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Relationship Between Financial Literacy and Investment Behaviour Among Banking Customers

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ABSTRACT

Financial literacy is considered vital in influencing investment behavior of banking customers by enhancing their knowledge about financial products, risks, returns and investment options. This current study explored the relationship between financial literacy and investment behavior of banking customers laying emphasis on frequency of investments, investment channels and risk-taking behavior. Descriptive-cum-analytical research approach was used, primary and secondary data was gathered from 110 banking customers using structured questionnaire. The gathered data was analyzed using frequency and percentages distribution, chi-square test of independence and Pearson's correlation coefficient. It was observed that a sizable portion of respondents had high levels of financial literacy. Mutual funds/SIPs, equity and fixed deposit were some of the vital investment options selected by respondents. Statistical analysis revealed that there was a statistically significant relationship between financial literacy and investment frequency. Moreover, there was a positive relationship between financial literacy score and investment frequency. In conclusion, it can be stated that investment frequency increases with the increase in financial literacy level.

Keywords: *Financial Literacy, Investment Behaviour, Banking Customers, Investment Avenues, Risk Appetite.*

1. INTRODUCTION

Money, in the present-day economy, cannot just be earned and saved, but needs to be managed, invested and protected from inflation, market volatility and contingencies. The banking industry, which was earlier confined to only receiving deposits and disbursing loans, now serves as a window through which retail clients gain access to the diverse range of financial products available, starting from fixed deposits and recurring deposits to mutual funds, systematic investment plans (SIPs), insurance-related instruments, equity and government schemes. The capability of a person to make sound choices in relation to the diverse range of financial products largely depends on their financial literacy, i.e., knowledge about fundamental financial concepts and the application of this knowledge to practical financial situations.

The financial literacy of a person can be defined as the financial awareness, knowledge, skills, attitude and behavior that one needs to make sound financial decisions and attain financial well-being. Financial literacy includes the understanding of concepts like simple and compound interest rate, inflation, risk versus return, diversification and time value of money, etc. The investment behavior, on the other hand, is defined as the way a person invests his surplus money into different investment opportunities, the frequency with which he makes investments, the amount of risk that he is willing to take and the rationality of his investments.

In the Indian scenario, as well as emerging economies in general, a significant portion of the savings by households is still invested in conventional and lower yield products like bank fixed deposits, savings accounts, gold and post-office schemes, even when higher yielding market linked financial products are available in abundance. This trend has often been associated with the poor financial literacy of individuals, ignorance about market linked financial products and little exposure to formal financial literacy programs. On the other hand, banking customers who have better financial literacy display more diversified and growth-oriented investment portfolios, active participation in the stock market and frequent periodic investments like SIPs in mutual funds.

It is in this light that the role of financial literacy of banking customers becomes quite important in influencing their investment behavior. Banks need to be aware of this aspect while offering suitable investment products to their customers, while regulators and policy makers need to be aware so that they may formulate appropriate policies to impart financial education. The present study endeavors to analyze the impact of financial literacy of banking customers in influencing their investment behavior. The paper aims at examining the above-mentioned phenomenon empirically among a sample of 110 banking customers.

1.1 Significance of the Study

The importance of analyzing financial literacy in terms of its impact on investment behavior of banking customers, relates to the role that banks play in the financial market system. As opposed to stand-alone investment firms and brokerage agencies which usually deal with clients who have already made up their minds about investing, banks operate with a large and diverse customer base, offering savings accounts, salary accounts, and loans irrespective of whether the client intends to invest his/ her money or not. Banks can influence the investment behavior of their clients, but the low level of financial literacy of the clients may often result in missed opportunity of creating more wealth. In case of recommending financial products, without understanding on the part of the customer, there may be chances of mis-selling.

