International Research Journal of Education and Technology
Peer Reviewed Journal
ISSN 2581-7795

Impact of Financial Literacy on Personal Investment Decisions Among Working Professionals

Oneer Kapoor
Faculty of Management Studies, CMS Business School, JAIN (Deemed-to-be University), Bengaluru, Karnataka, India
Under the Guidance of Dr. Manita D Shah, Professor, CMS Business School

Abstract

The proliferation of investment instruments in India's evolving financial landscape has placed unprecedented responsibility on working professionals to make informed financial decisions. This study examines the impact of financial literacy on personal investment decisions among working professionals, using primary data collected from 127 respondents through a structured questionnaire. The study employs Chi-Square Tests of Independence and the Kruskal-Wallis Test to evaluate four hypotheses relating financial literacy to investment participation, risk tolerance, portfolio diversification, and financial planning behaviour. All four null hypotheses are rejected at the five percent significance level, confirming that financial literacy is a statistically significant and positive determinant of investment behaviour. Notably, 86.6 percent of respondents report having avoided an investment due to insufficient understanding, underscoring persistent knowledge gaps even among educated urban professionals. An overwhelming 81.1 percent endorse structured financial education in the workplace. The study contributes empirical evidence to the Indian financial literacy literature and provides actionable recommendations for employers, financial institutions, regulators, and fintech platforms.

Keywords: *Financial literacy, investment decisions, working professionals, risk tolerance, portfolio diversification, financial planning, India*

1. Introduction

India's financial landscape has undergone a structural transformation over the past two decades. Digital democratisation, the proliferation of discount brokerage platforms, and the rapid growth of

systematic investment plans (SIPs) have expanded retail participation in capital markets. Individuals today can access an array of instruments — mutual funds, equities, exchange-traded funds (ETFs), sovereign gold bonds, and real estate investment trusts (REITs) — through mobile applications at near-zero transaction costs. Yet expanded access does not automatically translate into informed decision-making.

Financial literacy — broadly defined as the ability to understand and apply financial concepts to personal financial management — has emerged as a critical determinant of investment behaviour (Lusardi & Mitchell, 2014). It encompasses foundational competencies such as understanding interest rates, inflation, and risk, as well as advanced capabilities including portfolio diversification, asset allocation, and long-term wealth planning. Financially literate individuals are better positioned to evaluate financial products objectively, compare alternatives, and align decisions with long-term goals rather than short-term impulses.

Working professionals represent a strategically vital investor segment. Earning regular incomes, they possess the capacity for consistent wealth accumulation across multiple life-stage goals — retirement savings, home ownership, and education funding. Yet despite this capacity, many continue to rely on informal guidance from peers, family, and social media, leading to suboptimal investment decisions. In the Indian context, where employer-provided pension coverage is limited and inflation erodes the real value of passive savings, the quality of individual financial decision-making has consequential long-term implications.

This study investigates the relationship between financial literacy and personal investment decisions among working professionals in India. Analysing primary data from 127 respondents through inferential statistical tests, it seeks to determine whether financial literacy significantly influences investment participation, risk tolerance, portfolio diversification, and structured financial planning — and to quantify the magnitude of those associations.

2. Review of Literature

The relationship between financial literacy and investment behaviour has generated a substantial and growing body of scholarship. Lusardi and Mitchell (2011) established that individuals with higher

financial literacy are significantly more likely to plan for retirement and engage in market-linked investment. Their subsequent work (2014) positioned financial literacy as an economically consequential endowment — not merely a soft skill — demonstrating that literate individuals are more likely to participate in equity markets and less likely to hold concentrated, undiversified portfolios.

Van Rooij, Lusardi, and Alessie (2011) extended this evidence to Dutch households, finding that stock market participation is materially higher among financially literate individuals due to their superior understanding of risk-return dynamics. Grable (2000) established a positive relationship between financial knowledge and risk tolerance, arguing that understanding market volatility and historical recovery patterns enables individuals to accept short-term fluctuations in pursuit of superior long-term returns.

In the Indian context, Bhushan and Medury (2013) found that financial literacy positively correlates with investment confidence and instrument diversity among salaried employees, while also identifying structural gender barriers as contributors to literacy gaps. Rai, Dua, and Yadav (2019) employed structural equation modelling to confirm that financial attitude, behaviour, and knowledge collectively predict diversification and goal-setting behaviour among Indian professionals. Singh and Kumar (2019) documented that even high-income Indian professionals default to conventional instruments due to limited awareness of growth-oriented alternatives.

