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## “Financial Literacy and its Effect on Investment Decisions”

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### Abstract:

A strong financial system is the axis around which the development of any nation depends. India, at present, is reaping the benefits of “Scarcity Premium”. It is evident from the stats that India is amongst the few nations which has registered a positive growth whereas the nations across the globe are bearing the pangs of Inflation. To carry these benefits forward, we need to educate our locals about the various financial services which are available at their disposal. Time and again, various initiatives are taken by the Financial Regulators to increase the awareness among the masses. These initiatives help increase the Financial Literacy levels in the country which in turn would lead to growth of the nation. The objectives of the current paper are to study how the various initiatives taken by the Government for Financial Inclusion affect the investment decision of masses and to provide future course of action for increasing the financial literacy levels.

The paper concludes that basic financial education should be started right from the school level so that it leads to increased financial literacy levels of the nation which ultimately results in growth of the nation.

**Keyword:** financial literacy, financial regulators, scarcity premium, investment decisions.

### Introduction

The rapid growth in Indian economy over the last few decades and expansion of financial markets through liberalization, privatization and globalization have given a way to overabundance of financial products in banking, investment and loan products. Low level of

financial literacy thwarts individuals from creating veracious choices apropos financial decisions. To accomplish the objectives, individual must capitalize his/her savings in right investment alternatives. The changing scenario in the work patterns has provided greater significance to the subject of financial literacy and education. As such the most important decision in this regard is the involvement of women. This can be a very important aspect that can contribute to a great extent in making optimum use of the resources so as to reach to the best potential in financial terms.

## **Review of Literature**

The empirical studies are applied research studies. They help us to test the theories or models and also provide insights to reformulate old theories and models and/or formulate new theories and models. An attempt has been made to briefly review the important studies.

Jappelli T. et al (2021) in their study titled “Investment in financial literacy and saving decisions”, analysed that financial literacy leads to economic development through the efficient allocation of savings, leading to higher returns, attracting more investment and growth in the country. A higher level of financial literacy also induces greater stock market participation and financial market involvement building confidence in the market economy and creating a better policy environment for growth. They attempted to explore the reasons for consumer investment in financial literacy and found that women had less wealth as compared to men and hence had less incentive and ability to invest in improving their level of financial literacy.

Agarwal P et al (2020) studied in their research titled “A Study on Future Plan for Increasing Financial Literacy Among People” that the growth of the development of any country depends on its financial system. For achieving the goal of high financial inclusion, there is only one solution which is increasing the financial literacy levels of the country. The relationship between financial literacy and financial inclusion is interrelated. In a broader perspective, financial literacy can be stated as understanding of economics and how economic conditions and circumstances affect household decisions.

Canfield M (2019) in his research titled *Financial Literacy: The Argument for Required Canfield M (2019) Coursework Regarding Personal Finance in Schools* analysed that to address the lack of financial literacy in adults, several methods have been shown to be effective. However, to address the systemic lack of financial literacy in the United States, it is imperative that steps be taken to ensure young adults are exposed to accurate information on a variety of financial topics. To that specific goal, courses are a proven effective method as they allow for discussions and scenarios on a wide range of topics.

Omojolaibi J.A. et al (2019) in their study “Are women financially excluded from formal financial services? Analysis of some selected local government areas in Lagos State, Nigeria” advised that women are excluded from financial services mostly because of their lower level of education which thus exclude them from being able to utilize financial products such as mobile and internet banking; and the older the respondents get, the lower their willingness to make use of internet or mobile banking, as the emergence of new products in that line is too sophisticated for them to understand.

Chettri P. et al (2018) in their study titled “Financial Literacy among the Tea Garden Labourers in Darjeeling District: An Exploratory Factor Analysis” observed that Financial Literacy’ (FL) is the major challenge faced by majority of countries in the world. The study focuses on financial literacy amongst the tea garden labourers of Darjeeling district and endeavors to examine their capacity to make financial decisions. This study aims to develop the constructs in order to test the validity and reliability of Darjeeling tea garden labourers financial literacy (FL) and its determinants such as Knowledge, Attitude, Behaviour, Skill and Awareness.

### **Objectives of the study**

1. To study how the various initiatives taken by the Government for Financial Literacy affect the investment decision of masses.
2. To provide future course of action for increasing the financial literacy levels.

### **Research Methodology**

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This paper is basically descriptive and analytical in nature. In this paper an attempt has been made to study about the various initiatives taken by the government of India for promoting financial literacy and also to analyse how far it has influenced the investment decision choices of people. The data used is collected from secondary sources as per the need of this study. Various government websites have been used for sourcing secondary data.

