



Financial Literacy and Investment Behaviour Among Bank Customers: An Empirical Analysis of Their Relationship and Influence

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ABSTRACT

The emergence of an increasingly digital financial industry, internet penetration and numerous investment options, have made financial education a priority. This study looked at how bank customers' investment activity was correlated with their financial literacy. The data was obtained from 250 banking customers by employing cross sectional research design and quantitative approach. The gathered data was analysed using descriptive statistics and Pearson's correlation analysis. From the findings obtained, it was evident that most of the participants had a good understanding of personal finances ($M=3.78$, $SD=0.64$) and were also relatively active investors ($M=3.69$, $SD=0.68$). The two variables, investment behaviour and financial knowledge, were found to have a strong positive connection ($r = 0.624$, $p < 0.001$). The findings suggested that more conscious and systematic investing practices was observed among the customers who were more financially literate. The study highlights the need to increase financial literacy of the banks' customers to facilitate better investment decisions.

Keywords: Investment Decision-Making, Financial Education, Financial Literacy, Banking Customers, Financial Awareness

1. INTRODUCTION

There is an array of investment and financial options available to individuals today, from pension plans and digitally accessible investment products to fixed deposits, mutual funds, stocks, and bonds. More and more people can take part in the financial markets because of the proliferation of online financial platforms. Investment options are becoming more diverse and complicated requiring people to weigh their financial goals, expected returns, and risk tolerance carefully before making a final decision.

To be financially literate is to have the theoretical and practical understanding of aspects necessary to assess financial data and make sound financial decisions. Concepts like interest rates, compounding, inflation, risk, return, diversification, and the features of various financial instruments are all part of it. Important components of financial literacy, according to the OECD (2023), include knowledge, behaviour, and attitudes. Before committing capital, investors must weigh the potential rewards, risks, liquidity needs, and investment horizon, making these characteristics especially pertinent to investment decisions.

The process by which individuals make, assess, and put into action their investing decisions is known as investment behaviour. The steps involved in making an investment include deciding what you want to accomplish financially, researching your options, weighing the pros and cons of each, and finally, reviewing your results. Therefore, individuals with an understanding of personal finance will have an edge when it comes to assessing these issues.

Banks serve as a vital connection between people and the financial market. Investments, insurance, pensions, and wealth management products are all accessible through banks, in addition to the usual deposit and lending services. However, everyone who is a bank customer doesn't necessarily understand concepts like long-term financial planning, diversification, inflation-adjusted returns, and investment risk. Customers of financial institutions can benefit from use of these products only if they are financially literate.

The rise in the usage of digital financial services and investment in financial instruments in India is evidence that this is a significant area of discussion in India. In addition, individuals may have different levels of financial literacy based on factors such as education, income, experience, and knowledge. Research in this area has, however, mostly concentrated on a select few demographics, including active stock market investors, specific generations, and specific occupations. At the same time, among bank customers, we come across a wide variety of investors viz., seasoned market participants, beginners to investment, regular savers, occasional investors, and those with no prior knowledge of investment products. Being an investor entails more than just owning financial assets; it also involves strategizing, researching, and assessing potential risks and rewards.

The investment behaviour is seen as the dependent variable, whereas financial literacy is seen as the independent variable. The study's overarching goal was to find out the investment behaviour of people who were more financially literate.

The following were the purposes of the current study:

- a. Gauge the degree of financial knowledge of banking customers and their investment habits.

- b. Ascertain how investment habits of bank customers relate to their level of financial literacy.
- c. Examine the relationship between investment conduct of bank customers and their level of financial literacy.

2. LITERATURE REVIEW

Islamoglu et al. (2015) looked at how bankers' investment behaviour was affected by several circumstances. Financial considerations weren't the only ones that influenced investment behaviour; the study recognised a wide range of interconnected elements. Investors' decision-making processes were explored, along with the variables associated with investors' investment decisions. Investors' actions varied due to a number of reasons, including their unique personalities, their financial goals, the ease with which they could obtain relevant information, and their impressions of available investment opportunities. The study's relevance to observing the investing behaviour of individuals with increased financial awareness was justified given that the participants were bankers.

