

# Financial Literacy and Investment Decision among Salaried Employees –A Critical Review

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## Abstract

Financial literacy and the ability to use that knowledge and skills are preconditions for making appropriate financial decisions. Financial literacy helps individuals in assessing the risk and return of various financial products and services which results in the selection of suitable investments. The purpose of this study is to present a review of recent studies that focus on financial literacy and its impact on making investment decisions among salaried individuals. The period covered in the research paper is from year 2010 to 2023. Various research has been conducted in the field of financial literacy and its impact on investment decision-making among individuals. However, this review paper only deals with salaried individuals and their investment decisions. In the majority of the research paper data was collected using questionnaires and interviews and analysis of data was conducted T-test, F-test and ANOVA, etc.

**Keywords:** Financial literacy, investment decision

## Introduction

As per OECD, the definition of financial literacy is – “A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.” (OECD INFE, 2011). Various research has been conducted on financial literacy. In which the financial knowledge was measured using several concepts like interest calculations, knowledge of inflation, return on investment, the role of diversification in the reduction of risk, simple and compound interest, etc. Financial behaviour shows the ways money is dealt with by individuals in their daily lives (such as payment of daily expenses, time and amount of borrowing, investment decisions, saving habits, and making budgets, etc.). Financial literacy helps an individual make a better life and achieve financial goals. A person with financial literacy feels more confident in making financial decisions and can easily deal with financial emergencies. Financial knowledge and the ability to apply that knowledge is an important factor that contributes to making sound financial investment decisions. Financial literacy enables individuals to assess the benefits and risks involved in an investment and then choose the appropriate one.

## Objective and Methodology

The study aims to aggregate and summarise the relevant studies related to financial literacy and its impact on making investment decisions. This research is descriptive. Various related studies are presented as extended literature reviews collected from journals, working papers and other authentic sources.

## Literature review

Sangeeta Gupta (2017) in her paper “To Study the Relationship Of Financial Literacy And Investment Behaviour Of Salaried Class Individuals Of Delhi” concluded that most respondents fall under a low-level financial literacy group. They prefer to invest their money in traditional and safe investments compared to higher returns with higher risks.

Mr. Million Assefa, and Dr. Durga Rao P.V(2018) in their study “Financial Literacy and Investment Behavior of Salaried Individuals: A Case Study of Wolaita Sodo Town”found that the overall level of financial literacy of salaried employees in Ethiopia was 47.4% which was very low and investors, whether they are having high financial literacy or low level of financial literacy,have the similar preference order for all investment avenues but bullions and life insurance comes under its exceptions. Bank deposits are their first and investment in fixed assets is their fourth preferred investment avenues so it is concluded that in Ethiopia, salaried employees invest their money in safe and traditional investment avenues and avoid those instruments which can give higher return but are comparatively riskier.

Ravneet Kaur and Dr. Rajiv Kumar Maheshwary (2020) “Financial Literacy And Investment Decision: The Case Of Salaried Females” in Ludhiana City. Regression analysis, Chi-square test and Factor analysis were used for data analysis. The study revealed a financial literacy score of 59.53%, lower than the benchmark decided by the OECD (2020) score of 60.48%.

Mahabub Basha, M. Khetan, T. Jaggaiah and Mohammad Khizerulla(2022) in their article “Financial Literacy and Investment Behaviour of IT Employees in India” noted that the mindset of IT professionals is different when they decide to invest in particular investment avenues. For parking of his savings, they want most secure and liquid investment avenues. Google Forms were used for the collection of primary data. Respondents were IT professionals employed in companies of Bangalore City. Safety, security, reduced interest rates and tax benefits were the major factors that influence the investment decisions of IT employees.

Dr.V. Ramanujam and L.Leela(2016) conducted “A Study on Investment Literacy Towards Investment Decision Making Behavior of Working Women” in teaching professionals only. The study revealed their investment literacy is a determinant of demographic factors like annual income, status of family, type of family and age.

Ephraim M. Makhuvele(2023) in his thesis titled “The Influence of Financial Literacy on The Financial Behaviour and Financial Decision Making Of Employees At A Selected University Of Technology” found a financial literacy index of 0.693 which indicates high level of financial literacy among respondents. The result revealed that the index of financial literacy for financial behaviour was 0.741, which was high when a comparison is made with financial decision-making index. High levels of financial literacy influence positively the decision-making of employee in their money management, financial planning and savings.