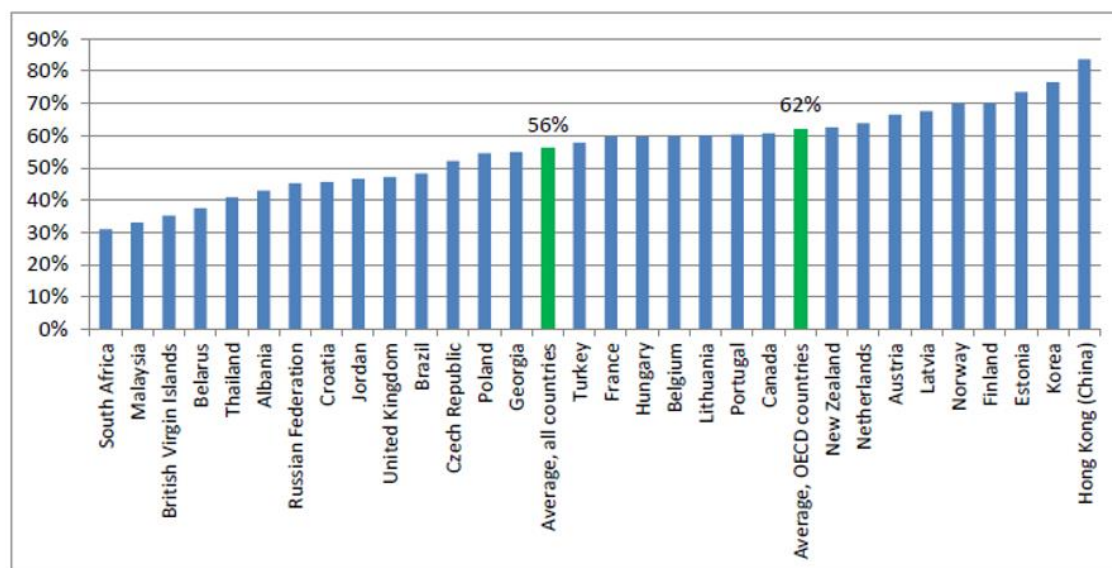
## **Result and discussion-**

### **Initiatives taken by Government and financial regulators for increasing “Financial Literacy”**

**OECD**-The Organisation for Economic Cooperation and Development has proposed “Recommendations on principles and good practices for financial education and awareness”

The major suggestions given by them are:

- It is responsibility of the Government and all the concerned stakeholder to promote financial education that is Coordinated, unbiased and fair.
- For higher reach of financial education, it should start as early as at School Level.
- Financial education should be a part of the good governance of financial institutions whose accountability and responsibility should be encouraged.
- Financial education should not be considered as a form of commercial advice; proper code of conduct should be developed for financial institutions and the staff working in those financial institutions.
- Financial institutions should be encouraged to ensure that the clients must read and understand information. More so when it is related to long term commitments or financial services with potentially significant financial consequences.
- Basic savings, Debt, Insurance and Pensions are important life planning areas and therefore it should be the main area of focus for the Financial education programmes.



Notes: Average, all countries and Average, OECD countries report the mean of the country/economy percentages. Each country/economy is therefore given equal weight.

Figure showing minimum target score on financial knowledge of nations.

Source: OECD website

## RBI

- Reserve bank of India has undertaken a project entitled “project financial literacy”
- This project helps spread information about the apex bank in India and educate people about the basic banking practices that are there for the common man. It targets various groups like school going children, college students, people in rural and urban areas, people living below poverty line, women, senior citizens and people from defence. There are differently categorised because there are different financial instruments for these different audience.
- The project has been implemented in two modules, one module focusing on the economy, RBI and its activities, and second module focus on general banking.
- RBI has taken help of banks, local government bodies, schools and colleges to help spread the information about financial services and banking services available for masses by way of presentations, short movies, brochures, comic books, pamphlets and it also has downloadable series on its website.

As per the Financial Inclusion policy of government and RBI, Financial Literacy includes knowledge about the following:



## SEBI

- Securities exchange board of India has embarked financial education on a nationwide campaign
- To undertake financial education to various segments viz . School students, college students, working executives, middle income group, homemakers, retired personnel SEBI has empanelled resource persons throughout India.
- These SEBI certified resource persons organise workshop to the target segments on various aspects like savings, investment, financial planning, banking, insurance, retirement planning etc
- More than 3500 workshops have been conducted in various states covering around two lakh and sixty thousand participants
- Investors education programs are conducted by SEBI through investor associations all over the country.
- Regional seminars are conducted by SEBI through various stakeholders viz. Stock exchanges, depositories, Mutual fund association, Association of merchant bankers, etc

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Under “visit SEBI” programme, school and college students are encouraged to visit SEBI and understand its functioning.

### **IRDA**

Insurance regulatory and development authority has taken many initiatives to promote financial education.

To protect people from being duped Awareness programme are conducted. These are also aired on radio and television in which simple messages are spread about the rights and duties of individuals who are policy holders. They are also educated about the availability of various channels for dispute redressal. All this information is disseminated by way of television, radio as well as print media.

IRDA conducts an annual seminar on policy holder protection and welfare and it also partially sponsors seminars on insurance by consumer bodies.

