Impact of Financial Literacy and Financial Attitudes on Investment Decisions: A Case Study of Delhi-NCR

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Abstract

There are several financial products available in financial markets all around the world. Investors have access to a wide range of financial products on the financial markets, including stock, mutual funds, bonds, gold, government securities, and fixed deposits. The purpose of this research study is to analyze the influence of the independent factors of Financial Knowledge, Financial Awareness, and Financial Attitude on Investment Decisions. The population of the study is from the area of Delhi-NCR. Researchers used a descriptive research design and convenient sampling method in the current study. The data of 221 respondents was collected through an online survey via Google form link. The researcher used a PLS-SEM to analyze the research data. The results of the study indicated Financial Knowledge Financial Awareness and, Financial Attitudes have a significant impact on Investment Decisions.

Keywords: *Financial Knowledge, Financial Awareness, Financial Attitude, Investment Decisions.*

Introduction

The growing number of studies on financial literacy indicates that investors' familiarity and proficiency with fundamental financial concepts and instruments fall far short of what is required. Due to causes including the creation of new financial products, the complexity of the financial markets, and changes in political environment, the need of enhancing investors' financial literacy has increased.

Financial literacy measures how well-informed people are about financial products and services and how well-equipped they are to manage their money (Liaqat et al., 2021). Financial knowledge, attitude, behaviors, and well-being are all parts of the multi-faceted concept known as financial literacy. Financial literacy has assumed increasing prominence in recent times since the capitalist economies of the twenty-first century have risen faster and become more complex throughout the globe (Kaur & Bansal, 2020). A person's ability to make wise financial decisions is a major factor in their financial well-being. However, regrettably, individuals occasionally make poor financial decisions (Shanmugam et al., 2022). Financially literate people can break the cycle of intergenerational poverty and achieve financial independence (Zhu et al., 2021). Financially vulnerable people are more likely to be excluded from the financial system because they lack financial education and the financial services they require (Biosca et al., 2020). In the modern world, financial citizenship is essential. The education of future generations is the foundation for financial citizenship so that they may comprehend both their local and global economies and make the best financial decisions for their lives (Khalil, 2020). Investors now need to be better informed, more aware, and knowledgeable when it comes to monitoring and managing their funds as a result of the global integration of financial markets. Due to the complexity of financial goods and services made available to the general public, the need for informed judgments becomes crucial (Ahmed et al., 2022). Financial literacy impacts access to financial services (Twumasi et al., 2022).

Almost every nation on earth struggles with financial literacy. A person's family has to have a sufficient level of financial literacy for them to be financially wealthy. Education in money management has the potential to change people's behavior and make them more aware of financial difficulties. Financial literacy is now essential since it can reduce the likelihood of making unwise investing decisions. Government agencies and financial institutions should work together to provide financial literacy initiatives for the general public (Madinga et al., 2022). Many initiatives have been made over the years to increase people's financial literacy. Employment creation, economic growth, the eradication of poverty, and social cohesion all depend on access to financing and financial literacy level, especially for the poor and vulnerable populations (Aparna & Anthuvan, 2022).

The Indian government has highlighted financial literacy as a crucial functional area that deserves special attention. The SEBI has released several rules and education campaigns about investment financial products, digital payment systems, consumer protection, and other topics (Dogra et al., 2021). Further, the Government should develop an inclusive financial system, in which all societal sectors have timely access to financial services at reasonable prices, which is essential to the sustainable growth and development of a country. It enables the safekeeping of funds, the availability of loans for various reasons, risk diversification

through investing in numerous avenues, risk coverage through various insurance products, etc., which improves people's quality of life (Dahiya & Kumar, 2020). Financial intermediaries or brokers must educate investors about investments and provide more information (Arora & Marwaha, 2013). The current study analyzes the impact of Financial Knowledge, Financial Awareness, and Financial Attitude on Investment Decisions.

Research Gap

The direct combined impact of Financial Literacy, Financial Awareness and Financial Attitude on Investment Decisions of Retail Investors is not adequately explained by the literature. Thus, to fill that research gap researchers asked Investment Decisions related questions instead of measuring objective and subjective financial literacy.

