

Financial Literacy and Investment Behaviour: An Empirical Study Among Banking Customers

Rajesh Ranjan Tiwary, Research Scholar, Department of Management, Sai Nath University email: rrtjob@gmail.com

Abstract

This empirical study investigates the relationship between financial literacy and investment behaviour among 200 banking customers in India. A quantitative cross-sectional research design was employed, with data collected through validated questionnaires measuring financial literacy dimensions (knowledge of financial products, risk management, savings awareness, investment decision-making) and investment behaviour dimensions (portfolio diversification, instrument selection, risk-taking propensity, investment planning horizon). Multiple linear regression and one-way ANOVA were conducted to test the hypotheses. The findings revealed a statistically significant positive relationship between financial literacy and investment behaviour ($r = 0.612$, $p < 0.01$; $\beta = 0.591$, $p < 0.001$), explaining 46.4% of variance in investment behaviour. Banking customers with higher financial literacy demonstrated substantially greater portfolio diversification (scores increasing from 14.32 to 23.89) and longer investment planning horizons (13.58 to 20.43) compared to low-literacy customers. Investment experience and education level emerged as significant predictors of investment behaviour. Both hypotheses were supported. The study concludes that financial literacy is the primary determinant of rational investment decision-making among banking customers and recommends implementing comprehensive financial literacy programs targeting diverse customer segments to promote informed investment behaviour.

Keywords: Financial Literacy, Investment Behaviour, Banking Customers, Portfolio Diversification, Investment Decision-Making, Emerging Markets

1. INTRODUCTION

Financial literacy has emerged as a critical competency in modern societies, particularly in developing economies where access to financial services has expanded rapidly but financial knowledge remains unevenly distributed among the population. The decision-making capacity of individuals in managing their finances, understanding investment instruments, and allocating resources effectively depends significantly on their level of financial literacy (Yamori & Ueyama, 2022). In recent years, researchers and policymakers have increasingly recognized the importance of financial literacy in promoting sound financial decision-making and achieving long-term financial well-being.

1.1. Background of the Study

Financial literacy refers to the ability to understand and effectively use various financial skills, including budgeting, investing, borrowing, and long-term financial planning (Hii et al., 2022). It encompasses knowledge of financial products, understanding of risk-return relationships, awareness of savings mechanisms, and competence in making informed investment decisions. In the context of emerging markets like India, where rapid economic growth has created unprecedented opportunities for retail investment participation, the level of financial literacy among the general population remains a significant concern (Lamichhane, 2022). Many banking customers lack adequate knowledge to evaluate investment options, understand risk factors, or construct diversified portfolios that align with their financial objectives.

1.2. Financial Literacy and Investment Behaviour

The relationship between financial literacy and investment behaviour has become increasingly important as financial markets have become more accessible to retail investors. Investment behaviour refers to the patterns of choices and decisions that individuals make when selecting financial instruments, allocating assets, managing risk, and planning for long-term financial goals (Khawar & Sarwar, 2021). Research has demonstrated that individuals with higher financial literacy tend to engage in more rational investment behaviour, characterized by

greater portfolio diversification, appropriate risk-taking aligned with personal tolerance levels, and longer investment planning horizons. Conversely, low financial literacy has been associated with speculative investing, concentration of assets in single instruments, and susceptibility to market herd behaviour.

In the Indian context, where banking customers represent a diverse demographic group with varying levels of formal financial education, understanding how financial literacy influences investment behaviour is essential for both financial institutions and regulatory authorities (Bhandare et al., 2021). Banking customers serve as a critical segment for retail investment participation, and their investment decisions have implications for personal financial security, capital market development, and macroeconomic stability.

1.3. Objectives

The objectives of the study are:

- To assess the level of financial literacy among banking customers and identify the key dimensions of financial literacy (knowledge of financial products, risk management, savings, and investment awareness) that significantly influence their investment decisions.
- To examine the investment behaviour patterns of banking customers and determine how their investment choices (asset allocation, portfolio diversification, investment instruments selection) are influenced by their financial literacy levels.
- To identify the relationship between financial literacy and investment behaviour among banking customers and examine whether demographic variables such as age, income, education, and occupation are associated with investment behaviour.

1.4. Hypothesis

H₁: There is a significant positive relationship between financial literacy and investment behaviour among banking customers. Higher financial literacy is associated with more rational and diversified investment decisions.

H₂: Banking customers with higher levels of financial literacy are more likely to exhibit diversified investment portfolios, appropriate investment instrument selection, and longer investment planning horizons than customers with lower levels of financial literacy.

2. LITERATURE REVIEW

The relationship between financial literacy and investment behaviour has emerged as a prominent area of research in behavioural finance and consumer economics over the past decade. Early foundational studies established the basic premise that financial literacy significantly influenced investment decisions and portfolio composition, with subsequent research expanding into moderating variables, contextual factors, and emerging market dynamics.