Mouna and Anis (2017) analysed the factors that contributed to impact Tunisian citizens' lack of financial literacy and how it affected their investing decisions. Different people's levels of financial literacy and the correlation between these levels and people's investing and money management choices were studied. Personal characteristics and financial literacy were observed to be important determinants of investment behaviour. Inadequate financial literacy hindered people from participating effectively in financial markets. On the other hand, financial literacy enabled individuals to learn about different financial instruments and make investments. In conclusion, the research confirmed the practical relevance of financial literacy and how it affected investing decisions.

Sivaramakrishnan et al. (2017) investigated how participation in the stock market was affected by issues surrounding attitudes and financial literacy. Financial literacy and people's attitudes about stock market participation were the subject of study. The study highlighted the relevance of financial awareness in investing. Evidence from study demonstrated that financial literacy was a key component in understanding people's investment actions.

Raut (2020) examined the relationship between financial literacy of individual investors and investment decision-making. The study's primary objective was to determine how investors' financial literacy and their historical investment habits influenced their decision-making process. It is observed that investors with a deeper understanding of the subject could better comprehend investment decisions, weigh their options, and assess the dangers of risk rewards associated with various financial products.

Yogyakarta et al. (2021) investigated the connections between the actions of regional development bank borrowers in terms of working capital and investments, as well as their levels of financial literacy, financial inclusion, loan behaviour, and investment choices. There was an effort to contextualise financial literacy within the study's larger framework of financial decision-making and the role it played in explaining investment choices. For understanding the way in which financial decisions were made based on access and usage of financial services, debt behavior and financial inclusion were taken into consideration. The research explained that having knowledge about finances created a fundamental basis for decision-making. There existed a connection between the banking behavior of individuals, financial literacy level, and their engagement level with financial institutions. Information about the correlation between the financial literacy of bank clients and investment decisions of individuals was provided by the research.

3. RESEARCH METHODOLOGY

This study used a quantitative research strategy to look at how bank customers' financial literacy affected their investment behaviour. The data was collected from the respondents at a certain point in time using a cross-sectional survey study design. Using suitable statistical methods, the obtained data was examined to evaluate the correlation between financial literacy and investing behaviour and ascertain the extent to which financial literacy affected bank customers' investment decisions.

3.1 Sample and Data Collection

Customers of financial institutions who were 18 and older and had discretion over their savings and investments made up the bulk of the target demographic. Using both convenience and selective selection, 250 bank clients were chosen for the study. A structured questionnaire was administered, with other scholarly journals and official papers serving as secondary sources.

3.2 Measurement of Variables

Questions measuring financial literacy included familiarity with fundamental financial concepts, interest rates and compounding, inflation, risk and return, diversification, and various investment

products. This served as the independent variable. The goals of respondents' investments, their methods of diversification, their assessments of financial data, their comparisons of available investment options, and their investment plans all contributed to the estimation of investment behaviour, which was the dependent variable. A scale of five points, from Strongly Disagree to Strongly Agree, was used for each question.

Using Cronbach's alpha, the consistency of measurement scales was checked. A value of 0.846 was achieved for the financial literacy scale and a value of 0.872 was recorded for the investment behaviour scale. The results showed that the tools employed to measure the two constructs had sufficient consistency.

3.3. Research Hypotheses

The following hypotheses were formulated:

H01: The relationship between bank customers financial literacy and their investment activity was not statistically significant.

H1: Customers' investment activity was positively and statistically associated with their level of financial literacy.

3.4 Data Analysis

The data was analysed using descriptive and inferential statistics. To evaluate the degree of financial knowledge and investment habits, standard deviation and mean was used, and to summarise the demographics of the participants, percentages and frequencies were used. To test hypothesis (H01), Pearson's correlation analysis was used to look at how financial literacy related to investment activity.

4. RESULTS AND ANALYSIS

Responses obtained from 250 bank customers was analysed using descriptive statistics, and correlation. There were three main objectives of the statistical analysis: first, to find out how much people know about money and investing; second, to find out how the knowledge affected their investment behaviour as bank customers and third, to see how strong the relationship was between financial knowledge and investment by bank customers.