Literature Review and Hypothesis Development

Financial literacy has gained the attention of various groups and organizations including financial markets, governments, financial institutions, and other organizations. The main objective of the research was to assess the level of financial literacy among UA retail investors. The researcher used a convenient sampling method and drew a sample of 290 respondents. The researcher employed logistic regression, ANOVA, percentages, and mean analysis to know the impact of dependent independent variables like education, age, gender, income, employment status, and workplace activity on the dependent variable financial literacy. The researcher revealed that financial literacy level was affected by education, income, and workplace activities. The results of the study also indicated a significant relationship between financial literacy and the investment decisions of UAE investors (Hassan Al-Tamimi & Anood Bin Kalli, 2009). Further, financial literacy has been observed as a critical concern, especially in developed countries. The objective of this study was to explore the relationship between financial literacy and investment decisions. The researcher employed mean and percentage analysis to determine the knowledge of the traders and the determinants of investment decision-making. The results of the study revealed that financial literacy and investment were correlated (Oteng, 2019).

It is revealed from previous studies that financial investment has developed tremendously, and financial literacy is required for good investment decision-making. The objective of this study was to assess the impact of financial literacy and investment experience on crypto-currency investment. The researcher used the National Financial Capability Survey 2018 data. The researcher employed three-step hierarchical logistic regressions to assess the mediating effect of investment experience between financial literacy and crypto-currency investment. The researcher revealed that financial literacy and investment experience have a positive impact on crypto-currency investment. Furthermore, the results of this study revealed that investment behavior especially in the case of risky asset holdings had a mediating role between financial literacy and crypto-currency investment (Zhao & Zhang, 2021). It has been noted that the preferences of retail investors are influenced by so many factors such as environmental, psychological, social, and cultural. The objective of this study was to know the impact of financial literacy and risk perceptions on investment preferences. The researchers collected the data through an online survey. The data was analyzed through one way ANOVA and Duncan tests. The results of the study indicated the positive and direct

impact of financial literacy and risk perception on the investment preferences of retail Investors (Aren & Zengin, 2016). The investment decision process depends upon several factors that may vary from Investor to investor. The objective of this study was to determine the impact of financial literacy, behavioral factors, and socio-economic factors on investment decisions. The sample was drawn from the population of Haryana, Punjab, and Himachal Pradesh. The researcher employed PLS-SEM to build the model and analyze the data. The results of this study revealed that financial literacy, behavioral factors, and socioeconomic factors significantly affect financial literacy (Prasad et al., 2021).

It is observed that investment in financial markets has experienced tremendous growth from simple to complex. The main objective of this study was to analyze the impact of financial literacy and money attitude on investment decisions. A sample of 535 was drawn for the study. The researcher employed logistic regression models to know the impact of independent variables like money, attitude, and financial literacy on two dependent variables (current and future financial investment decisions) of Taiwan's investors. The results of the study revealed that financial literacy and money attitude significantly impacts the investment decisions of investors (Shih & Ke, 2014).

Now, need for financial literacy has become increasingly evident because financial illiteracy has spread throughout the world. The focus of this study was to determine the impact of financial literacy on investment decisions among teachers. The researcher collected the data from 142 participants and the data was analyzed by PLS-SEM. The results of this study revealed that financial literacy has a significant impact on shopping behavior, and saving behavior in long-term and short-term planning (Zulaihati et al., 2020).

After the literature review, it is logical to expect that Financial Knowledge, Financial Awareness, and Financial Attitude have a positive impact on Investment Decisions.

H_1- Investment Decisions are directly impacted by Financial Knowledge.
H_2-Investment Decisions are significantly positively impacted by Financial Awareness
H_3- Investment Decisions are directly impacted by Financial Attitudes.

Researchers have gathered strong evidence after the literature review to consider Financial Knowledge, Financial Awareness, and Financial Attitudes as independent variables that influence the Investment Decisions (Dependent variable) of individual investors.

Objectives
The objectives of the study are as follows
1. To know the impact of financial knowledge on Investment decisions.
2. To assess the impact of financial awareness on Investment decisions.
3. To determine the impact of financial attitude on Investment decisions
   The researcher conducted a thoughtful study in order to attain these objectives.

Methods
The current study aims to investigate the effect of Financial Knowledge, Financial Awareness, and Financial Attitude on Investment Decisions. A thoughtful study is designed to accomplish these goals.

