$).The risk perception variable was also positively correlated ($r = 0.249$, $p < 0.01$) with the investment decision variable even though the level of connection was relatively low. In general, the correlation values obtained for the various variables in the data set did not exceed the multicollinearity criterion value of 0.80.

Table 5. Correlation Matrix

Correlations

		FCP	IS	MIQ	RP	GC	ID
FCP	Pearson Correlation	1	.659**	-.022	.736**	-.061	.333**
	Sig. (2-tailed)		.000	.659	.000	.227	.000
	N	400	400	400	400	400	400
IS	Pearson Correlation	.659**	1	-.002	.599**	-.079	.348**
	Sig. (2-tailed)	.000		.960	.000	.112	.000
	N	400	400	400	400	400	400
MIQ	Pearson Correlation	-.022	-.002	1	.000	.001	.282**
	Sig. (2-tailed)	.659	.960		.997	.983	.000
	N	400	400	400	400	400	400
RP	Pearson Correlation	.736**	.599**	.000	1	-.046	.249**
	Sig. (2-tailed)	.000	.000	.997		.363	.000

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	N	400	400	400	400	400	400
GC	Pearson Correlation	-.061	-.079	.001	-.046	1	.187**
	Sig. (2-tailed)	.227	.112	.983	.363		.000
	N	400	400	400	400	400	400
ID	Pearson Correlation	.333**	.348**	.282**	.249**	.187**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	400	400	400	400	400	400

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

Table 5 revealed positive and statistically significant relationships between investment decision and Financial Crisis Perception, Investor Sentiment, Market Information Quality, Risk Perception, and Government Confidence. The correlation coefficients indicate moderate associations among the variables, supporting the suitability of regression analysis.

6.7 Multiple Regression Analysis

Multiple Regression Analysis has been done to determine the impact of Financial Crisis Perception, Investor Sentiment, Market Information Quality, Risk Perception, and Government Confidence on Investment Decision. The results obtained through the multiple regression model are significant ($F = 29.310$, $p < 0.001$) and have an R^2 value of 0.271, which implies that the five independent variables explain 27.1% of variations in investment decision. The adjusted R^2 value of 0.262 further verifies the strength of the proposed model. The regression analysis indicates that Market Information Quality had the highest positive influence on Investment Decision ($\beta = 0.288$, $p < 0.001$). The next independent variable influencing investment decision significantly is Investor Sentiment ($\beta = 0.248$, $p < 0.001$). The other significant factors that have an influence on Investment Decision include Financial Crisis Perception ($\beta = 0.234$, $p = 0.001$) and Government Confidence ($\beta = 0.218$, $p < 0.001$).Nonetheless, Risk Perception failed to have any impact on Investment Decision ($\beta = -0.062$, $p = 0.345$), implying that perceived risk on its own was inadequate to explain investor behavior in relation to investment decisions.

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Table 6. Multiple Regression Analysis

Predictor	β	t	p
Financial Crisis Perception	0.234	3.374	0.001
Investor Sentiment	0.248	4.223	<0.001
Market Information Quality	0.288	6.692	<0.001
Risk Perception	-0.062	-0.945	0.345
Government Confidence	0.218	5.056	<0.001

Model Fit

R^2	Adjusted R^2	F	p
0.271	0.262	29.310	<0.001

Table 6 was statistically significant ($F = 29.310$, $p < 0.001$) and explained 27.1% of the variance in investment decisions. Market Information Quality emerged as the strongest predictor, followed by Investor Sentiment, Financial Crisis Perception, and Government Confidence. Risk Perception did not significantly influence investment decisions. The regression model explained 27.1% of the variance in the investment decision ($R^2 = 0.271$; adjusted $R^2 = 0.262$). It is therefore apparent that the five variables used are very powerful in explaining the variance in the investment decision. However, there is a very high level of unexplained variance. Such variance might result from other variables such as financial literacy and investment experience among many others.

6.8 SmartPLS Analysis

The structural model analysis was conducted using SmartPLS in order to assess the measurement characteristics of the variables and structural relationships of the hypotheses. The proposed model indicates the presence of direct links between Financial Crisis Perception, Investor Sentiment, Market Information Quality, Risk Perception, and Government Confidence with respect to Investment Decision. The structural model must then be understood according to these links. The existence of any other relationship in the SmartPLS output must be backed up by the research framework and reported independently in case they are intentionally analyzed.