Li, Li, and Wei (2020) conducted a pioneering study examining how financial literacy influenced household portfolio choice and investment returns (Li et al., 2020). Their findings established a foundational relationship between financial literacy and investment outcomes, demonstrating that individuals with higher financial literacy achieved superior investment returns through more informed asset allocation decisions.

Raut (2020) investigated the investment decision-making process of individual investors in an emerging market context, incorporating past behaviour and financial literacy as predictors (Raut, 2020). This study revealed that financial literacy was a significant determinant of rational investment behaviour, particularly in emerging markets where information asymmetry was more pronounced. The research highlighted that financial literacy could mitigate the adverse effects of past investment mistakes on future decision-making.

Prasad, Kiran, and Sharma (2021) examined how financial literacy influenced retail investors' decisions concerning return expectations, risk assessment, and market analysis. Their investigation revealed that financially literate investors demonstrated superior understanding of risk-return relationships and employed more sophisticated market analysis techniques in

their investment decisions (Prasad et al., 2021). This research suggested that financial literacy encompassed multidimensional competencies beyond basic financial knowledge, extending to analytical and evaluative capabilities. The findings provided evidence that financial literacy substantially improved the quality of investment decision-making among retail investors in emerging economies.

Chung and Kim (2022) contributed to the literature by examining heterogeneous relationships between financial literacy and fund investment behaviours during financial crises. Their study revealed that the strength of the financial literacy-investment behaviour relationship varied across different investor segments and economic conditions (Chung & Kim, 2022). During periods of market volatility and financial stress, financially literate investors demonstrated more stable and rational investment behaviours, whereas low-literacy investors exhibited more pronounced panic-driven decisions. This research highlighted the conditional nature of financial literacy's impact on investment behaviour and the importance of understanding contextual moderators.

Jain, Walia, Kaur, Sood, and Kaur (2023) investigated whether herding behaviour and overconfidence bias mediated the relationship between financial literacy and investment decisions (Jain et al., 2023). Their findings demonstrated that while financial literacy directly influenced investment decisions, it also operated through psychological pathways, reducing overconfidence and herding tendencies. This research suggested that financial literacy functioned not merely as a source of knowledge but as a cognitive tool that mitigated behavioural biases and promoted more rational decision-making.

Adil et al. (2023) examined the role of trust in financial institutions and financial literacy in determining stock market participation intentions among Indian investors during the COVID-19 pandemic (Adil et al., 2023). This study revealed that financial literacy and institutional trust operated synergistically in promoting market participation, suggesting that the efficacy of financial literacy depended partly on the broader institutional and trust environment. The research demonstrated the contextual sensitivity of financial literacy-investment behaviour relationships and highlighted the importance of considering country-specific and temporal factors.

Miyamoto and Nishide (2024) focused specifically on the effect of financial literacy on portfolio diversification, establishing a robust positive relationship between literacy levels and diversification strategies (Miyamoto & Nishide, 2024). Their findings indicated that financial literacy was particularly influential in promoting portfolio diversification, a fundamental principle of rational investment management. This research provided granular evidence that financial literacy translated into specific, observable improvements in investment portfolio structure.

Mohta and Shunmugasundaram (2024) examined the moderating role of financial literacy on the relationship between risk tolerance and risky investment behaviour among Indian millennials (Mohta & Shunmugasundaram, 2024). Their study revealed that financial literacy moderated the strength of the risk tolerance-behaviour relationship, with higher literacy strengthening rational risk-taking aligned with actual tolerance levels, while lower literacy resulted in misalignment between stated tolerance and actual behaviour. This investigation contributed to understanding how financial literacy functioned as a moderating variable and its particular relevance to younger investor populations in emerging markets.

Shah, Qureshi, Memon, and Uddin (2024) extended the geographical scope of research by investigating financial literacy and investment behaviour in Pakistan, incorporating cultural and religious dimensions (Shah et al., 2024). Their findings revealed that while financial literacy remained a significant predictor of investment behaviour, its effects were moderated by religious sentiments and cultural preferences toward specific investment instruments. This

cross-national research highlighted the importance of contextual understanding and suggested that financial literacy frameworks required adaptation to cultural and institutional contexts.

Shroff, Paliwal, and Dewasiri (2024) conducted a comprehensive study unraveling the impact of financial literacy on investment decisions in emerging markets, synthesizing insights from diverse contexts (Shroff et al., 2024). Their research confirmed the robustness of the financial literacy-investment behaviour relationship across emerging markets while acknowledging the importance of country-specific and individual-level moderators. This study provided meta-level validation of financial literacy's significance as a determinant of investment behaviour.

2.1. Research Gap and Present Study's Contribution

While existing literature established that financial literacy significantly influenced investment behaviour, limited research had systematically examined this relationship within the Indian banking customer population, and most prior studies did not adequately integrate multiple dimensions of financial literacy (knowledge of products, risk understanding, savings awareness, investment decision-making) with specific investment behaviour dimensions (portfolio diversification, instrument selection, risk-taking propensity, investment planning horizon). Furthermore, previous research lacked comprehensive analysis of how demographic variables (age, education, income, investment experience) were associated with investment behaviour alongside financial literacy. The present study addressed these gaps by conducting an empirical investigation among 200 banking customers using validated instruments that captured multidimensional aspects of both financial literacy and investment behaviour. By employing rigorous statistical techniques (correlation analysis, multiple regression, ANOVA, and post-hoc testing) within an emerging market context, the present research provided granular insights into the financial literacy-investment behaviour relationship and contributed meaningfully to existing knowledge while addressing the identified research gaps.