Sampling Framework and Questionnaire Design

The sample population for this study consists of Indian specifically Delhi NCR area retail investors. To add variety to the data, the respondents were specifically picked to have various demographic profiles. The participants were between the ages of 25 and above 51, had represented a wide range of backgrounds and, qualifications in terms of education and employment. In the present study, 221 respondents participated in an electronic survey that collected the data for this investigation. Two sections made up the survey. The first section of the questionnaire included questions about the respondent's demographic characteristics, while the second section asked questions to determine how independent variables affected dependent variables. Here, Investment Decision is the dependent variable, whereas Financial Knowledge, Financial Awareness, Financial Attitude are the independent variables.
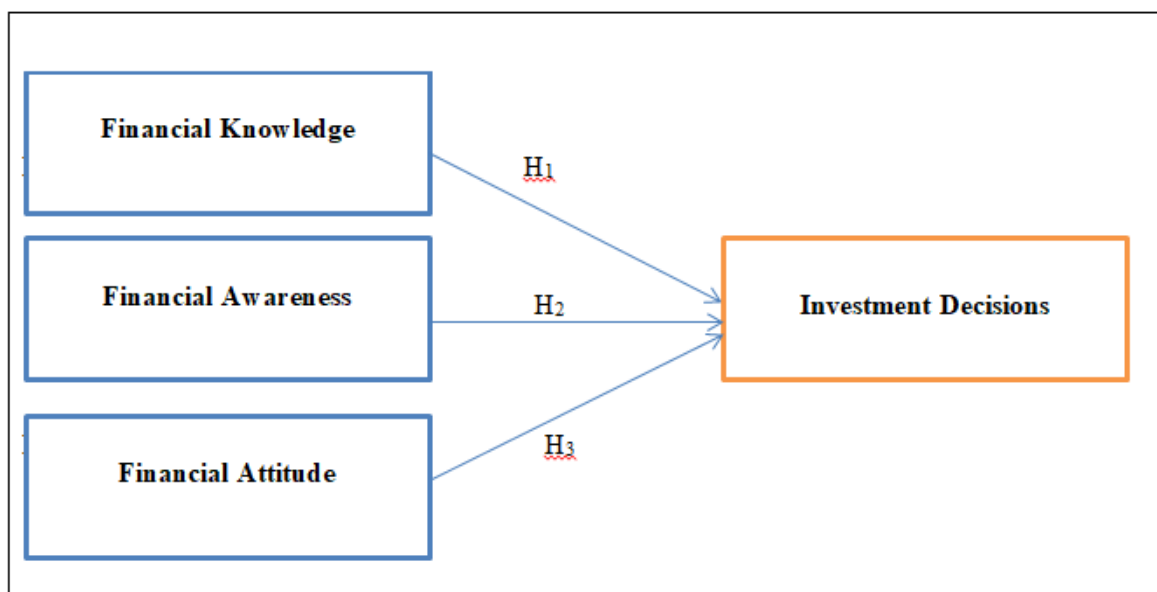

Figure no 1. Model developed by researchers

Measures

The goodness of a measurement scale can be evaluated on the basis of reliability and validity. The details of measurement scale are given below in the Table no 1.

Table no 1.

Constructs	Number of Items	Items	Source
Financial Knowledge	10	Simple interest is charged on the principal amount by taking into consideration the daily interest rate and the number of days**.**	(OECD/INFE, 2018)
		Compound interest is charged on the principal amount plus all the accumulated interest of previous periods.	(OECD/INFE, 2018)
		If rate of inflation is more than the rate of interest of savings account, then the buying power of accounted money would be less.	(OECD/INFE, 2018)