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Figure 3. Smart PLS Structural Model

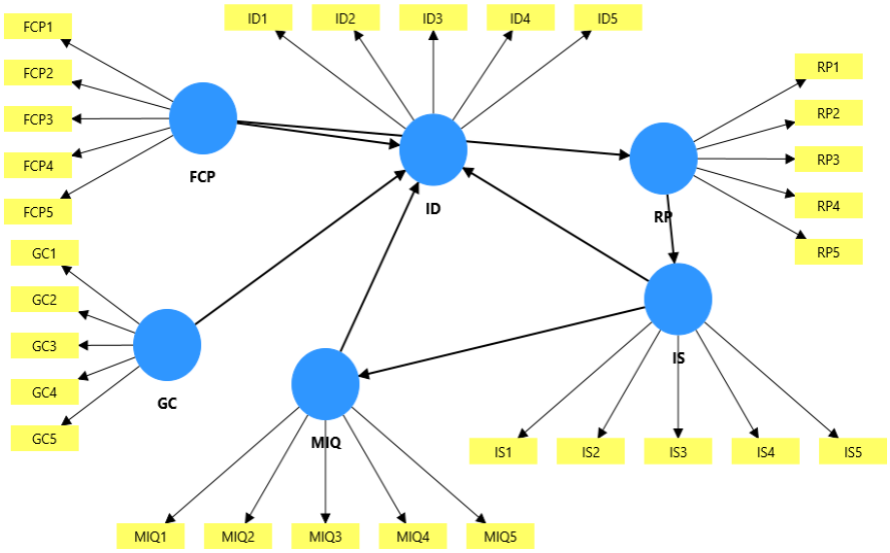


Figure 3 represents the structural model of smartpls analysis.In the structural model, there is an intricate path structure with different directional relationships between six reflective latent constructs (FCP, GC, ID, IS, MIQ, RP). Structurally, ID is considered an endogenous mediator that is directly affected by the latent constructs FCP, GC, IS, and MIQ. On the other hand, RP depends on direct paths from FCP and ID. Also, IS is affected by RP, and MIQ is directly driven by IS. This results in distinct direct paths together with feedback loops and sequential mediation pathways, such as ID (rightarrow) RP (rightarrow) IS (rightarrow) ID and IS (rightarrow) MIQ (rightarrow) ID.

6.8.1 Construct Reliability and validity (CR&AVE)

Table 7. Construct Reliability & Validity

Construct	Cronbach's Alpha	Composite Reliability (rho _{a})	Composite Reliability ((rho _{c})	Average Variance Extracted (AVE)
FCP	0.8256	0.8265	0.8775	0.5890
GC	0.8417	0.8686	0.8859	0.6089
ID	0.7013	0.7038	0.8067	0.4552
IS	0.8960	0.8972	0.9232	0.7062

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MIQ	0.8353	0.8502	0.8826	0.6008
RP	0.8896	0.8901	0.9188	0.6937

The result for internal consistency reliability and convergent validity is shown in Table 7. The value for Cronbach's alpha and composite reliability shows the presence of acceptable level of internal consistency of the variables stated. Five out of six constructs have AVE values which are above the conventional threshold of 0.50 while the value of AVE for Investment Decision is 0.4552. Thus, even though its composite reliability value is 0.8067, convergent validity of this construct needs to be checked further.

6.8.2 Discriminant validity (HTMT)

Table 8. Discriminant Validity (HTMT)

Construct	FCP	GC	ID	IS	MIQ	RP
FCP	—					
GC	0.0979	—				
ID	0.4369	0.2443	—			
IS	0.7665	0.1033	0.4374	—		
MIQ	0.0677	0.0603	0.3692	0.0532	—	
RP	**0.8586**	0.0779	0.3159	0.6711	0.0487	—

Table 8 shows the HTMT ratios utilized in determining the discriminant validity. The values reported are lower than the usual upper limit of 0.90. The exception is the ratio between FCP and RP which has a value of 0.8586, higher than the stricter criterion of 0.8586. Therefore, the discriminant validity must be considered with this caveat and not outrightly determined

6.8.3 Discriminant validity: Fornell-Larcker Criterion

Table 9. Discriminant validity : Fornell-Larcker Criterion

Construct	FCP	GC	ID	IS	MIQ	RP
FCP	**0.7675**					
GC	-0.0674	**0.7803**				

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ID	0.3363	0.1965	**0.6747**			
IS	0.6589	-0.0813	0.3484	**0.8403**		
MIQ	-0.0222	0.0079	0.2915	-0.0030	**0.7751**	
RP	0.7370	-0.0532	0.2504	0.6001	-0.0018	**0.8329**

Table 9 represents the Discriminant validity .The model has also met the conventional Fornell-Larcker condition in which it is proven through a system that each construct has greater variance with its own tracking variable than with other constructs within the structural framework. The square root of the average variance extracted from all constructs (in bold along the diagonals) is always higher than the correlation of the construct with other constructs in the same row and column. For instance, the square root of the AVE for IS is 0.8403, while its greatest correlation with another construct such as FCP is 0.6589.