Post-2018 international scholarship reinforces these foundations. Kaiser et al. (2020), in a landmark meta-analysis of 76 randomised control trials, confirmed that financial education programmes produce measurable improvements in financial behaviour — with effects strongest when education is proximate to real financial decisions. Klapper and Lusardi (2020) documented persistent global literacy gaps, emphasising that digital platform access does not resolve underlying knowledge deficits. The SEBI-NCFE National Financial Literacy Survey (2019) found that only 27 percent of Indian adults meet the minimum OECD/INFE financial literacy threshold — and that even among employed urban adults, the proportion falls substantially below 50 percent.

Collectively, the literature confirms that financial literacy is a significant, multidimensional determinant of investment participation, instrument diversification, risk management, and long-term

planning. The present study addresses a specific gap: most Indian studies prior to 2020 rely on descriptive analysis alone, without applying inferential statistical tests to establish whether observed relationships are statistically significant. This study directly remedies that limitation.

3. Research Methodology

3.1 RESEARCH DESIGN AND SAMPLE

The study adopts a descriptive and analytical research design. Primary data were collected through a structured self-administered questionnaire distributed via Google Forms to working professionals across private, government, and self-employed sectors. The online mode enabled broad geographic reach across India's urban professional workforce. A total of 127 complete and valid responses were received over a three-week data collection period. Convenience sampling was employed, which, while limiting statistical representativeness, is widely used in management research at the postgraduate level.

3.2 QUESTIONNAIRE STRUCTURE

The questionnaire comprised 20 questions across four thematic sections: (A) Demographic Profile — age, gender, education, occupation, and income; (B) Financial Literacy Indicators — self-assessed confidence, pre-investment research behaviour, instrument familiarity, perceived utility of financial knowledge, and learning sources; (C) Investment Behaviour — participation status, frequency, instrument preferences, investment priorities, and comparison behaviour; and (D) Risk Tolerance and Financial Planning — risk comfort, investment avoidance due to incomprehension, knowledge-confidence relationship, goal-setting, and support for financial education.

3.3 VARIABLES

The independent variable is Financial Literacy, operationalised through five indicators in Section B: financial confidence (Q6), research diligence (Q7), instrument familiarity (Q8), belief in

the value of financial knowledge (Q9), and primary learning source (Q10). The dependent variable is Personal Investment Decisions, measured through investment participation (Q11), frequency (Q12), instrument preferences (Q13), investment priorities (Q14), and pre-decision comparison (Q15). Three mediating variables are identified: risk tolerance (Q16), financial awareness (Q17–Q18), and financial attitude (Q19–Q20).

3.4 ANALYTICAL TECHNIQUES

Two inferential statistical methods are employed. The Chi-Square Test of Independence (χ^2) assesses whether statistically significant associations exist between categorical variables. The Kruskal-Wallis Test — a non-parametric equivalent of one-way ANOVA — compares ranked outcome scores across three or more groups and is appropriate for ordinal data with unequal group sizes. Both tests are suited to the sample size (N = 127) and the predominantly categorical and ordinal nature of questionnaire data. Significance is assessed at the five percent level throughout.

4. Data Analysis

4.1 DEMOGRAPHIC PROFILE

The 26–30 age cohort constitutes the largest group (43.3%), followed by 21–25 year-olds (26.8%), collectively representing 70.1% of the sample and reflecting the dominance of early-career millennials in India's urban formal workforce. Male respondents account for 64.6% and female respondents for 32.3%, partly reflecting structural patterns in formal investment participation in India. Postgraduates form the largest educational group (44.9%), followed by undergraduates (33.9%) and professionally qualified individuals (19.7%). Private sector employees dominate (59.1%), with self-employed (22.0%) and government employees (15.0%) forming the remainder. Approximately 68.5% earn above ₹50,000 per month, indicating meaningful investment capacity across the sample.

4.2 FINANCIAL LITERACY INDICATORS

A combined 74.0% of respondents express positive financial self-efficacy (very or moderately confident), while only 3.9% report no confidence. However, this broadly optimistic self-assessment

warrants careful interpretation: the Dunning-Kruger effect warns that individuals with limited knowledge may overestimate their competence. In terms of pre-investment research diligence, 67.8% always or often research products before committing funds, though 9.4% rarely or never do so. Instrument familiarity is relatively high: 75.6% report being very or moderately familiar with mutual funds, stocks, and SIPs — likely reflecting the sample's urban, educated profile and the rapid expansion of digital investment platforms. An overwhelming 80.3% agree or strongly agree that understanding financial concepts improves investment decisions. Personal research is the primary learning source (32.3%), but informal channels — family and friends (20.5%) plus social media (17.3%) — collectively account for 37.8%, raising concerns about information quality. Professional advisory channels are utilised by only 18.9%.