An empirical analysis of the relationship between financial literacy and investment behavior of the banking customers may allow banks to suggest more responsible and needs-based recommendations for their clients, regulators to develop more effective disclosure rules, and individual clients themselves to recognize the insufficiency of their financial knowledge. From the academic perspective, the study is important because it provides a precise table-based empirical example of how the relationship between financial literacy and investment behavior of banking clients looks like.

1.2 Statement of the Problem

Even with the increase in the income levels, digital access to investments and regulatory initiatives aimed at ensuring financial inclusion, a fair share of savings by retail customers in emerging markets still goes into lower yielding conventional financial instruments. From observations at the bank branch levels, many customers keep opting for fixed deposits not because the investment instruments align with their financial objectives and ability to take risks, but because they feel safer with the options they know about compared to others which are market-based and avoided out of lack of knowledge rather than any actual risk preference. This brings about the need to establish the extent to which a customer's financial literacy affects the frequency of his/ her investments, preferred avenue and willingness to take risks. Without any empirical insights into this issue, the design of financial literacy programs by the banks and regulators is likely to be too generic and ill-targeted. This study aims to address this issue by conducting an empirical analysis of the link between financial literacy and investment behavior among selected banking customers.

1.3 Objectives of the Study

1. To study the demographic profile of the banking customers surveyed.
2. To assess the level of financial literacy among banking customers.
3. To examine the investment behaviour of banking customers in terms of frequency of investment, preferred investment avenues, and risk appetite.
4. To examine the relationship between the level of financial literacy and the investment behaviour of banking customers.

1.4 Hypotheses of the Study

H01: There is no significant association between the level of financial literacy and the frequency of investment among banking customers.

H1: There is a significant association between the level of financial literacy and the frequency of investment among banking customers.

H02: There is no significant relationship between financial literacy score and investment frequency among banking customers.

H2: There is a significant positive relationship between financial literacy score and investment frequency among banking customers.

2. REVIEW OF LITERATURE

Naqvi, Siddiqui and Mir (2025) studied the topic of financial literacy and investment decisions of the investors of the Islamic banks in Pakistan with special attention to the effect of investment intention and religiosity on the matter. The research paid attention to the aspect of studying how the financial literacy affects the decision-making process in relation to investments by the investors of Islamic banks. The study revealed the need for financial literacy that helps investors realize various options available and make decisions on the issues of investing. In addition, the study revealed that investment intention and religiosity are two more aspects associated with the process of making decisions on investments.

Arora and Chakraborty (2023) investigated the concept of financial literacy about investment decision making among financial consumers, considering the case of India. The study investigated the effect of financial literacy on the investment decision making of financial consumers based on their level of financial literacy. The importance of financial literacy in evaluating investment decisions of individuals in relation to their financial needs was brought out clearly in the study.

Sivaramakrishnan, Srivastava and Rastogi (2017) investigated the linkage between attitudinal factors, financial literacy, and stock market participation. The research explored how financial literacy and the attitudes of individuals determined their capability and propensity to invest in the stock market. Financial literacy was viewed as a significant determinant of investment behavior and variation in stock market participation. The research also considered the impact of individual attitudes together with the financial literacy of individuals. Thus, a comprehensive picture of factors affecting investment participation was developed. It was shown that financial literacy together with certain attitudinal factors explained the variation in stock market participation of individuals.

Aren and Aydemır (2015) studied the effect of financial literacy on the relationship between individual determinants and risky investment intention. This research sought to find out whether financial literacy had any effect on how individual determinants influenced the risk-taking attitude of the investor when it came to risky investments. Emphasis was placed on the role of financial literacy in the analysis of the risk-taking attitude of the investors in making risky investments. According to this study, financial literacy played a moderating effect in the relationship between individual determinants and risky investment intention. Differences in financial literacy thus played a part in influencing the investor's decision when it came to risky investments.