6.8.4 Common Method Bias

Table 10. Common Method Bias

Path Relationships	VIF Value [2]
FCP - ID	1.769
FCP - RP	1.000
GC - ID	1.007
IS - ID	1.772
IS - MIQ	1.000
MIQ - ID	1.001
RP - IS	1.000

Table 10 shows the inner model VIF values, ranging between 1.000 and 1.772. None of these VIF values suggest collinearity problems among the structural predictors shown. Nevertheless, the interpretation of these VIF findings must be in the context of the diagnostic test used, and these findings alone must not be interpreted as conclusive proof of lack of common method bias in the study. Results of Harman's single factor test, as discussed in Section 5.3, must be presented separately with the explained variance of the first factor.

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6.9 Hypothesis Testing

Five hypotheses were tested with regard to their relationships with Investment Decision based on the reported statistical evidence. It was concluded from the results that Financial Crisis Perception, Investor Sentiment, Market Information Quality, and Government Confidence show statistically significant positive relationships with Investment Decision, while Risk Perception shows no statistically significant relationship with Investment Decision according to the multiple regression analysis reported. Table 11 contains the decisions regarding hypotheses. The final decisions need to be cross-checked against the hypothesis testing model.

Table 11. Hypothesis Testing Summary

Hypothesis	Relationship	Result
H1	FCP → ID	Supported
H2	IS → ID	Supported
H3	MIQ → ID	Supported
H4	RP → ID	Not Supported
H5	GC → ID	Supported

Table 11 Four of the five proposed hypotheses were supported. Market Information Quality demonstrated the strongest positive influence on investment decisions, highlighting the importance of reliable and transparent financial information. Conversely, Risk Perception did not significantly affect investment decisions, suggesting that investors relied more on information quality, sentiment, and institutional confidence than on perceived risk.

7. Discussion

The main aim of this study is to analyse the impact of the following variables on investment decisions of Indian stock investors: financial crisis perception, investor sentiment, market information quality, risk perception, and government confidence in view of perceived volatility of bank stocks (Santhanakrishnan & Head). The results showed that out of the five mentioned determinants, four have a significant impact on investment decisions, thus giving strong evidence for the validity of the behavioural finance approach. Indeed, financial crisis perception, investor sentiment, market information quality, and government confidence had a significant positive impact on investment decisions, while risk perception did not prove a statistically significant impact. It was found out that financial crisis perception had a significant impact on investment decisions, thereby confirming hypothesis 1. Apparently, when people feel more financially insecure, they change their investment behaviour making an assessment of the market situation

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first before investing money. Instead of discouraging from investing altogether, such awareness makes people use more information in their investments. Indeed, this result is in line with the existing behavioural finance literature (Wankhade, 2025).

The test results also revealed that investor sentiment positively impacts investment decisions, thus proving H2. It implies that investors with a positive attitude are more willing to invest in banking stocks irrespective of market dynamics. The positive sentiment in the markets increases their confidence, motivates investment behaviour and improves their tolerance to volatility. On the contrary, negative market expectations may dampen investors' desire to invest. This research finding supports other existing behavioural finance research findings indicating that investor sentiment is among the most powerful psychological factors affecting investment behaviour. Of all the explanatory factors, the one that had the most significant influence in determining investments is market information quality and thus H3 was supported. Investors who can obtain high-quality information through accurate, reliable, and timely financial data will be more capable of making decisions and addressing uncertainties associated with bank stocks fluctuations. High levels of corporate disclosures and financial reporting as well as communication between regulators and the public decrease the information asymmetry and enhance the confidence of investors. Surprisingly, risk perception was not found to be an important factor for making investments decisions, thus failing H4. Even though the results of correlation analysis showed a positive relationship between risk perception and investment decisions, its importance became insignificant in the multiple regression model after including the other behavioral factors in the equation. This implies that Indian investors consider market information, trust in regulating bodies, and general market sentiment more than risk perception while taking investment decisions. As financial literacy increases among Indian investors, along with the availability of real-time market information and better risk management instruments, the role of perceived risk is diminishing (Chaudhary, 2024).

These results further reveal that confidence in the government plays an important role in making investments, validating hypothesis H5. Investors with high levels of confidence in the government and its securities regulation agencies are more prone to investing in banks' stocks even when there is a high degree of uncertainty. High confidence in agencies like the Reserve Bank of India and Securities and Exchange Board of India improves the perception of stability, transparency, and resilience in the markets. In general, the results obtained in this research prove that specific behavioural mechanism has robust empirical evidence in favor of itself because this theory states that the process of investment depends on psychological, informational, and institutional factors instead of rational ones. Thus, this research proves that investment behavior in the Indian banking system depends on perceptions of the investors concerning financial crisis and market sentiments, availability of accurate information, and trust in the government institutions (Raja & Messaoudi, 2024). Additionally, the study makes significant contributions to the developing field of behavioural finance of emerging markets through the demonstration that information and

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institution factors weigh more heavily than financial risk perceptions in influencing investments. This provides new knowledge about investor behaviour in the rapidly changing Indian stock market and the importance of increasing the transparency of the market to encourage informed investment decisions (Subnani & Todwal, 2024).