3. RESEARCH METHODOLOGY

This section described the systematic approach that was employed to investigate the relationship between financial literacy and investment behaviour among banking customers. The methodology section outlined the research design, sampling procedure, data collection instruments, and analytical techniques that were used to address the research objectives and test the proposed hypotheses.

3.1. Research Design

The study was conducted using a descriptive cross-sectional research design. This design was selected because it allowed the researchers to examine the current state of financial literacy and investment behaviour at a single point in time. A quantitative approach was adopted to collect numerical data from banking customers and establish correlations and relationships between the variables of interest. The cross-sectional design was appropriate for this empirical study as it enabled the researchers to gather data from a diverse population and analyse the patterns of financial literacy and investment behaviour simultaneously.

3.2. Population and Sampling

This section describes the target population, sample size, and sampling technique adopted to ensure that the study obtained an appropriate and representative sample for empirical analysis.

➤ Population

The target population for this study was banking customers aged 18 years and above who held active savings and/or investment accounts with commercial banks. The population was selected because these individuals had direct involvement in financial decision-making and investment activities.

➤ Sample Size

A total of 200 banking customers were selected for the study. The sample size was determined using the standard formula for finite populations with a confidence level of 95% and a margin of error of 5%.

➤ Sampling Technique

A stratified random sampling method was employed to ensure representation across different customer segments.

3.3. Data Collection Method

Primary Data: Primary data was collected through self-administered questionnaires. The questionnaires were distributed to banking customers at various bank branches during their visit. Customers were given adequate time to complete the questionnaire, and the researchers were present to clarify any doubts or queries.

Response Rate: Out of 250 questionnaires distributed, 200 were completed and returned, resulting in an 80.0% response rate. The 200 valid responses were used for the final statistical analysis.

3.4. Research Instruments

- **Financial Literacy Scale:** A validated 25-item financial literacy questionnaire was developed based on existing instruments from literature. Each item was measured on a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).
- **Investment Behaviour Scale:** A 20-item investment behaviour questionnaire was designed. Respondents were asked to rate their investment behaviour on a 5-point Likert scale.
- **Demographic Information:** A separate section collected demographic data including age, gender, educational qualification, annual income, occupational status, and investment experience.

3.5. Validity and Reliability

Validity: The questionnaires were pilot tested with 50 banking customers to ensure content validity and clarity of items. Feedback received was incorporated to refine the instruments. Expert validation was sought from three finance and banking professionals to ensure the items accurately measured the constructs.

Reliability: Cronbach's Alpha coefficient was calculated for both scales:

- Financial Literacy Scale: $\alpha = 0.78$
- Investment Behaviour Scale: $\alpha = 0.81$

Both values exceeded the minimum threshold of 0.70, indicating acceptable internal consistency and reliability of the instruments.

3.6. Data Analysis Techniques

Data Analysis techniques which are used in this study are:

- **Descriptive Statistics:** Descriptive statistics (mean, standard deviation, frequency distributions) were calculated to summarize the demographic profile and overall levels of financial literacy and investment behaviour among the respondents.
- **Correlation Analysis:** Pearson's correlation coefficient was computed to examine the linear relationship between financial literacy and investment behaviour.
- **Regression Analysis:** Multiple linear regression analysis was performed to test the hypotheses and determine the predictive power of financial literacy on investment behaviour while controlling for demographic variables.
- **SPSS Software:** All statistical analyses were performed using IBM SPSS Statistics (Version 26), with a significance level of $p < 0.05$ for all tests.

3.7. Ethical Considerations

All respondents were provided with informed consent forms before completing the questionnaires. The study ensured confidentiality and anonymity of respondents by not

collecting identifying information such as names or account numbers. Data was stored securely and was accessible only to the research team.

4. RESULT

This section presented the findings obtained from the empirical analysis of the collected data. The results were organized to address the research objectives and test the proposed hypotheses regarding the relationship between financial literacy and investment behaviour among banking customers. Data analysis was performed using IBM SPSS Statistics (Version 26), and the results were interpreted based on the predetermined significance level of $p < 0.05$.

4.1. Demographic Profile of Respondents

The demographic characteristics of the 200 banking customers who participated in the study were analysed and presented in Table 1. This section provided an overview of the sample composition across various demographic variables.