3. RESEARCH METHODOLOGY

The research methodology provides a defined approach to analyzing the link between financial literacy and investment behavior among banking customers. In the current study, the appropriate research design, sampling method, data collection and statistical methods were used to meet the objectives of this study. Both primary and secondary data were gathered from 110 banking customers via a structured questionnaire, and secondary data was sourced from published material. The data collected was analyzed using descriptive and inferential statistics to evaluate the level of financial literacy among banking customers and investment behavior of the respondents to see whether there was any association between financial literacy and investment behavior.

3.1 Research Design

Descriptive analytical research approach was used for describing the financial literacy and investments behavior of the bank's customers and to analyze their statistical relationship.

3.2 Sample Size and Sampling Technique

The research was carried out using both primary and secondary data from a sample size of 110 customers of banking. The respondents were chosen through a non-probability sampling method of convenience where the selection criteria for the survey were those who had a saving/ current account and an understanding of banking.

3.3 Data Collection

Data was collected using a self-administrated questionnaire consisting of four sections:

- Demographic profile (gender, age, education, occupation, and income)
- Financial literacy assessment that involved the level of knowledge about basic concepts of finance (such as simple/compound interest, inflation, diversification of risks, and investment products) which was graded in the scale of 0 to 10, and categorized into three classes: Low (score <4); Moderate ($4 \leq$ score < 7); High (score ≥ 7),
- Investing behavior that included investing habits, preferred medium of investment, and risk tolerance,
- Attitude toward financial planning. Secondary data was gathered from journal articles, reports of the OECD/ INFE and related literature to supplement the review of literature.

3.4 Tools of Analysis

Descriptive statistics such as frequency and percentage distribution were used in the analysis of data to attain objectives 1 to 3. The Chi-square test of independence was done to establish whether there was an association between financial literacy level and investment frequency. The Pearson's product-moment correlation coefficient was calculated between the two numerical variables.

4. RESULT AND DISCUSSION

The findings of the survey conducted among 110 banking customers would be presented in this section organized according to their demographic profile, financial literacy level, investment behavior, and statistical association between financial literacy and investment behavior.

4.1 Demographic Profile of Respondents

Demographic characteristics of the respondents offer a brief introduction about the background of the banking customers that were considered in the study. The demographic attributes of the respondents in terms of their gender, age, education, occupation and income level was as below.

Table 1: Demographic Profile of Respondents (N = 110)

Variable	Category	Frequency	Percentage (%)
Gender	Male	66	60.0
	Female	44	40.0
Age Group	21-30 years	43	39.1
	31-40 years	21	19.1
	41-50 years	28	25.5
	Above 50 years	18	16.4
Education	Undergraduate	30	27.3
	Postgraduate	47	42.7
	Professional (CA/CS/MBA etc.)	20	18.2
	Other	13	11.8
Occupation	Salaried (Private Sector)	47	42.7
	Salaried (Government)	20	18.2
	Self-employed / Business	36	32.7
	Others	7	6.4
Annual Income	Below Rs. 3,00,000	20	18.2
	Rs. 3,00,000 - 6,00,000	30	27.3
	Rs. 6,00,001 - 9,00,000	29	26.4
	Above Rs. 9,00,000	31	28.2