		The cost of living increases due to high inflation.	(OECD/INFE, 2018)
		Interest will influence the future value of savings.	(OECD/INFE, 2018)
		Lower Interest rates encourage more investment.	(OECD/INFE, 2018)
		Investment in stock market is the riskiest of all investments.	(OECD/INFE, 2018)
		Risk can be reduced through investing in wide range of assets.	
		Money received today is worth more than received in future.	(OECD/INFE, 2018)
		Money has a potential to grow in value over a given period of time because it earns interest.	(OECD/INFE, 2018)
Financial Awareness	10	I have knowledge about Fixed deposit.	(OECD/INFE, 2018)
		I have awareness about NSC.	(OECD/INFE, 2018)
		I am aware about public provident fund.	(OECD/INFE, 2018)
		I have awareness about EPF, It is applicable for salaried class employees only.	(OECD/INFE, 2018)
		I have knowledge about equity shares, it means sharing of profit in the company	(OECD/INFE, 2018)
		I have awareness about insurance policies.	(OECD/INFE, 2018)
		I have knowledge of preference shares.	(OECD/INFE, 2018)
		I have awareness about mutual funds.	(OECD/INFE, 2018)
		I have knowledge of debentures and bonds.	(OECD/INFE, 2018)
		I have knowledge of Post office monthly Scheme (POMIS).	(OECD/INFE, 2018)
Financial Attitude	10	I believe that money is there to be spent.	(OECD/INFE, 2018)
		Spending money gives me more satisfaction than saving it for the long term.	(OECD/INFE, 2018)
		I have the understanding and ability to plan for my long-term financial needs.	(OECD/INFE, 2018)
		I believe my income is enough to cover my expenses.	(OECD/INFE, 2018)

		I have the ability to ensure enough money for my retirement.	(OECD/INFE, 2018)
		I usually think about the ways to reduce my Spending.	(OECD/INFE, 2018)
		I always consider risk and return while making an investment decisions.	(OECD/INFE, 2018)
		Making risky decisions will add more values to my return.	(OECD/INFE, 2018)
		I know the sources from where I can get financial information	(OECD/INFE, 2018)
		I believe informational workshop helps in gaining more information on money management and investing.	(OECD/INFE, 2018)
Investment Decisions	10	My investment decisions are influenced by publication in the financial press, Social Media and news papers	(OECD/INFE, 2018)
		My investment decisions are influenced by Conversation/ exchanges of views with company executive and sector experts	(OECD/INFE, 2018)
		I believe on published reports from research agencies while making investment decisions	(OECD/INFE, 2018)
		My investment decisions are influenced by Financial statement of the company	(OECD/INFE, 2018)
		Past performance of the firm like returns given to the investors and profits influence my investment decisions	(OECD/INFE, 2018)
		Expected return on Investment (ROI) influences my investment decisions.	(OECD/INFE, 2018)
		Diversification needs has influence on my investment decisions.	(OECD/INFE, 2018)
		My investment decisions are influenced by availing the benefit of income tax deduction.	(OECD/INFE, 2018)
		Safety associated with investment has influence on my investment decisions	(OECD/INFE, 2018)
		I consider preferred investment time horizon before investment.	(OECD/INFE, 2018)

Research Tools and Techniques

The researcher performed descriptive data analysis by using SPSS version 22. Further analysis was done by two step methods (measurement model and structural model) proposed by (Henseler et al., 2009), to report and evaluate generated results. A measurement model has been used to evaluate the appropriateness of the scale items. The evaluation of collinearity among exogenous constructs, the significance and applicability of path coefficients, as well as indirect effects and total effects (if appropriate), are all included in the

structural model assessment process. The coefficient of determination, or R^2, is used to measure the predictive accuracy of the model (Hair et al., 2019). Additionally, CR (Construct reliability) was measured by using Fornell and Larcker (1981) criterion, Furthermore CR value should be 0.7 or more shows acceptable level of reliability. Additionally, AVE was used in the study to assess the convergent validity, AVE (average variance extracted) value should be above 0.50. The cross-loading values of the latent variables were used to obtain discriminant validity. The cross-loading values in corresponding variables should be higher in comparison to the loadings of other constructs.

Measurement Model

The researchers evaluated the measurement model to examine the convergent and discriminant validity of the observed variables. The loading value of specific indicators must be above 0.6, AVE value should be above 0.5 and CR value should be above 0.7, as per (F. Hair Jr. et al., 2006). The fitness of a model is assured by fulfilment of these criterions. The details of measurement properties of the constructs are given in the Table no 2.

Table no 2. Parameter values of factor loadings, Average Variance Extracted and Composite Reliability.