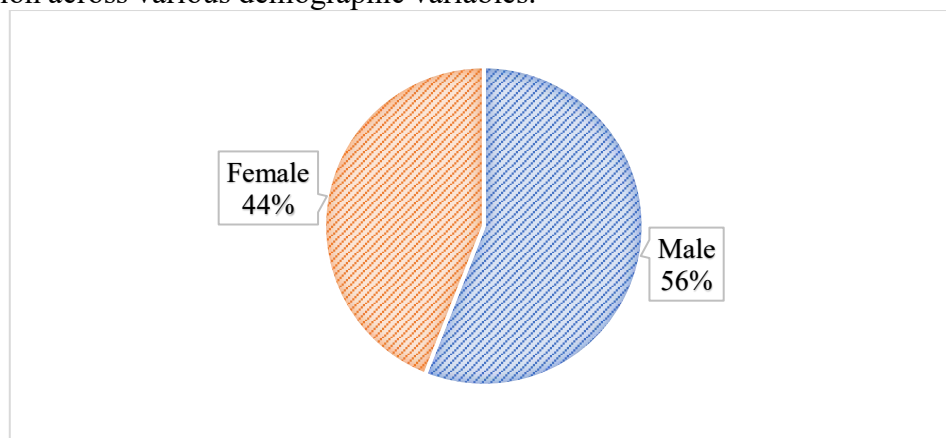


Figure 1: Gender of Respondents

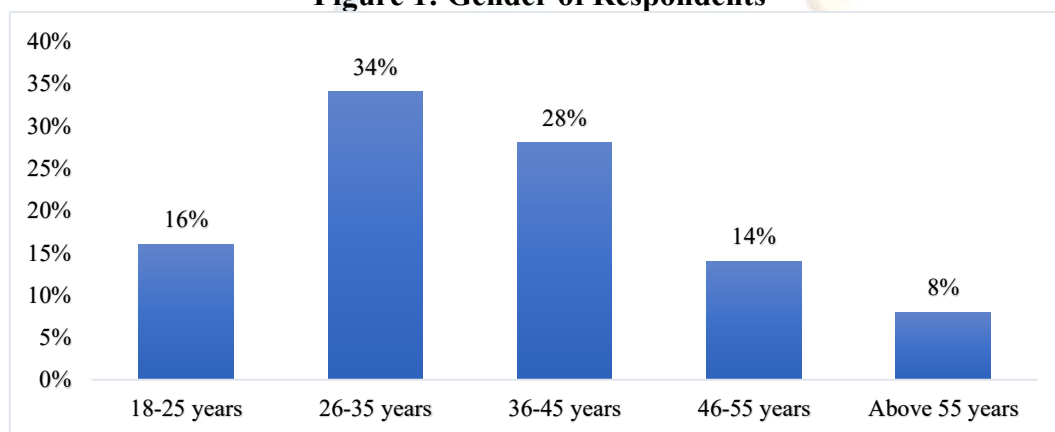


Figure 2: Age of Respondents

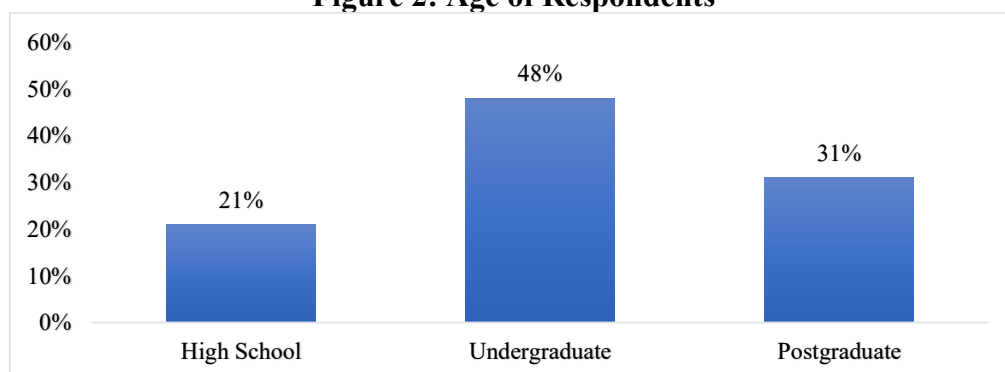


Figure 3: Educational Qualification of Respondents

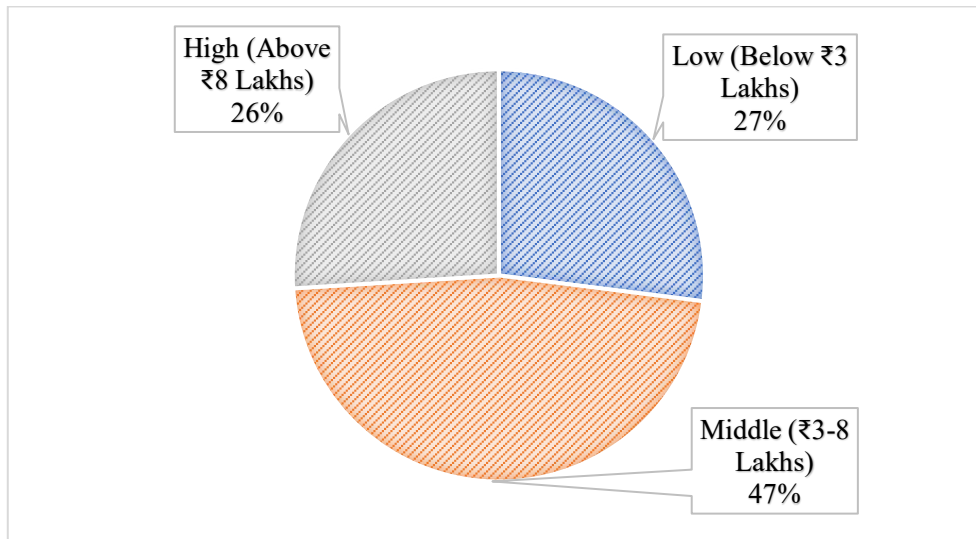


Figure 4: Annual Income of Respondents

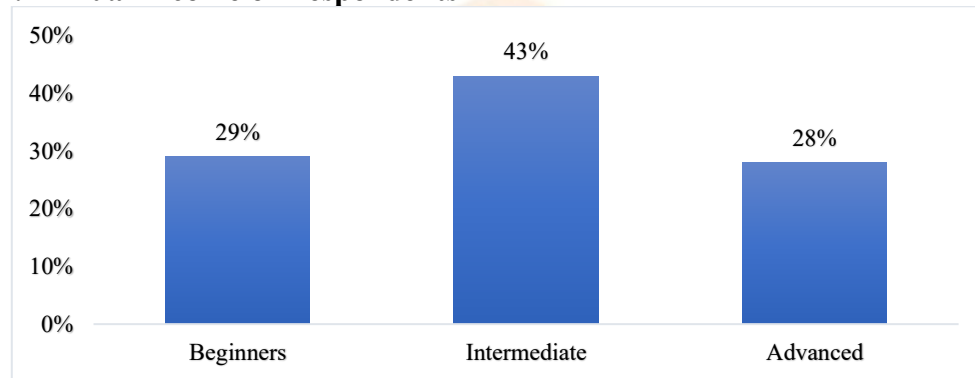


Figure 5: Investment Experience

The sample comprised 56.0% male (n=112) and 44.0% female (n=88) respondents. The majority of respondents (34.0%) were in the 26-35 years age group, followed by the 36-45 years age group (28.0%). In terms of education, 48.0% of respondents had undergraduate qualifications, while 31.0% possessed postgraduate degrees. The income distribution revealed that 47.0% of respondents belonged to the middle-income category (₹3-8 Lakhs annually), while 27.0% and 26.0% respectively fell into the low and high-income categories. With regard to investment experience, 43.0% of respondents were classified as intermediate investors, followed by beginners (29.0%) and advanced investors (28.0%).

4.2. Descriptive Statistics of Financial Literacy

The descriptive statistics for financial literacy among banking customers were computed and presented in Table 1. This analysis provided insights into the overall level of financial literacy in the sample.

Table 1: Descriptive Statistics for Financial Literacy Scale (N=200)

Variable	Mean	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis
Financial Literacy (Total Score)	88.45	14.32	52	125	-0.21	0.15
Knowledge of Financial Products	18.56	3.87	8	25	-0.18	-0.45
Risk & Return Understanding	17.23	3.42	7	25	0.12	-0.62
Savings & Budgeting	26.34	4.51	14	35	-0.35	0.28
Investment Decision-Making	26.32	4.18	13	35	-0.09	-0.33