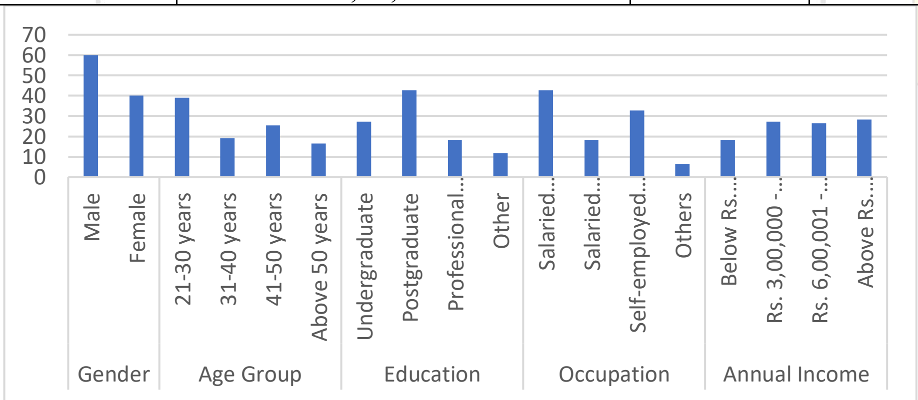

Figure 1: Graphical Representation of Demographic Profile of Respondents

From Table 1 it can be observed that majority of the respondents (60.0 %) belonged to male gender category and majority of respondents (39.1 %) belonged to age group of 21-30 of bank customers. Education wise the major proportion of the respondents belonged to postgraduate category (42.7 %) followed by undergraduate (27.3 %) and professionally qualified (18.2 %). As far as occupation is concerned, major portion of the respondents belonged to salaried employees of private sector (42.7 %) followed by self-employed/business (32.7 %). As far as income distribution is concerned, it was equally distributed among all four categories of income. Slightly larger number of respondents belonged to the topmost income category of above Rs. 9,00,000 per annum.

4.2 Level of Financial Literacy among Respondents

Financial literacy is one of the key factors that play a crucial role in the current study, as it depicts the extent of knowledge about basic financial facts and financial decision making of the respondents. Measuring the degree of financial literacy was significant for finding out whether the customers of the

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banks had low, average or high degrees of financial knowledge. The table below shows the distribution of respondents in accordance with their financial literacy scores.

Table 2: Distribution of Respondents by Level of Financial Literacy

Financial Literacy Level	Frequency	Percentage (%)
Low (Score below 4)	16	14.5
Moderate (Score 4 to below 7)	54	49.1
High (Score 7 and above)	40	36.4
Total	110	100.0

Figure 2: Graphical Representation of Distribution of Respondents by Level of Financial Literacy

It can be seen from Table 2 that almost half of the respondents (49.1 %) had moderate financial literacy, whereas an additional 36.4 % respondents were having high levels of financial literacy. The remaining respondents, which make up 14.5 %, belonged to low financial literacy group. It is apparent from the above that the banking customers who participated in the survey generally had a good understanding of finance.

4.3 Preferred Investment Avenue of Respondents

The preference towards investments could be comprehended through different investment options that people preferred to invest. Investment options differed from each other in terms of risk, gain, liquidity, and security. Hence, people expressed their preference depending on their knowledge about finances, product and requirements. The distribution of respondents based on their preferred investment avenue was as per table below.

Table 3: Distribution of Respondents by Preferred Investment Avenue

Preferred Investment Avenue	Frequency	Percentage (%)
Mutual Funds / SIP	26	23.6
Equity / Stock Market	22	20.0
Fixed Deposits	21	19.1
Insurance-linked Savings Plans	17	15.5
PPF / Government Savings Schemes	9	8.2
Real Estate	8	7.3
Gold	7	6.4
Total	110	100.0

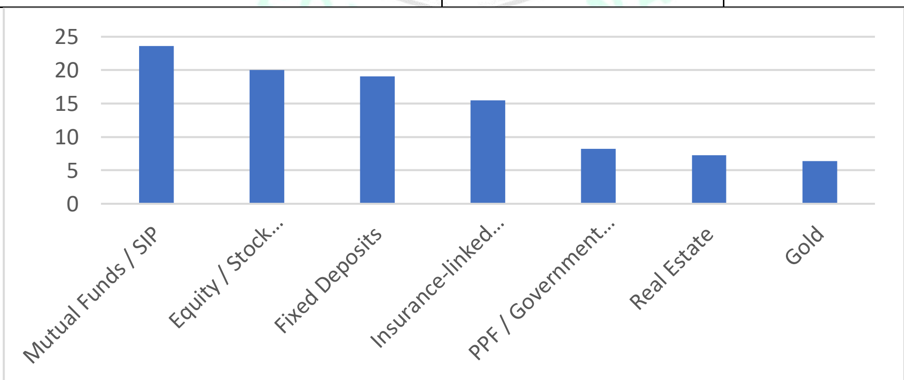

Figure 3: Graphical Representation of Distribution of Respondents by Preferred Investment Avenue