IRDA has got a pan India survey on awareness levels about insurance carried out through the National Council of Applied Economic Research (NCEAR).

IRDA has also brought out publications of ‘policy holder hand books’ as well as a comic book series on Insurance.

### **PFRDA**

The pension fund regulatory and development authority has been engaged in spreading social security messages to the public.

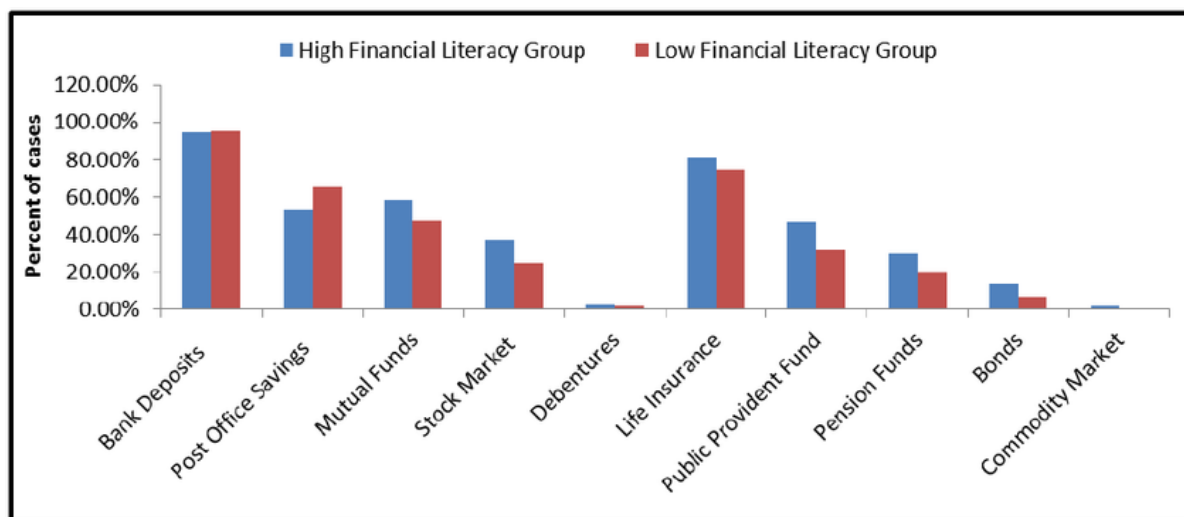
PFRDA has developed FAQ on pension related topics on its website and has been associated with various NGOs in India.

PFRDA has issued advertisements in print media and electronic media through radio and television.

PFRDA appointed intermediaries are called Aggregators who are directly responsible for pension awareness mostly in vernacular languages and in line with socio-economic sensibilities

## Financial Literacy and Investment Pattern

The reports published by The RBI show the investment pattern of the people who belong to the high financial literacy category vis a vis people who belong to low financial literacy category. The following graph shows the difference in the investment decisions of the two categories of people.



Source: [www.rbi.org.in](http://www.rbi.org.in)

The above chart clearly shows the difference between the investment choice of the people who belong to High Financial Literacy Group and the people who belong to Low Financial Literacy Group.

The preferred Investment option for both category of people is Bank Deposit which is considered as the safest.

It can also be observed that high financial literate group prefers investing in risky investments like life insurance which is linked to stock market, mutual funds and shares. It is also seen that the people belonging to low financial literacy zone prefers investing in safe and less risky investment options like post office savings schemes and bank deposits.

The above graph shows extremely low level of investment in debentures and commodity market by individuals belonging to high financial literacy category and no investment in these sectors by people belonging to low financial literacy levels.

## Conclusion and Suggestions

In India, the decision regarding investment is generally taken by the head of the families in Indian Households, any investment decision is guided by the family members rather than an



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individual decision. And therefore, it becomes important that the people of the family specially elderly should be aware about the new schemes that are launched from time to time. It can be concluded from the study that confidence of taking investment decisions is based on the financial literacy levels along with the education of the individuals. It can also be concluded that people lacking financial knowledge are less inclined towards risky investments. The need for education and financial knowledge is on the rise as it leads to financial independence of the people. It can also be concluded from the study that people with sound financial knowledge are confident about their investment choices. It is suggested that more such programs must be designed that would help increase financial education along with employment. Investment schemes which are especially targeted at women and are beneficial for their future should be launched so that women also get more inclined towards investment. Government should promote such awareness programs which emphasize on significance of financial independence of individuals and its eventual outcome. It has been seen that people are unable to take wise financial decisions because they lack financial knowledge about the various options available to them apart from the traditional post office and FDR investment. It is only handful lot that is aware of the financial market and can take investment decisions. These people could take wise financial decisions for their future because of their good financial knowledge. Government must also take initiative to introduce the basic financial knowledge in primary classes itself and increase the level of advance financial know how in subsequent years of the school. In this way we would be able to build a financially literate nation and would take a leap towards attaining the dream of a self-reliant India.

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