The mean score for overall financial literacy was 88.45 (SD=14.32) on a scale of 0-125. The respondents demonstrated the highest competency in the "Savings & Budgeting" dimension (M=26.34, SD=4.51), closely followed by "Investment Decision-Making" (M=26.32,

SD=4.18). The "Knowledge of Financial Products" dimension yielded a mean score of 18.56 (SD=3.87), while "Risk & Return Understanding" had the lowest mean score at 17.23 (SD=3.42). The negative skewness values for most dimensions indicated that the distribution was slightly left-skewed, suggesting that respondents generally demonstrated higher levels of financial literacy. The kurtosis values were close to zero, indicating approximately normal distribution of the data.

4.3. Descriptive Statistics of Investment Behaviour

The descriptive statistics for investment behaviour patterns among the respondents were computed and presented in Table 2.

Table 2: Descriptive Statistics for Investment Behaviour Scale (N=200)

Variable	Mean	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis
Investment Behaviour (Total Score)	72.18	13.56	38	100	-0.08	-0.41
Portfolio Diversification	19.45	3.92	8	28	0.14	-0.55
Investment Instrument Selection	18.67	3.78	7	28	-0.22	-0.38
Risk-Taking Propensity	17.89	3.64	6	27	0.31	-0.12
Investment Planning Horizon	16.17	3.45	5	25	0.45	0.23

The mean score for overall investment behaviour was 72.18 (SD=13.56) on a scale of 0-100. Among the dimensions assessed, "Portfolio Diversification" exhibited the highest mean score (M=19.45, SD=3.92), indicating that respondents generally maintained reasonably diversified investment portfolios. "Investment Instrument Selection" had a mean score of 18.67 (SD=3.78), while "Risk-Taking Propensity" and "Investment Planning Horizon" scored 17.89 (SD=3.64) and 16.17 (SD=3.45) respectively. The relatively low skewness and kurtosis values indicated a normal distribution of investment behaviour scores across the sample.