4.3 INVESTMENT BEHAVIOUR

Investment participation is high at 88.2%, reflecting the sample's educated and relatively high-income profile. Monthly investment — consistent with SIP participation — is practised by 45.7%, signalling understanding of rupee cost averaging and the power of compounding. Mutual funds are preferred by 53.5% of respondents and stocks by 48.8%, with many holding three or more instrument categories simultaneously. A combined 77.9% prioritise long-term growth or high returns, indicating a growth-oriented investment mindset that contrasts with the traditionally risk-averse posture documented in earlier Indian studies. Comparison behaviour before investment decisions is practised always or often by 68.5%, consistent with the Theory of Planned Behaviour.

Table 1: Summary of Key Financial Literacy and Investment Behaviour Indicators

Indicator	Category	Frequency (%)
Financial Confidence	Very/Moderately Confident	74.0%
Research Diligence	Always/Often Research	67.8%
Instrument Familiarity	Very/Moderately Familiar	75.6%
Investment Participation	Currently Invests	88.2%

Investment Frequency	Monthly	45.7%
Primary Instrument	Mutual Funds	53.5%
Investment Priority	Long-Term Growth/High Returns	77.9%
Risk Comfort	Very/Moderately Comfortable	71.7%
Avoidance Due to Incomprehension	Yes	86.6%
Goal-Setting Behaviour	Sets Financial Goals	70.9%
Supports Financial Education	Agree/Strongly Agree	81.1%

Source: Primary Survey Data (N = 127)

4.4 HYPOTHESIS TESTING RESULTS

Four hypotheses are tested using the statistical methods outlined in Section 3.4.

Hypothesis 1 — Financial Literacy and Investment Participation: A Chi-Square Test on the cross-tabulation of financial confidence level (four categories) against investment participation status (Yes/No) yielded $\chi^2 = 14.82$ (df = 3, p = 0.002). The progressive pattern is compelling: 96.8% of very confident respondents invest, declining to 40% among those with no financial confidence. H_{01} is rejected.

Hypothesis 2 — Financial Literacy and Risk Tolerance: A Chi-Square Test cross-tabulating instrument familiarity against risk comfort yielded $\chi^2 = 29.47$ (df = 9, $p < 0.001$), the strongest statistical signal in the study. Respondents familiar with market-linked instruments are significantly more likely to be comfortable with value-fluctuating investments. H_{02} is rejected.

Hypothesis 3 — Financial Literacy and Portfolio Diversification: A Kruskal-Wallis Test comparing the number of distinct investment instrument categories selected across financial confidence groups yielded H = 18.63 (df = 3, p = 0.0003). Higher-confidence respondents select

significantly more instrument categories, confirming that literacy drives diversification. H_{03} is rejected.

Hypothesis 4 — Financial Literacy and Financial Planning: A Chi-Square Test cross-tabulating research diligence (Always/Often vs. Sometimes/Rarely/Never) against financial goal-setting (Yes vs. Sometimes/No) yielded $\chi^2 = 11.58$ (df = 1, p = 0.0007). Research-diligent respondents are significantly more likely to set structured financial goals. H_{04} is rejected.

Table 2: Summary of Hypothesis Testing Results

Hypothesis	Test Applied	Statistic	p-value	Decision
H_1: FL → Investment Participation	Chi-Square	$\chi^2 = 14.82$	0.002	Reject H_0
H_2: FL → Risk Tolerance	Chi-Square	$\chi^2 = 29.47$	< 0.001	Reject H_0
H_3: FL → Portfolio Diversification	Kruskal-Wallis	H = 18.63	0.0003	Reject H_0
H_4: FL → Financial Planning	Chi-Square	$\chi^2 = 11.58$	0.0007	Reject H_0

Note: FL = Financial Literacy; all tests significant at $p < 0.05$ (N = 127)

5. Findings and Discussion

Financial literacy significantly drives investment participation. The Chi-Square result for Hypothesis 1 ($\chi^2 = 14.82$, p = 0.002) confirms a statistically significant association between financial confidence and active investment. The progressive relationship — from 40% participation among non-confident respondents to 96.8% among the very confident — underscores that self-efficacy, as a component of financial literacy, is a powerful predictor of investment action. This is consistent with Chen and Volpe (1998), who established that literacy deficits translate directly into investment confidence deficits, and with the Theory of Planned Behaviour (Ajzen, 1991), which holds that perceived behavioural control is a key antecedent of action.

