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Original Article

Impact of Financial Literacy on Investment Behaviour A Descriptive Analytical Study

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Abstract *Making sound investment decisions is not simply about having money to spare it fundamentally depends on knowing what to do with it. In India, this equation has grown increasingly significant as more households enter the orbit of formal financial markets. This paper examines the relationship between financial literacy and investment behaviour among Indian adults, drawing on secondary data from the National Centre for Financial Education (NCFE), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Association of Mutual Funds in India (AMFI), and the National Securities Depository Limited (NSDL), with coverage extending to 2022. Through a descriptive analytical approach, the study tracks how shifts in financial knowledge levels have corresponded with changes in saving preferences, product choices, and the degree to which individuals engage with capital markets. What emerges is a consistent pattern: people with stronger financial knowledge tend to hold diversified portfolios and show greater comfort with market-linked products, while those with limited awareness continue leaning heavily on bank deposits and informal advice channels. The paper ultimately argues that closing the financial literacy gap especially among women, rural communities, and those with limited formal education must become a priority if expanded financial access is to translate into genuinely better financial outcomes for Indian households.*
Keywords: *Financial literacy, investment behaviour, financial inclusion, capital markets, mutual funds, savings, investor awareness, India*

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INTRODUCTION

Ask most people what financial literacy means and they will probably say something like "understanding money." That answer is not wrong, but it barely scratches the surface. At its core, financial literacy is the practical capability to navigate financial decisions with some confidence being able to make sense of income and expenditure, understanding why compounding matters, recognising what it means when someone offers a high-return investment with "no risk," or appreciating why concentrating all savings into a single instrument may not be the wisest move. It blends numerical skills with product knowledge and, crucially, with the behavioural capacity to actually apply that knowledge when decisions have to be made under real-world conditions.

Investment behaviour, closely related but distinct, is about what people actually do when they have surplus money. Do they open a fixed deposit? Put money into a mutual fund? Buy gold? Let it sit in a savings account? Those choices reflect a mixture of knowledge, habit, risk appetite, social influence, and personal confidence and financial literacy runs through all of them.

India's financial landscape changed substantially in the years leading up to 2022. Improvements in regulatory and digital infrastructure made it dramatically easier to invest: demat account openings surged from 4.09 crore in 2019–20 to nearly 8.97 crore by 2021–22, while mutual fund assets under management climbed from ₹22.26 lakh crore to ₹37.57 lakh crore across the same two-year span. These figures signal something real retail investors were participating in financial markets in greater numbers than at any earlier point. Yet participation alone is not the same as informed participation.

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The NCFE's 2019 survey estimated that only around 27 percent of Indian adults met the threshold for financial literacy, a figure barely higher than the 2015 reading. So while platforms multiplied and accounts were being opened at record pace, a large share of new participants were entering markets with limited understanding of how those markets actually work. This gap between expanded access on one hand and constrained knowledge on the other is precisely what motivates this study. Using secondary data drawn from multiple official and regulatory sources, the paper investigates how financial literacy levels in India relate to observable patterns in investment behaviour through to 2022.

Review of Literature

The relationship between financial knowledge and investment behaviour has attracted substantial academic attention over the past two decades, and the evidence points consistently in the same direction.

Lusardi and Mitchell (2014) produced what is arguably the most widely cited synthesis in this field, making the case that financial literacy has measurable effects on outcomes spanning retirement planning, debt management, and wealth accumulation. Their research introduced a simple three-question test covering basic numeracy, the impact of inflation on purchasing power, and the principle of risk diversification that has since been incorporated into financial literacy assessments across numerous countries, including India's NCFE surveys. The central finding was that individuals able to answer these questions correctly were considerably more likely to hold equities and to have made deliberate plans for their future financial needs.

Van Rooij, Lusardi, and Alessie (2011) added important texture to this picture by examining Dutch survey data. They found that respondents with lower financial literacy were strongly disinclined to invest in stocks not because they were philosophically opposed to equity, but because they struggled to evaluate complex financial products and lacked the confidence to judge their associated risks. Knowledge gaps were, in effect, translating directly into avoidance of market-linked instruments.

In the Indian context, Bhushan and Medury (2013) examined how financial literacy shaped investment choices among salaried employees. Their study found a positive relationship between literacy levels and familiarity with diverse instruments including mutual funds, equities, and insurance-linked products. Financially literate respondents were also more likely to set investment goals and plan their finances deliberately, rather than simply saving whatever was left over at month-end. This finding is particularly relevant in the context of India's SIP growth, where disciplined monthly commitments have driven a significant share of retail market participation.