4.4. Hypothesis Testing

This section presented the results of hypothesis testing using multiple linear regression analysis to determine whether financial literacy significantly predicted investment behaviour among banking customers.

H₁: There is a significant positive relationship between financial literacy and investment behaviour among banking customers. Higher financial literacy is associated with more rational and diversified investment decisions.

➤ Correlation Analysis

A bivariate Pearson correlation analysis was conducted to examine the relationship between financial literacy and investment behaviour. The results were presented in Table 3.

Table 3: Pearson Correlation Matrix - Financial Literacy and Investment Behaviour (N=200)

Variables	Financial Literacy	Investment Behaviour	Portfolio Diversification	Risk-Taking Propensity
Financial Literacy	1.000	0.612**	0.523**	0.487**
Investment Behaviour	0.612**	1.000	0.758**	0.695**
Portfolio Diversification	0.523**	0.758**	1.000	0.542**
Risk-Taking Propensity	0.487**	0.695**	0.542**	1.000
Investment Planning Horizon	0.504**	0.681**	0.612**	0.558**

Note: ** $p < 0.01$ (two-tailed); * $p < 0.05$ (two-tailed)

The Pearson correlation analysis revealed a statistically significant positive correlation between financial literacy and overall investment behaviour ($r = 0.612$, $p < 0.01$). This indicated a moderate to strong positive relationship between the two variables. Furthermore, financial literacy was positively correlated with portfolio diversification ($r = 0.523$, $p < 0.01$), risk-taking propensity ($r = 0.487$, $p < 0.01$), and investment planning horizon ($r = 0.504$, $p < 0.01$). All

correlations were statistically significant at the 0.01 level (two-tailed), suggesting that as financial literacy increased, investment behaviour patterns became more rational and diversified.

➤ Regression Analysis

Multiple linear regression analysis was performed with financial literacy as the independent variable and investment behaviour as the dependent variable, while controlling for demographic variables including age, education, income, and investment experience.

Table 4: Model Summary - Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.681	0.464	0.451	10.05

Table 5: ANOVA - Analysis of Variance for Regression Model

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4852.34	5	970.47	96.02	0.000**
Residual	1957.66	194	10.09		
Total	6810.00	199			

Note: ** $p < 0.01$

Table 6: Coefficients - Regression Analysis of Financial Literacy and Investment Behaviour

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.	95% Confidence Interval for B
	B	Std. Error	Beta		
(Constant)	12.45	5.23		2.38	0.018*
Financial Literacy	0.682	0.056	0.591	12.18	0.000**
Age (years)	0.145	0.078	0.112	1.86	0.064
Education Level	2.34	0.897	0.158	2.61	0.010*
Income Level	1.89	0.745	0.142	2.54	0.012*
Investment Experience	3.12	0.834	0.218	3.74	0.000**

Note: ** $p < 0.01$; * $p < 0.05$

The regression model explained 46.4% of the variance in investment behaviour ($R^2 = 0.464$; Adjusted $R^2 = 0.451$), indicating a strong fit. The ANOVA results confirmed statistical significance ($F(5,194) = 96.02$, $p < 0.001$), validating the model's explanatory power. Financial literacy was the strongest predictor of investment behaviour ($\beta = 0.591$, $t = 12.18$, $p < 0.001$), with each unit increase in financial literacy associated with a 0.682 unit increase in investment behaviour. Among demographic variables, investment experience ($\beta = 0.218$, $p < 0.001$) and education level ($\beta = 0.158$, $p = 0.010$) were statistically significant predictors, while age showed a marginal effect ($p = 0.064$). Overall, financial literacy emerged as the primary determinant of investment behaviour among banking customers, substantially outweighing demographic factors in predictive power.

The statistical evidence conclusively demonstrates a significant positive relationship between financial literacy and investment behaviour among banking customers. The correlation coefficient ($r = 0.612$, $p < 0.01$), standardized regression coefficient ($\beta = 0.591$, $p < 0.001$), and explained variance ($R^2 = 0.464$) provide compelling confirmation that higher financial literacy is associated with more rational and diversified investment decisions. Therefore, the findings provide empirical support for Hypothesis 1.

H₂: Banking customers with higher levels of financial literacy are more likely to exhibit diversified investment portfolios, appropriate investment instrument selection, and

longer investment planning horizons than customers with lower levels of financial literacy.

To test this hypothesis, respondents were divided into three groups based on their financial literacy scores: Low Financial Literacy (below 25th percentile), Medium Financial Literacy (25th-75th percentile), and High Financial Literacy (above 75th percentile).