Financial literacy is strongly associated with greater risk tolerance. The highly significant Chi-Square result for Hypothesis 2 ($\chi^2 = 29.47$, $p < 0.001$) confirms that instrument familiarity is a significant predictor of comfort with value-fluctuating investments. This finding supports Grable (2000), who argued that financial knowledge enables individuals to contextualise market volatility within the broader framework of long-term risk-return dynamics. Notably, risk tolerance is not merely a personality trait but an outcome of financial education — a finding with important implications for how literacy programmes are designed.

Financial literacy drives portfolio diversification. The Kruskal-Wallis result for Hypothesis 3 ($H = 18.63$, $p = 0.0003$) confirms that higher-confidence respondents select significantly more instrument categories. The simultaneous preference for mutual funds (53.5%), equities (48.8%), fixed deposits (39.4%), and gold (34.6%) among many respondents reflects a blended diversification strategy — combining growth-oriented instruments with capital-safe assets — consistent with India's cultural financial psychology. This aligns with Van Rooij et al. (2011) and Lusardi and Mitchell (2014), who found that literate investors construct more sophisticated, diversified portfolios.

Financial literacy is a significant predictor of structured financial planning. The Chi-Square result for Hypothesis 4 ($\chi^2 = 11.58$, $p = 0.0007$) confirms that research-diligent respondents are significantly more likely to set formal financial goals. Over 70% of the sample set goals for retirement savings, home ownership, or wealth building, and 45.7% invest monthly — a pattern consistent with understanding of rupee cost averaging. Lusardi and Mitchell (2011) demonstrated that planners accumulate significantly more wealth; this finding validates that relationship in the Indian professional context.

Knowledge gaps persist and impose real economic costs. Despite positive literacy indicators, 86.6% of respondents have avoided an investment due to insufficient understanding. Agarwal et al. (2009) classified such omission errors as a direct cost of financial knowledge gaps. In an inflationary environment where the real return on passive savings can be negligible or negative, these missed opportunities carry compounding long-term consequences. The coexistence of relatively high self-assessed confidence and near-universal investment avoidance due to incomprehension is a striking paradox — one consistent with the Dunning-Kruger effect — that highlights the gap between perceived and actual financial literacy.

Informal learning channels pose structural risks. The finding that 37.8% of respondents primarily learn about investments through family and friends (20.5%) or social media (17.3%) is a concern. Garg and Singh (2018) documented that informal channels reinforce herd behaviour and status-quo biases. Professional advisory services, used by only 18.9%, remain significantly underutilised — representing an opportunity for both financial advisors and financial institutions to reposition advisory services as accessible, trusted, and education-led.

There is strong, organic demand for financial education. The 81.1% endorsement of workplace-based financial education is a self-identified need, not an externally imposed prescription. Mandell (2008) confirmed that financial education delivered in working contexts is more effective than school-based programmes because it can be immediately applied to real decisions. This demand signal presents an exceptional opportunity for employers, regulators, and fintech platforms.

6. Conclusion

This study confirms that financial literacy is a statistically significant, positive, and multidimensional determinant of personal investment decisions among working professionals in India. Across all four hypotheses — investment participation ($p = 0.002$), risk tolerance ($p < 0.001$), portfolio diversification ($p = 0.0003$), and financial planning ($p = 0.0007$) — the null hypotheses are rejected at the five percent significance level, providing robust empirical support for the central proposition.

The study also reveals that knowledge gaps persist even among educated urban professionals, manifesting as near-universal investment avoidance due to incomprehension and widespread reliance on informal learning channels. In an environment where digital investment platforms have dramatically lowered transactional barriers, the evidence suggests that accessibility and financial literacy are distinct — and that the former cannot substitute for the latter.

The findings carry actionable implications across multiple stakeholder groups. Employers should integrate financial literacy into employee wellness programmes, exploiting the high receptivity documented in this sample. Financial institutions and fintech platforms should shift from purely product-centric to education-led engagement, embedding contextual learning within user-

facing interfaces. Regulators should consider financial literacy mandates as part of investor protection frameworks, potentially including workplace financial wellness obligations. Financial advisors should reposition themselves as trusted educators rather than product distributors, particularly targeting the 37.8% of professionals currently relying on informal channels.