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As highlighted in Table 3 below, Mutual Funds/ SIPs were identified as the top investment option (23.6%), closely followed by stock market/ equity investments (20.0%) and fixed deposits (19.1%). Traditional investments in the form of fixed deposits, insurance-based savings schemes, PPF and gold constituted 49.1% of total preferences. The findings demonstrate that although market-based investment options have gained significant popularity, a sizeable percentage of banking clients still prefer capital-secured investment options.

4.4 Investment Frequency and Risk Appetite of Respondents

Investment frequency and the amount of risk that an individual was prepared to take are two significant aspects of investment behavior. Investment frequency refers to the frequency with which investments were being made while the risk appetite measured the willingness of the respondents to take risks to earn profits. The below analysis evaluates both these aspects for the customers of the banks.

Table 4: Distribution of Respondents by Frequency of Investment and Risk Appetite (N = 110)

Variable	Category	Frequency	Percentage (%)
Frequency of Investment	Regularly (Monthly/Quarterly)	40	36.4
	Occasionally	45	40.9
	Rarely	20	18.2
	Never	5	4.5
Risk Appetite	Low Risk	34	30.9
	Moderate Risk	46	41.8
	High Risk	30	27.3

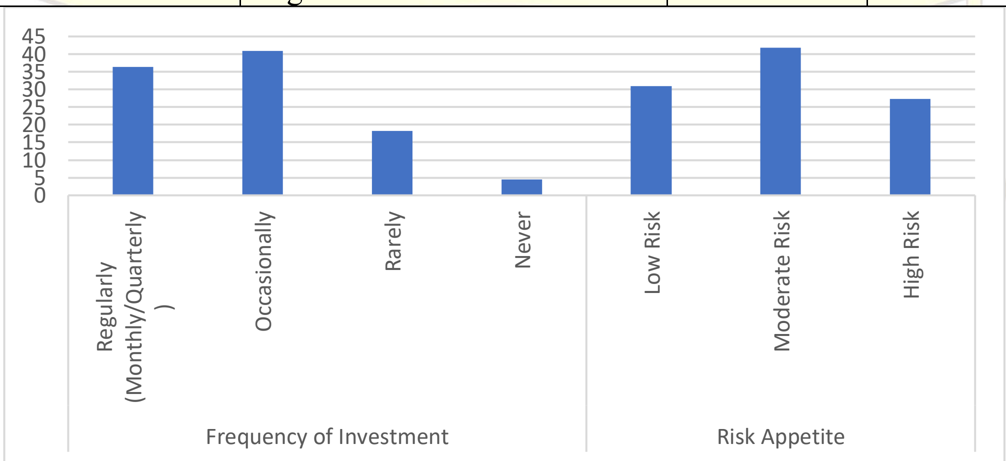

Figure 4: Graphical Representation of Distribution of Respondents by Frequency of Investment and Risk Appetite

Table 4 shows that 36.4 % of respondents invest regularly (on a monthly or quarterly basis), while a further 40.9 % invest occasionally; only 4.5 % reported that they never invest their surplus funds. With respect to risk appetite, the largest proportion of respondents (41.8 %) described themselves as moderate-risk investors, while 30.9 % and 27.3 % identified themselves as low-risk and high-risk investors respectively, suggesting a broadly balanced, though slightly conservative, risk orientation across the sample.

4.5 Relationship between Financial Literacy and Investment Behaviour

Whereas the above sections provided information regarding the financial literacy level of the survey respondents and the investments that they had made, the following section discusses if these two variables viz., levels of Financial Literacy and Investment Behaviour were related. This was done through the cross-tabulation of the financial literacy levels of the respondents and the frequency of their investments and using the Chi-square test of independence and the Pearson correlation coefficient.