Hastings, Madrian, and Skimmyhorn (2013) reviewed evidence from multiple countries and arrived at an important practical observation: financial literacy interventions tend to produce their strongest effects when delivered at the point of decision when an individual is actually choosing a fund, opening an account, or selecting a pension plan. Broad awareness campaigns delivered long before any decision is required appear to have considerably weaker effects on actual behaviour. This has real implications for how mutual fund distributors and brokerage platforms in India should think about investor education.

Objectives of the Study

1. To examine the level and trend of financial literacy among Indian adults through to 2022.
2. To analyse patterns in investment behaviour and product participation across the study period.
3. To assess the association between financial literacy and portfolio diversification.
4. To identify demographic gaps in financial literacy and their implications for investment choices.
5. To draw out relevant policy implications for financial education and inclusion efforts.

Research Hypotheses

Based on the objectives and review of literature, the following hypotheses have been formulated for examination:

H1: Higher financial literacy is positively associated with greater participation in market-linked investment instruments.

H2: Financial literacy levels vary significantly across demographic groups specifically by gender, region, and educational attainment.

H3: Higher financial literacy is positively associated with broader diversification of investment portfolios.

Research Methodology

1. **Nature of the Study**

The study is descriptive and analytical in character. Rather than estimating causal effects through econometric modelling, it seeks to characterise patterns and assess how observable changes in financial literacy correspond to changes in investment behaviour across the study period.

2. **Period of Study**

All data used in this study covers the period up to 2022, which represents the most recent complete year for which the relevant official and regulatory sources had published comprehensive findings at the time this paper was prepared.

3. **Sources of Data and Tools of Analysis**

The analysis draws on secondary data from the following published sources: the NCFE National Financial Literacy and Inclusion Surveys (2013 and 2019); the SEBI National Survey on Securities Market Participation (2015); RBI publications on financial inclusion and household finance; AMFI monthly AUM and SIP statistics for 2019–2022; and demat account data published by NSDL and CDSL covering the same period.

The analytical tools employed are descriptive in nature principally trend analysis, percentage change calculations, and comparative interpretation across demographic and literacy groups. These techniques are appropriate for a study whose primary goal is to identify and describe patterns rather than to generate predictive estimates.

Financial Literacy Levels in India

Progress in financial literacy in India has been real but gradual. Survey-based estimates compiled over the past decade show a moderate upward trend, though the country remains below the global average by most comparative measures.

Table 1: Financial Literacy Levels in India by Survey Year

Survey Year	Financially Literate Adults (%)	Source
2013	24%	NCFE Pilot Survey
2015	27%	SEBI National Survey
2019	27%	NCFE National Survey
2022 (Est.)	31%	RBI / NCFE Composite Estimate

Source: NCFE National Financial Literacy Surveys; SEBI Investor Survey; RBI estimates, up to 2022.

Between 2013 and 2022, the share of financially literate Indian adults rose by roughly seven percentage points. In absolute terms that is meaningful progress, but it appears modest against the scale of financial inclusion achieved through schemes such as Pradhan Mantri Jan Dhan Yojana. More telling is the stagnation between 2015 and 2019 both surveys returned a figure of 27 percent suggesting that wider access to banking infrastructure has not automatically translated into deeper financial understanding among the population.

The disaggregated figures are, if anything, more instructive than the headline numbers.

Table 2: Financial Literacy by Demographic Segment (2019 NCFE Survey)

Segment	Sub-group	Financially Literate (%)
Gender	Male	29%
Gender	Female	21%
Region	Urban	33%
Region	Rural	24%
Education	Graduate & above	41%
Education	Below secondary	18%

Source: NCFE National Financial Literacy Survey, 2019.

Across all three dimensions examined gender, geography, and education the gaps are consistent and substantial. Female respondents trailed male respondents by eight percentage points; rural residents lagged urban counterparts by nine points; and graduates were more than twice as likely to be financially literate as those who had not completed secondary school. These are not marginal differences. They mark out persistent structural disadvantages that general market-deepening efforts have, so far, done relatively little to close.

Trends in Investment Behaviour in India (Up to 2022)

Historically, Indian households have channelled their savings toward physical assets primarily property and gold alongside conventional instruments like bank fixed deposits and post office schemes. These preferences are partly cultural, partly a product of limited access to alternatives, and partly a reflection of the perceived simplicity and reliability of traditional options. Through the years leading up to 2022, however, this pattern began shifting in some important ways.

Table 3: Growth in Market-Linked Investment Participation in India (2019-20 to 2021-22)

Indicator	2019-20	2020-21	2021-22
Demat Accounts (Crore)	4.09	5.50	8.97
Mutual Fund AUM (₹ Lakh Crore)	22.26	31.43	37.57
Monthly SIP Contribution (₹ Crore)	8,532	9,609	12,276
Number of SIP Accounts (Crore)	3.10	3.97	5.39

Source: AMFI Monthly Reports; NSDL/CDSL Statistics, 2019-20 to 2021-22.

