

Impact of Financial Literacy on Personal Investment Decision: A Comprehensive Study

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Abstract— This research paper looks up the relationship between financial literacy and personal investment decision among retail investors in India. Collecting information from existing literatures and data from various studies to finds out how participation in stock market and investment behavior is influenced by financial literacy. Using both primary data and secondary data the study finds out the key factors of financial literacy and provides recommendations for improving financial literacy programs in India.

I. INTRODUCTION

In recent years the economy of India have seen diversification and rapid growth which have lead to rise in investment instruments. But apart from this rise in investment the participation remains low, and this low participation remains a concern. The main reason for this is financial literacy that playas an important role in shaping investment decisions.

Financial literacy incorporates an individuals ability to understand financial concepts, assess risk in finance and makes informed decisions. The already available study as those by Bhushan & Medury (2013) and Dasani & Bokephode (2024), highlights the importances of financial literacy on empowering retail investors, and Gunbir Singh Baveja and Aaryavir Verma (2024) stated the importance of financial literacy and participation of the stock market.

This research paper seeks to contribute to this growing area by analyzing the impact of financial literacy on personal investment decisions in India.

Keywords: Financial Literacy, investment decisions, stock market participation, retail investors, India.

II. LITERATURE REVIEW

Various studies have explored the relationship between financial literacy and investment behavior.

Financial literacy and determinants:

Bhushan & Medury (2013) have stated several factors like education, income, and gender that influences the level of financial literacy. The result of their study suggest that correlation between higher level of education and better financial decision-making

Effect on Investment behavior:

Dasani & Bokephode (2024) argued that higher level of financial literacy can reduce behavioral biases and improve investment performance. Parekh & Shah (2024) focus on positive impact of financial literacy on personal investment decisions.

Participation in Stock Market:

The hurdles in stock market was examined and conclusion was drawn by Baveja & Verma (2024) *that financial literacy programs can help overcome these hurdles.*

Initiatives by institutions:

Purohit & Bindra (2016) discussed on various programs by Axis Bank to improve financial literacy, and role of financial institutions in fostering financial education

The SEBI Investor Survey (2015) and NFEF financial Literacy and Inclusion Survey (2019) further shows the gap in financial knowledge among Indian households and the need for targeted interventions.

Collectively all these studies highlights the fact that improving financial literacy will lead to increased

informed investment decisions, higher participation in stock market and better financial outcome.

Research objectives:

The objective of this research are:

To identify the level of financial literacy among retail investors in India.

To examine how personal investment decisions are effected by financial literacy.

To identify the limitations in financial literacy and recommend strategies for improvement

III. METHODOLOGIES

This research emphasize a mixed-method approach combining g primary and secondary data. A survey war conducted in rural and urban India in which 500 retail investors were provided with a questionnaire. The questionnaire using standard scales gathered information on behavior, preferences, and risk tolerance to measure the financial literacy.

Secondary data was collected from existing literature, SEBI and NCFE survey and report from Axis bank and other financial institutions. To evaluate the impact of financial literacy on investment decisions descriptive and regression analyses were performed.

IV. DATA ANALYSIS AND RESULTS

Demographics:

The demographic analysis showed that out of total respondents 60% of them were male and 40% were female.40% participants were of 25-35age group, 30% were of 35-45 age group, and remaining 30% were of 45 years of age. According to the education 30% of them were graduates, 50% postgraduates, and 20% were below graduation level.

Table 1: Demgraphic profile of respondents

Demographics	Percentage (%)
Male	60
Female	40
Age 25-35	40
Age 35-45	30
Age 45+	30
Graduates	30

Postgraduates	50
Below Graduate	20

Scores on the bases of financial literacy:

The average score of financial literacy for all respondents was 65 out of 100, where the scores were higher for Urban investors (70) and lower for rural investors (55). This variation shows a significant gap in level of financial literacy between urban and rural investors.

Table 2: Average Financial Literacy Score

Investor Type	Average score
Urban	70
Rural	55

Investment behavior:

The result obtained showed that 70% of those who were financially literate respondents actively invest in financial market and the remaining 30% were those were with low financial literacy. Positive relationship ($p < 0.05$) between financial literacy and investment decisions was confirmed by regression analysis.

Table 3: Stock Market Participation

Financial Literacy Level	Participation rate (%)
High	70
Low	30

V. DISCUSSION

The results are consistent with the literature. Investment decision are influenced by financial literacy, higher level of literacy leads to greater participation and more diversified investment portfolios.

This positive relationship between literacy level and investment decision underlines the importance of targeted financial education initiatives. The fact that 70% of financially literate investors participates stock market, compared to only 30% of their low literacy counterparts shows the potential of financial education to empower investors to make more informed decisions.

Barriers in financial literacy are:

- Limited access to financial education: One of the main challenge in limited availability of financial education is resources especially in rural areas. The rural investors have lower financial literacy score that shows their limited exposure to financial education. This highlights the gap between financial literacy between rural and urban areas.
- Gender gap in financial knowledge: Its another critical challenge, although present studies shows a balanced gender distribution (60% male 40% female) the literature shows that women tends to have lower financial literacy as compared to men. Cultural factors, lower opportunities to access financial decision making contributes to this disparity. Efforts to reduce this gap is important to achieve inclusive financial participation
- Complex financial instruments: The rise in complexity and variety of financial instruments become a challenge even for relatively literate investors. Many investors finds it difficult to navigate complex instrument which leads to hesitation and suboptimal investment choices. This is highlighted by Parekh and Shah (2024), who stated that the need to simplify financial instruments and availability of user friendly information for better understanding.

CONCLUSION AND RECOMMENDATIONS

This study confirms the role of financial literacy in shaping personal investment decisions among investors in India. A positive relationship between financial literacy and likelihood of participation in the stock market is indicated. These results are consistent with prior literature and highlights the need to prioritize financial education as a important factor for financial inclusion.

The study highlights that rural investors tends to have high financial literacy scores and greater stock market participation whereas rural investors faces substantial barriers. Factors such as limited access to financial education, gender gaps, and increasing complexities leads to gap in financial literacy and investment behavior.

To face these challenges and increase financial literacy across all section of society following are proposed recommendations:

- Conduct financial literacy workshops: Banks, financial institutions and non banking institution should actively conduct workshops and seminars. The main objective of these programs should be to provide practical knowledge about savings, investment options, risk management, benefits of diversification.
- Include financial education into educational curricula: For long term financial literacy, it is important to integrate the financial education into school and college curricula. The education institutions should introduce financial concept from early stage covering topics like savings, budgeting, investing and planning.
- Leverage digital platforms and mobile applications: Given the wide use of smartphone and internet in India, the digital platforms and mobile application provides an opportunity for delivering financial education. User friendly apps developed by financial service providers should provide information about its products market updates and personalized financial planning resources.
- Focus on rural areas: Policymakers must ensure that initiative of financial literacy are inclusive. Special importance should be given to rural areas, where there is a gap in financial literacy. Additionally education campaigns should address the gender-specific barriers, empowering females to take active part financial decision making
- Enhanced regulatory support: The regulatory bodies such as SEBI and RBI can play an important role in promoting financial literacy by providing clear guidelines and initiating other financial institution to invest in literacy initiatives.

By implementing these recommendations, India can foster more financial literate population, empowering investors to make informed investment decisions, and support in growth and stability of economy.

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