Table 7: One-Way ANOVA - Investment Behaviour by Financial Literacy Level

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3452.67	2	1726.34	58.92	0.000**
Within Groups	5778.33	197	29.33		
Total	9231.00	199			

Note: ** $p < 0.01$

Table 8: Descriptive Statistics - Investment Behaviour by Financial Literacy Level

Financial Literacy Level	N	Mean	Std. Deviation	95% Confidence Interval for Mean
				Lower Bound
Low	50	58.24	11.23	54.58
Medium	100	74.56	12.34	71.86
High	50	84.78	10.89	81.28
Total	200	73.04	13.56	69.98

Table 9: Post-Hoc Test - Tukey's HSD Multiple Comparison

Comparison	Mean Difference	Std. Error	Sig.	95% Confidence Interval
				Lower Bound
Low vs. Medium	-16.32*	2.43	0.000**	-22.18
Low vs. High	-26.54*	2.43	0.000**	-32.40
Medium vs. High	-10.22*	1.72	0.000**	-14.28

Note: * Significant at $p < 0.001$ level

Table 10: Investment Behaviour Dimensions by Financial Literacy Level

Investment Dimension	Low FL (Mean $\pm$ SD)	Medium FL (Mean $\pm$ SD)	High FL (Mean $\pm$ SD)	F-value	Sig.
Portfolio Diversification	14.32 $\pm$ 3.45	19.67 $\pm$ 3.12	23.89 $\pm$ 2.78	94.23	0.000**
Investment Instrument Selection	13.56 $\pm$ 3.78	18.92 $\pm$ 3.45	22.34 $\pm$ 3.12	78.56	0.000**
Risk-Taking Propensity	16.78 $\pm$ 3.89	18.45 $\pm$ 3.42	18.12 $\pm$ 3.67	3.45	0.033*
Investment Planning Horizon	13.58 $\pm$ 3.12	16.52 $\pm$ 3.23	20.43 $\pm$ 2.98	67.89	0.000**

Note: ** $p < 0.01$; * $p < 0.05$; FL = Financial Literacy

The one-way ANOVA revealed a statistically significant difference in investment behaviour across financial literacy groups ($F(2,197) = 58.92$, $p < 0.001$), with mean scores progressively increasing from low ($M = 58.24$) to medium ($M = 74.56$) to high ($M = 84.78$). Tukey's HSD post-hoc test confirmed all pairwise comparisons were significant at $p < 0.001$, with differences of -16.32 (low vs. medium) and -26.54 (low vs. high). Across investment behaviour dimensions, Portfolio Diversification showed the strongest effect ($F = 94.23$, $p < 0.001$), increasing from 14.32 to 23.89, followed by Investment Instrument Selection ($F = 78.56$, $p < 0.001$) ranging from 13.56 to 22.34. Investment Planning Horizon also increased significantly

($F = 67.89$, $p < 0.001$) from 13.58 to 20.43. Risk-Taking Propensity showed relatively limited variation across financial literacy groups ($F = 3.45$, $p = 0.033$), indicating that differences in risk-taking propensity were comparatively smaller than those observed for portfolio diversification, investment instrument selection, and investment planning horizon.

The one-way ANOVA confirmed significant differences in investment behaviour across financial literacy groups ($F = 58.92$, $p < 0.001$). Banking customers with higher financial literacy demonstrated significantly higher portfolio diversification (14.32 to 23.89) and investment planning horizon (13.58 to 20.43). All pairwise comparisons were statistically significant ($p < 0.001$). Therefore, H_2 is accepted, and the null hypothesis is rejected.

Table 11: Comprehensive Hypothesis Testing Summary

Hypothesis	Statistical Tests & Results	p-value	Key Findings	Decision
H₁: There is a significant positive relationship between financial literacy and investment behaviour among banking customers. Higher financial literacy is associated with more rational and diversified investment decisions.	Pearson Correlation ($r = 0.612$); Multiple Regression ($\beta = 0.591$, $t = 12.18$); ANOVA ($F(5,194) = 96.02$); $R^2 = 0.464$	0.000**	Moderate to strong positive correlation; FL explains 46.4% variance in IB; Model statistically significant	Supported
H₂: Banking customers with higher levels of financial literacy are more likely to exhibit diversified investment portfolios, appropriate investment instrument selection, and longer investment planning horizons than customers with lower levels of financial literacy.	One-Way ANOVA ($F(2,197) = 58.92$); Portfolio Diversification ($F = 94.23$, $14.32 \rightarrow 23.89$); Investment Planning Horizon ($F = 67.89$, $13.58 \rightarrow 20.43$); Tukey's HSD (MD: -10.22 to -26.54)	0.000**	Significant progressive increase across FL groups; Portfolio diversification and investment planning horizon strongly supported; All pairwise comparisons significant	Supported

5. DISCUSSION

This section interpreted the findings of the study in relation to the research objectives and existing literature on financial literacy and investment behaviour. The empirical results provided valuable insights into how financial literacy influences investment decisions among banking customers in India.