Constructs	Items	Loadings	AVE	CR
Financial Knowledge	FK1	.854		
	FK2	.931		
	FK3	.877		
	FK4	.931		
	FK5	.932	.977	.808
	FK6	.839		
	FK7	.871		
	FK8	.961		
	FK9	.921		
	FK10	.912		
Financial Awareness	FR1	.792		
	FR2	.871		
	FR3	.921		
	FR4	.838	.976	.806
	FR5	.920		
	FR6	.861		
	FR7	.952		
	FR8	.943		
	FR9	.946		
	FR10	.919		
Financial Attitude	FA1	.924		
	FA2	.868		
	FA3	.918		
	FA4	.853		
	FA5	.885	.974	.792
	FA6	.861		
	FA7	.932		

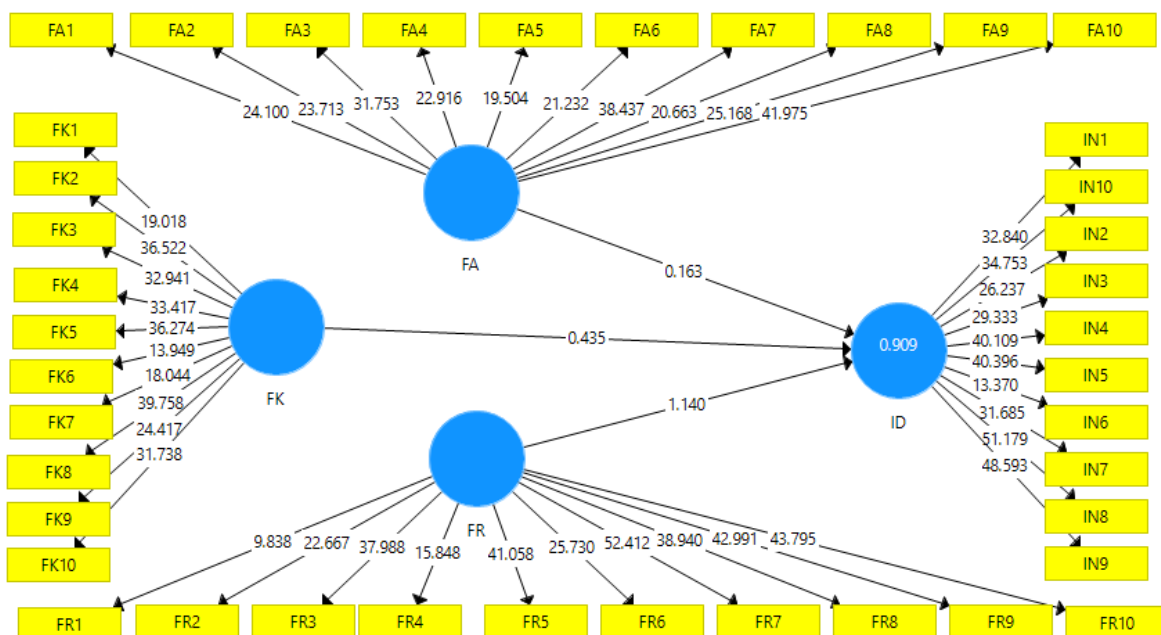|	FA8	.852		
	FA9	.873		
	FA10	.929		
Investment Decisions	ID1	.886		
	ID2	.885		
	ID3	.901		
	ID4	.932		
	ID5	.924	.979	.822
	ID6	.835		
	ID7	.907		
	ID8	.932		
	ID9	.946		
	ID10	.914		