4.1. Profile of the Respondents

The demographic details of 250 respondents who participated in this survey was as below. The respondents were categorised based on gender, age, and education.

Table 1: Profile of the Respondents (N = 250)

Variable	Category	F	P
Gender	Male	136	54.4
	Female	114	45.6
Age(year)	18–25	48	19.2
	26–35	82	32.8
	36–45	61	24.4
	46–55	37	14.8
	Above 55	22	8.8
Education	Higher Secondary or below	35	14.0
	Graduate	103	41.2
	Postgraduate	91	36.4
	Other/Professional	21	8.4

There were 54.4% men and 45.6% women in the sample, which was a balanced gender breakdown. In terms of age, the largest segment was those who were aged 26 to 35 years (32.8%), and the next was those aged 36 to 45 years (24.4%). In terms of educational qualifications, the largest group was that of graduates (41.2%), and the second one was of postgraduates (36.4%).

4.2. Financial Literacy and Investment Behaviour among Bank Customers

Mean and standard deviations was used to give a general picture of the pattern of responses and Cronbach's alpha for their reliability.

Table 2: Summary of Descriptive Statistics and Reliability Results

Variable	Mean	SD	Cronbach's α	Interpretation
Financial Literacy	3.78	0.64	0.846	Relatively High
Investment Behaviour	3.69	0.68	0.872	Relatively High

According to Table 2, the mean value for financial literacy was 3.78 (SD = 0.64), whereas that of investment behaviour was 3.69 (SD = 0.68). These results indicated that the respondents were relatively financially literate and had a considerable investment behaviour. The Cronbach's alpha for financial literacy was 0.846, while that of investment behaviour was 0.872.

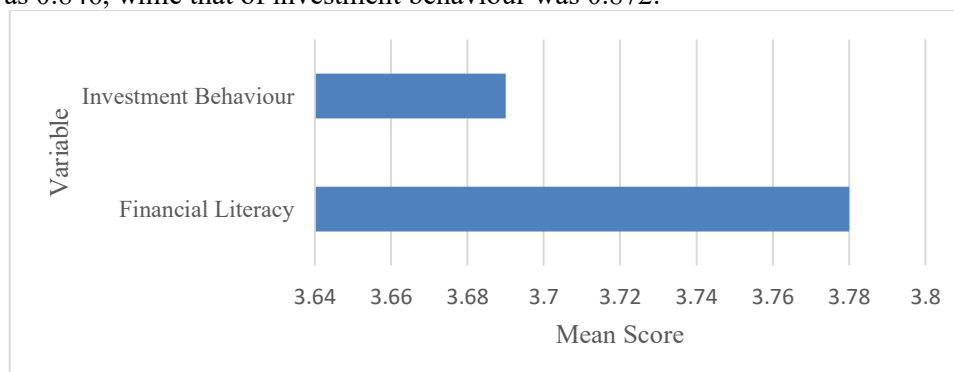


Figure 1: Mean Scores of Financial Literacy and Investment Behaviour

Though both had better scores, financial literacy had a little higher mean score than investing behaviour.

4.3. Relationship between Financial Literacy and Investment Behaviour among Bank Customers

Pearson's correlation analysis was used to find out potential correlation between bank clients' investment activity and their level of financial literacy

Table 3: Empirical Assessment of Financial Knowledge and Investment Behaviour

Variables	Financial Literacy	Investment Behaviour
Financial Literacy	1.000	0.624
Investment Behaviour	0.624	1.000
p-value	—	<0.001

Financial literacy and investment behaviour were found to have a statistically significant positive link, according to the Pearson correlation analysis ($r = 0.624$, $p < 0.001$). This suggested that people who were more financially literate tend to invest better. There was statistical support for alternative hypothesis (H1) and rejection of null hypothesis (H01) due to the correlation's statistical significance.

5. CONCLUSION

The results show that bank clients' investment behaviour is significantly impacted by their level of financial literacy. The financial literacy ($M = 3.78$) and investment behaviour ($M = 3.69$) were relatively high for the 250 respondents. The correlation study indicated a strong relationship between the two variables with p value < 0.001 and r value 0.624, which showed that the investment behaviour was strongly related to the financial literacy.

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