Table 5: Cross-tabulation of Financial Literacy Level and Frequency of Investment

FL Level	Regularly	Occasionally	Rarely	Never	Total
Low	0 (0.0%)	7 (43.8%)	5 (31.3%)	4 (25.0%)	16
Moderate	14 (25.9%)	25 (46.3%)	14 (25.9%)	1 (1.9%)	54
High	26 (65.0%)	13 (32.5%)	1 (2.5%)	0 (0.0%)	40
Total	40	45	20	5	110

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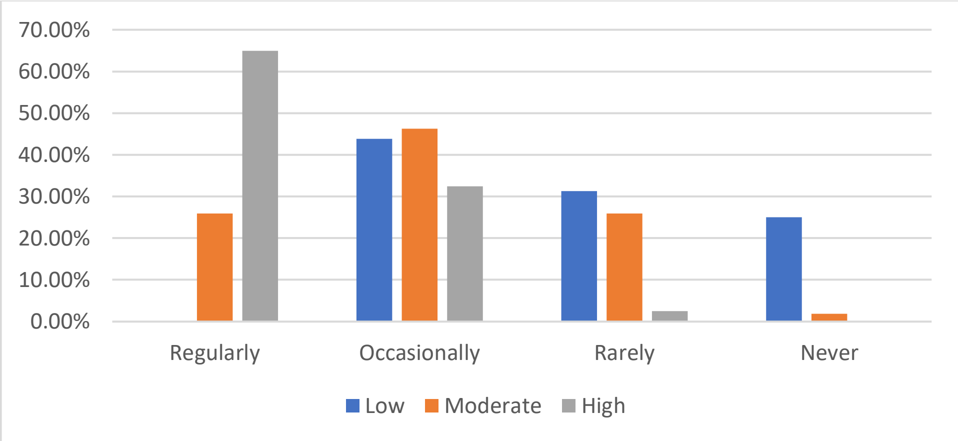

Figure 5: Graphical Representation of Cross-tabulation of Financial Literacy Level and Frequency of Investment

It is quite evident from Table 5 that there is a gradient present. Of the respondents who had higher financial literacy, 65.0 % invest on a regular basis, while none of them had never invested. However, of the respondents who had low financial literacy, none of them invest on a regular basis, and 25.0 % had never invested.

Table 6: Results of Chi-square Test and Pearson Correlation

Statistic	Value	Remark
Chi-square value (χ^2)	43.664	-
Degrees of freedom (df)	6	-
p-value	0.000	Significant at 1% level
Pearson correlation coefficient (r)	0.505	Moderate positive correlation
p-value (correlation)	0.000	Significant at 1% level

The calculated value of Chi-square, 43.664 (df=6), is significant at 1 per cent significance level ($p<0.01$) and is lower than the critical value of χ^2 at 6 degrees of freedom. Thus, the null hypothesis H01 is rejected, implying that there existed a statistically significant relationship between the degree of financial literacy and frequency of investments by banking clients. Also, the value of Pearson correlation coefficient between financial literacy and numerically coded frequency of investment variables was equal to 0.505 ($p<0.01$). Thus, there existed a moderate positive relationship between two mentioned variables. Thus, the null hypothesis H02 is rejected. Both results give statistical support to the hypothesis that increased financial literacy related to more diverse investments.

5. CONCLUSION

This research work explored the link between financial literacy and investment behavior of banking clients, and the results showed that financial literacy had a significant influence on the investment behaviors of the respondents. The data gathered in this research show that many respondents had moderate to high financial literacy level, and Mutual Funds/SIPs, stocks and fixed deposits were some of the popular options in which the respondents invested their money. The results of the statistical test conducted in this research work prove that there was a statistically significant relationship between financial literacy and investment frequency, and there existed a positive correlation between the two variables.

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