The numbers point to a genuine shift in participation. Demat accounts more than doubled over just two years, propelled in part by zero-cost account opening facilitated through discount brokers and fintech platforms. Monthly SIP contributions grew by around 44 percent between 2019–20 and 2021–22, with SIP account registrations rising from 3.10 crore to 5.39 crore. Mutual fund AUM expanded by nearly 69 percent across the same period—a pace that would have seemed implausible just a decade earlier.

It is worth noting, though, that this growth was not uniformly distributed. The expansion was concentrated primarily among urban, salaried, and younger investors precisely the demographic segments where financial literacy levels tend to be highest. Rural populations and women investors remained largely on the periphery of this market expansion, a pattern that reflects the literacy gaps documented earlier and reinforces the significance of demographic targeting in future outreach efforts.

Financial Literacy and Investment Behaviour: Comparative Analysis

The relationship between literacy levels and actual investment choices comes through clearly in the survey-based comparison below.

Table 4: Investment Behaviour by Financial Literacy Level (SEBI Investor Survey Findings)

Parameter	High Financial Literacy	Low Financial Literacy
Invests in mutual funds / equities (%)	58%	19%
Relies primarily on bank deposits (%)	31%	68%
Maintains a diversified portfolio (%)	52%	16%
Consults credible information before investing (%)	61%	24%
Relies on informal advice (friends/agents) (%)	22%	57%

Source: SEBI Investor Survey; NCFE Survey, compiled estimates up to 2022.

The contrast is stark. Investors with higher financial literacy were approximately three times more likely to hold mutual funds or equities, more than three times more likely to maintain a diversified portfolio, and nearly three times more likely to seek credible information before making investment decisions. At the other end, those with low financial literacy showed an overwhelming preference for bank deposits 68 percent relied on them primarily and more than half depended on informal advice from friends, family members, or unregistered agents.

That last point merits attention. Informal advice channels are not inherently problematic, but they are unreliable, frequently influenced by commercial incentives, and rarely calibrated to an individual's actual financial circumstances. Widespread dependence on them partly reflects a trust deficit toward formal institutions a finding that surfaces again in the barriers data.

Table 5: Reported Barriers to Improving Financial Literacy in India (NCFE Survey, 2019)

Barrier	Respondents Citing Barrier (%)
Lack of awareness of investment options	47%
Complexity of financial products	39%
Limited access to credible financial advice	34%
Language and literacy barriers	29%
Distrust of financial institutions	22%

Source: NCFE National Financial Literacy Survey, 2019; SEBI Investor Survey, 2015.

Close to half of all survey respondents cited simple unawareness of available investment options as a significant obstacle to improving their financial literacy. Nearly four in ten found financial products too complicated to understand. A third lacked access to credible financial advice reinforcing the dependence on informal channels documented above and close to three in ten faced language-related barriers. Distrust of formal financial institutions, reported by 22 percent of respondents, adds a dimension that straightforward product-simplification campaigns are unlikely to address on their own.

Hypothesis Testing: Detailed Analysis and Interpretation

Testing of Hypothesis 1

Hypothesis (H1): Higher financial literacy is positively associated with greater participation in market-linked investment instruments.

Analysis

Among investors identified as having high financial literacy, 58 percent held mutual funds or equities. That figure stood at just 19 percent among the low-literacy group. The macro-level picture reinforces this demat account and SIP growth over the study period was disproportionately concentrated in urban and educated segments precisely the groups with higher measured literacy. There is no plausible alternative reading of the available data that would leave H1 unsupported.

Inference

H1 is supported by the observed evidence.

Testing of Hypothesis 2

Hypothesis (H2): Financial literacy levels vary significantly across demographic groups such as gender, region, and education.

Analysis

The 2019 NCFE survey data addresses this directly. Financial literacy among male respondents stood at 29 percent against 21 percent for female respondents a gap of eight points. Urban respondents showed a rate of 33 percent versus 24 percent for rural respondents. Among graduates, the figure reached 41 percent, falling to just 18 percent for those without secondary education. These are large, consistent differences across three independent demographic dimensions.

Inference

H2 is supported by the documented demographic disparities.

Testing of Hypothesis 3

Hypothesis (H3): Higher financial literacy is positively associated with broader diversification of investment portfolios.

Analysis

Among investors with high financial literacy, 52 percent maintained diversified portfolios. Among low-literacy investors, that figure was 16 percent. More financially literate investors also showed markedly greater reliance on credible information sources (61 percent) than on informal advice channels (22 percent) the inverse of the pattern observed in the low-literacy group. Portfolio quality, in short, appears to improve meaningfully with financial knowledge.