Future research should address the study's limitations through stratified random sampling, larger sample sizes, and longitudinal designs. Advanced analytical techniques — structural equation modelling and mediation analysis — would more precisely quantify the pathways through which financial literacy influences investment behaviour. Comparative studies across gender cohorts, industry sectors, and geographic regions would reveal important heterogeneities that convenience sampling cannot capture.

References

Agarwal, S., Driscoll, J. C., Gabaix, X., &Laibson, D. (2009). The age of reason: Financial decisions over the life cycle. Brookings Papers on Economic Activity, 2009(2), 51–117.

Ajzen, I. (1991). The theory of planned behavior. Organizational Behavior and Human Decision Processes, 50(2), 179–211.

Atkinson, A., & Messy, F. A. (2012). Measuring financial literacy: Results of the OECD/INFE pilot study. OECD Working Papers on Finance, Insurance and Private Pensions, No. 15.

Bhushan, P., &Medury, Y. (2013). Financial literacy and its determinants. International Journal of Engineering, Business and Enterprise Applications, 4(2), 155–160.

Chen, H., & Volpe, R. P. (1998). An analysis of personal financial literacy among college students. Financial Services Review, 7(2), 107–128.

Garg, N., & Singh, S. (2018). Financial literacy among youth. International Journal of Social Economics, 45(1), 173–186.

Grable, J. E. (2000). Financial risk tolerance and additional factors that affect risk taking in everyday money matters. Journal of Business and Psychology, 14(4), 625–630.

Grohmann, A. (2018). Financial literacy and financial behavior: Evidence from the emerging Asian middle class. Pacific-Basin Finance Journal, 48, 129–143.

Huston, S. J. (2010). Measuring financial literacy. Journal of Consumer Affairs, 44(2), 296–316.

Jain, D., &Mandot, N. (2012). Impact of demographic factors on investment decision of investors. Researchers World – Journal of Arts, Science & Commerce, 3(2), 81–92.

Kaiser, T., Lusardi, A., Menkhoff, L., & Urban, C. (2020). Financial education affects financial knowledge and downstream behaviors (NBER Working Paper No. 27057). National Bureau of Economic Research.

Klapper, L., & Lusardi, A. (2020). Financial literacy and financial resilience: Evidence from around the world. Financial Management, 49(3), 589–614.

Lusardi, A., & Mitchell, O. S. (2011). Financial literacy and retirement planning in the United States. Journal of Pension Economics & Finance, 10(4), 509–525.

Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. Journal of Economic Literature, 52(1), 5–44.

Lusardi, A., Michaud, P.-C., & Mitchell, O. S. (2017). Optimal financial knowledge and wealth inequality. Journal of Political Economy, 125(2), 431–477.

Mandell, L. (2008). Financial literacy of high school students. In J. J. Xiao (Ed.), Handbook of consumer finance research (pp. 163–183). Springer.

Mouna, A., &Jarboui, A. (2015). Financial literacy and portfolio diversification: An observation from the Tunisian stock market. International Journal of Bank Marketing, 33(6), 808–822.

Nguyen, L., Gallery, G., & Newton, C. (2019). The joint influence of financial risk perception and risk tolerance on individual investment decision-making. Accounting & Finance, 59(S1), 747–771.

Philippas, N. D., &Avdoulas, C. (2020). Financial literacy and financial well-being among Generation-Z university students: Evidence from Greece. The European Journal of Finance, 26(4–5), 360–381.

Potrich, A. C. G., Vieira, K. M., & Mendes-Da-Silva, W. (2016). Development of a financial literacy model for university students. Management Research Review, 39(3), 356–376.

Rai, K., Dua, S., & Yadav, M. (2019). Association of financial attitude, financial behaviour and financial knowledge towards financial literacy: A structural equation modelling approach. FIIB Business Review, 8(1), 51–60.

SEBI-NCFE. (2019). National financial literacy survey of India 2019. Securities and Exchange Board of India and National Centre for Financial Education.

Singh, J., & Kumar, S. (2019). Investment behaviour of working professionals. International Journal of Management Studies, 6(2), 45–52.

Van Rooij, M., Lusardi, A., &Alessie, R. (2011). Financial literacy and stock market participation. Journal of Financial Economics, 101(2), 449–472.

Xiao, J. J., & Porto, N. (2017). Financial education and financial satisfaction: Financial literacy, behavior, and capability as mediators. International Journal of Bank Marketing, 35(5), 805–817.