Puneet Bhushan (2014) “Relationship between Financial Literacy and Investment Behavior of Salaried Individuals”examined the relationship between the financial literacy of salaried employee of Himachal Pradesh and their financial product awareness.The level of financial literacy affects awareness and preferences regarding financial products.Investors with low level of financial literacy invest money in traditional financial product and are unable to take advantage of modern financial product which offer higher returns.

Dr. Paheli Nigam and Dr. Neetu Kumari (2012) “Impact of Financial Literacy On Sustainable Investment Behavior Of Employed Youth In Bangalore” Selected respondents were of age between 19 to 35 years. The study proved that youth investors prefer those investment options that have characteristics of stable income. They want to bear a moderate amount of risk. Most of people are financial illiterate and majority of people have awareness regarding various financial product like shares and bonds, mortgage and pension funds etc. i.e. having a basic understanding of investment and the financial market. With the help of that knowledge, they take a moderate amount of risk.

J. Duraichamy and P. Ponraj (2021) in paper titled “An Economic Study on Financial Literacy among Working Women in Madurai City” collected samples from working women of various field like health industry, Information technology, textile industry fashion, teachers and professors. The study revealed that

most of the working women preferred to invest in precious metal like gold. Since the value of gold appreciates every day and have the characteristics of liquidity, so it is good investment. Mutual fund was ranked last because of lack of awareness of its benefits so they fear to invest in mutual funds.

Mahak Gulati (2020) Conducted “A Empirical Study Related To Preference of Salaried Individuals towards Different Investment Avenues”. This paper covers majority of investments available in the market like mutual fund, term deposit, real estate, debentures and shares. Factors such as socio-economic factors and demographic factors, which influence investing options of salaried employees in both private and public sectors have been covered. It was found that most of the respondents invested 30% of total saving. Fixed deposit is very popular among salaried employees. The banking sector was mostly preferred among all the financial sectors available for investment.

Ms.K.Susmitha and Ms. A. Asha (2018) explained in their study “Investment Preferences Of Salaried Women Employees” in Krishna District, Andhra Pradesh that a good relationship exists between education level and awareness level of investors and there is no such impact of income level on awareness of investors.

Koti (2019) investigated “Financial Literacy and Its Impact on The Investment Decisions of Working Women” in Dharwad District. An interview of 100 women was conducted to know their proficiency and financial ability. T-test, factor analysis, and One-way ANOVA were used as statistical tools. The study found that 30% of them were comfortable and that the grey area was the investment in mutual funds and its return. Gold market and bank deposits were significant important investment avenues. Women were careful while investing and had knowledge about risk and volatility in the market. They set financial goals and achieve them successfully.

Kanika Kundu and J. K. Das (2022) examined “Financial Literacy Among Working Women – A Study in West Bengal” to find whether financial literacy and saving and borrowing literacy influence investment decisions among working-class women in West Bengal. Structured questionnaires and convenience sampling were used to collect data from 635 respondents. The research found that financial and saving literacy plays a significant role in investment decisions. The knowledge of EMI, ROI, FDI, ideas regarding sacrificing present to future consumption and determining the objective of savings (education of children, purchasing home or other assets, marriages of children) plays a significant role in investment and saving decisions among working women in West Bengal.

Mrs. D. Purnima and Dr. N. Lalitha,(2021) conducted “An analysis of Investment Pattern of Salaried Employees - A Case Study of Visakhapatnam” and concluded that Investors are familiar with investment avenues available in Visakhapatnam, India still their preferred investment are Bank deposits and real estate. For them, safety is an important concern for making investment decisions, so other investment avenues are less considerable for them.

## Conclusion

From the above literature review, it can be concluded that the level of financial literacy is low among salaried employee which are affecting their investment decisions. They know about various investment avenues available in the market, but despite this, they prefer those investments that carry a low level of risk. They prefer a current low return on investment to a high future return. The most preferred investments are Bank deposits, Fixed deposits, real estate and gold, etc. Majority of women employees are investing in Gold because of its increasing value and no risk. Some of them are also investing in mutual fund but debentures and shares have not been preferred.

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