The results qualify the explanation of investment decision-making that puts emphasis solely on risk perceptions. Indeed, even though risk perception was theoretically expected to affect the behaviour of investors when making investment decisions, this factor was statistically insignificant in the current study ($\beta = -0.062$, $p = 0.345$). At the same time, financial crisis perception, investor sentiment, market information quality and government confidence had significant relationships with investment decisions. This means that people who make decisions based on their perception of fluctuations of the banking stock do not necessarily make decisions based on the perception of risk associated with investments. Their decisions might be affected more by the way they perceive the general economic environment, the way they feel about the state of the markets in the future, the availability of appropriate information and confidence in the institutions which should maintain stability of the financial markets. The result, therefore, qualifies the theory of the Behavioural–Information–Institutional approach since while behavioural factors are still important, some of them (investor sentiment and financial crisis perception) prove to be significant whereas others (generalized risk perception) are not. Meanwhile, information quality becomes the strongest predictor of investment decision-making ($\beta = 0.288$, $p < 0.001$), followed by investor sentiment, financial crisis perception and government confidence.

8. Limitations

The above-stated research study even though it had certain advantages, it also possessed several disadvantages. For instance, firstly, it was conducted on the basis of cross-sectional design that rendered it impossible to make any sort of causation over time. Secondly, the whole population of the respondents was Indian equity investors; this might have limited the generalisation of the results to other countries as well. As the potential solution for overcoming this drawback future research may include the objective measurements of banking-stock volatility as well as its interactions with the perception of it among the investors. Second of all, another limitation of the research is concerned with the contextual analysis of the perceived banking-stock volatility. There are various limitations associated with this study. To begin with, the study uses a cross-sectional design, hence making it difficult for the study to determine whether there is any change or causation in the findings of this research. Secondly, the population in this study is Indian equity investors. This will make the generalization of the findings difficult, since the sample only represents one particular population. Thirdly, the perceptional variables used in this study are based on self-reports gathered using a questionnaire. The objective variables like the historical return from banking stocks, realized and implied volatility and market variables have not been included in the empirical model. In other words, the findings of this study pertain to investment

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behavior in the presence of perceived volatility of banking stocks and not actual or implied volatility of the market.

9. Conclusion

This research aimed at analyzing the impact of financial crisis perception, investor sentiment, market information quality, risk perception, and government confidence on investment decision-making during perceived volatility of banking stocks amongst Indian stock investors. In this research, the association between Financial Crisis Perception, Investor Sentiment, Market Information Quality, Risk Perception, and Government Confidence and investment decisions among 400 equity investors from India, in terms of their perception of volatility of banking stocks, was investigated. As per the reported results on multiple regression analysis, Financial Crisis Perception, Investor Sentiment, Market Information Quality, and Government Confidence were found to be significant positive predictors, while Risk Perception was found not to be a significant predictor. In terms of the significance of the impact made by the predictors on the decision, Market Information Quality emerged as the most significant predictor among the five.On the whole, the research is an important contribution to the existing body of literature on behavioural finance, in that it combines the influences of behaviour, information, and institution within one empirical model. The results indicate that practical significance for the efforts to enhance investors' confidence and make better decisions in the Indian banking market. The importance of analysing the behavioural determinants of investment decisions will increase with the development of financial markets.

10. Future Research

Longitudinal research may be conducted in future research studies on shifts in investor behavior in various phases of the economic cycle. Conducting comparative studies using both developed and developing countries may add to the generalizability of the results in behavioral finance. Future research studies might include investigating the influence of behavioral factors on institutional investors, mutual fund managers, and foreign portfolio investors. Future research studies may incorporate artificial intelligence-based investment analysis, use of financial technologies, consideration of ESG factors, and indicators of real time market volatility in building a comprehensive model of investment decisions. Structural Equation Modeling (SEM) may also be used in future research studies for examining mediating or moderating effects between various behavioral constructs. The conclusions add to the literature on behavioral finance through a multi-dimensional approach to investor evaluation that includes information-based, psychological, environmental, and institutional dimensions but not through a new behavioral theory. It turns out that each dimension has different weight in decision-making – information quality in the market is the most informative characteristic, while risk perception is not significantly independent from other factors. This contradicts the risk-focused behavioral theories since the effect of risk perception depends on the environment.

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