Inference

H3 is supported by the observed data.

Findings of the Study

Over the study period, financial literacy in India rose from approximately 24 percent in 2013 to an estimated 31 percent by 2022. The improvement is genuine but the absolute level remains well short of what would be needed to support broad, informed participation in financial markets.

Demographic disparities in literacy are not marginal. Women, rural residents, and individuals with lower educational attainment consistently showed lower financial awareness than their respective counterparts, and these gaps have remained relatively stable across multiple survey cycles suggesting that general market-deepening efforts have not been sufficient to close them.

Retail participation in market-linked instruments expanded substantially through 2021–22. Demat account numbers more than doubled, mutual fund AUM grew by nearly 69 percent, and SIP registrations climbed steadily, pointing to a material shift in how a growing share of Indians manages savings and builds financial assets.

Investors with higher financial literacy were markedly more likely to hold equity and mutual fund products, to diversify across asset classes, and to rely on researched information rather than informal networks. Conversely, limited financial knowledge was associated with concentration in bank deposits and dependence on advice from unregistered intermediaries an arrangement that carries genuine risks of misaligned recommendations.

Unawareness and perceived complexity emerged as the dominant obstacles to literacy improvement, cited by 47 percent and 39 percent of respondents respectively. Language-related barriers and distrust of formal institutions were also significant, particularly for rural and semi-urban populations.

Taken together, these findings suggest that while financial access has widened considerably, financial understanding has not kept pace and the gap is most pronounced among precisely the groups that inclusive finance initiatives are designed to serve.

Suggestions

Financial literacy programmes specifically designed for women, rural communities, and individuals with limited formal schooling should be developed and delivered through locally trusted intermediaries, in regional languages. Mass outreach in English or Hindi alone is unlikely to close these gaps effectively.

Financial education should be embedded meaningfully into school and college curricula, ideally through applied exercises rather than purely conceptual instruction. A student who has worked through a simple household budget or compared two investment options is better prepared than one who has only read about them in a textbook.

SEBI-registered intermediaries and mutual fund distributors are well positioned to provide point-of-decision education explaining products clearly when investors are actually selecting them. This approach aligns with the evidence showing that financial education has its strongest behavioural effect when delivered at moments of relevance rather than through generic awareness campaigns.

Digital channels mobile applications, short explanatory video content, interactive calculators offer a relatively low-cost route to first-time investors in Tier-2 and Tier-3 cities, where traditional outreach remains limited and smartphone penetration is growing steadily.

Regulatory oversight of informal investment advice channels should be strengthened to reduce the risk of low-literacy investors receiving commercially motivated or simply inaccurate guidance from unregistered sources.

Product disclosures and application materials should be redesigned for simplicity. If nearly 40 percent of respondents cite product complexity as a barrier to financial literacy, there is a design problem that education alone is unlikely to resolve.

Limitations of the Study

This study relies entirely on published secondary data and employs descriptive analytical methods. As a consequence, it can identify associations between financial literacy and investment behaviour, but it cannot establish direct causal relationships in a statistical sense. Survey-based literacy estimates carry inherent limitations, including potential self-reporting bias and variation in how questions were framed across different survey cycles.

The analysis is also confined to national-level aggregates, which necessarily obscures state-level, regional, and district-level variation that may be substantial in a country as diverse as India. Future research drawing on primary data and using multivariate or experimental designs would offer a more granular and causally rigorous account of the relationships examined here.

Conclusion

What this study has examined, at its core, is a mismatch: India's financial markets have extended their reach considerably, but the knowledge base of many new participants has not expanded at the same rate. Data from multiple official sources, covering the period through to 2022, points consistently in the same direction higher financial literacy corresponds with more diverse portfolios, greater engagement with market-linked instruments, and better-quality decision-making processes. Lower literacy, by contrast, correlates with over-reliance on conventional deposits and informal advice channels.

The gradual rise in aggregate literacy levels is encouraging, but the demographic gaps documented here are a reminder that averages can obscure as much as they illuminate. Women, rural residents, and those with limited formal education remain significantly behind their counterparts and these are not incidental shortcomings. They represent a structural divergence between what financial inclusion has achieved in terms of access and what it has yet to achieve in terms of genuine understanding.

Closing that gap will require coordinated effort from regulators, financial institutions, and educational bodies working in concert, not independently. The objective is not financial literacy as an end in itself, but the kind of informed investment behaviour that actually improves household financial resilience and contributes to long-term wealth creation for Indian families across all segments of society.

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Conflicts of interest
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