Figure no 3. Measurement Model

Analysis of Structural Model

Estimation of structural model was performed after analysing validity and reliability of constructs by using measurement model. Researcher used refined items in hypothesis testing. When evaluating the reflective measures, the internal consistency was examined using the composite reliability (CR) and Cronbach's alpha, the convergent validity was examined using the indicator loading and average variance extracted (AVE), and the discriminant validity was examined using the heterotrait-monotrait ratio of correlations (HTMT). In figure 3, a full structural regression model is presented. The researchers found a positive impact of Financial Knowledge on Investment Decisions (β = 0.289, p < 0.01). The researchers found a positive impact of Financial Awareness on Investment Decisions (β = 0.531, p < 0.01). Furthermore, results indicated that Financial Attitude has a significant impact on the Investment Decisions (β = 0.166, p is less than 0.01). Where SRMR = 0.04, NFI = 0.784, R^2 = 90.09% .Therefore H_1 and H_2 are supported.
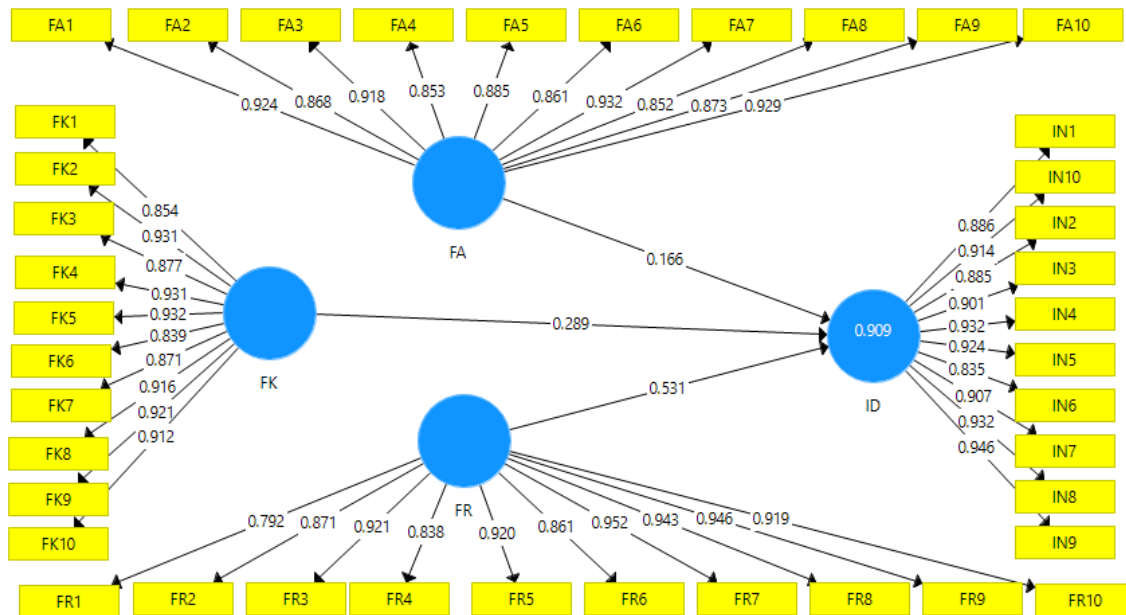
Figure no 3. Structural Model

Conclusion

Financial literacy has emerged as a solution, where families are accruing significant levels of debt. The primary objective of this research was to examine how Financial Knowledge, Financial Awareness and Financial Attitude affect Investment Decisions. The study's findings showed that people's Investment Decisions are significantly influenced by their Financial Knowledge, Financial Awareness and Financial Attitude. According to the results of the current study, investors are able to make financial decisions because of increased Financial Knowledge, Financial Awareness and Financial Attitude. Hence Investment choices are influenced by the investors level of Financial Literacy, Financial Awareness and Financial Attitude, additional studies should be planned to broaden this work in several ways. Further, need to examine if investing style and portfolio choice are influenced by financial literacy, as well as whether persons with low financial literacy are less likely to accumulate wealth. Many people do not know how to handle their financial resources. People must focus on improving their levels of financial literacy because investment decisions are significantly influenced by financial literacy. Financial advisors can benefit from the research's findings because they work with clients who have varying levels of literacy and investment attitudes. These results mark a step forward for the literature as well as for governments and business owners. Thus, financial education can be introduced to people when they are young. By introducing educational initiatives, financial literacy can be raised. The educational initiatives should incorporate crucial ideas like time value of money, return on investment, investment options, and risks and rewards. Understanding finances enables people to comprehend the risk involved with various investing options. Investors and professionals with an interest in the financial markets can benefit from the findings. The capital markets, government agencies, and other relevant authorities must take action to raise the general public's level of financial literacy.

Limitations

The respondents from rural regions may also be taken into consideration for future studies with large sample sizes, the current study only included respondents who lived in metropolitan areas. Future studies could do a thorough examination of investors by geographic region. Further study can increase research variables to produce better results, for instance by incorporating other variables like behavioural and personality aspects of retail investors.

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