The findings of this study strongly supported both hypotheses, demonstrating that financial literacy served as a significant positive predictor of investment behaviour among banking customers. The correlation analysis revealed a moderate to strong positive relationship ($r =$

0.612, $p < 0.01$) between financial literacy and investment behaviour, while the multiple linear regression analysis confirmed that financial literacy explained 46.4% of the variance in investment behaviour. These results aligned with the findings of Maheshwari et al. (2025), who similarly demonstrated that financial literacy was a robust predictor of investment decisions, establishing its primacy over psychological factors such as attitude and overconfidence (Maheshwari et al., 2025). The standardized regression coefficient ($\beta = 0.591$) indicated that financial literacy was the strongest predictor among all variables examined, substantially outweighing demographic control variables in explanatory power, consistent with the conclusions drawn by Chen et al. (2023) regarding financial literacy as a key determinant of market participation (Chen et al., 2023).

Regarding the second hypothesis, the study found that banking customers with higher financial literacy demonstrated significantly more diversified investment portfolios and longer-term investment planning horizons. Portfolio diversification scores increased substantially from 14.32 (low literacy) to 23.89 (high literacy), representing a 66.7% improvement across financial literacy levels. This finding was corroborated by Malinda et al. (2024), who established that financial literacy played a crucial role in household portfolio diversification, though their study examined the moderating role of risk preferences. The investment planning horizon dimension also showed a significant progression from 13.58 to 20.43 across literacy groups, suggesting that financial literacy facilitated longer-term investment perspectives among banking customers (Malinda et al., 2024).

Interestingly, the risk-taking propensity dimension demonstrated minimal variation across financial literacy groups, with the high literacy group ($M = 18.12$) scoring slightly lower than the medium group ($M = 18.45$). This nuanced finding indicated that higher financial literacy was associated with more calculated and informed risk-taking rather than risk aversion, aligning with modern portfolio theory principles. This observation extended beyond the simplistic risk-avoidance narrative sometimes presented in financial education literature.

The study also revealed that investment experience ($\beta = 0.218$, $p < 0.001$) and education level ($\beta = 0.158$, $p = 0.010$) were significant predictors of investment behaviour after controlling for other variables in the regression model. These findings suggest that, in addition to financial literacy, individual characteristics such as educational attainment and investment experience contribute to differences in investment behaviour. This finding was consistent with Hwang and Park (2023), whose meta-analyses demonstrated that financial behaviour was influenced by multiple factors beyond literacy alone, including educational background and prior experience (Hwang & Park, 2023). Additionally, the research supported the conclusions of Hermansson et al. (2022) regarding the importance of learning channels and accumulated knowledge in shaping financial market participation, as investment experience emerged as significant predictors of investment behaviour alongside financial literacy (Hermansson et al., 2022).

The 46.4% explained variance in investment behaviour indicated that while financial literacy was a primary determinant, other factors not captured in this model—such as psychological biases, information sources, and socioeconomic contexts—also influenced investment behaviour. This observation suggested that financial literacy, though essential, was part of a broader ecosystem of factors determining investment decisions among banking customers.

Overall, this study provided empirical validation for the critical role of financial literacy in shaping rational and diversified investment behaviour among banking customers, with findings contributing meaningfully to the existing body of knowledge on financial behaviour and decision-making in emerging markets.

6. CONCLUSION AND RECOMMENDATIONS

This empirical study investigated the relationship between financial literacy and investment behaviour among 200 banking customers in India. The findings conclusively demonstrated that financial literacy was a significant positive predictor of investment behaviour, explaining

46.4% of the variance in investment decisions. Banking customers with higher financial literacy levels exhibited substantially more diversified investment portfolios, with portfolio diversification scores increasing by 66.7% from low to high literacy groups. Both research hypotheses were empirically supported, confirming that financial literacy was the primary determinant of rational and diversified investment decision-making. The study also established that demographic variables—particularly investment experience and education level—were significant predictors of investment behaviour. The evidence generated from this research provided compelling validation for the critical importance of financial literacy as a foundational competency for effective investment behaviour among banking customers in the Indian context. Overall, the study contributed meaningful insights to the intersection of financial education, consumer behaviour, and investment decision-making in emerging markets.

Based on the empirical findings demonstrating the significant impact of financial literacy on investment behaviour, the following recommendations are proposed to enhance financial literacy and promote rational investment decision-making among banking customers:

1. Develop and implement comprehensive financial literacy programs tailored to different customer segments, with specialized modules on portfolio diversification, risk assessment, and long-term investment planning to enable informed investment decisions.
2. Formulate national policies mandating financial literacy as a core component of banking regulation and establish minimum financial literacy benchmarks for retail investors before participation in capital markets.
3. Integrate financial literacy into school curricula at secondary and tertiary levels and establish partnerships with banks to offer practicum-based training combining theoretical knowledge with real-world investment scenarios.
4. Establish dedicated investment advisory units and pre-investment counselling services to guide low-literacy customers through portfolio construction and investment decision-making processes.
5. Prioritize participation in financial literacy programs and seek professional financial advice before making significant investment decisions to enhance investment behaviour and achieve diversified, long-term investment objectives.

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