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Investment Behavior of investors in India is Influenced by Financial Awareness, Financial Literacy or Both.

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Abstract:

India being one of the largest developing economies in the world. Its market has the potential to maximize the return of its investors and minimize the risk. The Indian market is very diverse in nature. In order to make investors invest in the market the need financial literacy and awareness has emerged over a period of time. The purpose of the study is to explore the various attributes associated with financial awareness and financial literacy among the individual investors. It also attempts to understand the impact of financial awareness and financial literacy and their attributes in the investor's decision- making process. It was found that financial awareness is associated with the demographic, socio-economic, psychological and geographical factors. Financial awareness has an impact on the financial decision-making process of the investors of India. Financial literacy on the other hand is associated with the mediation and moderation effect in the investment decision making process starting from planning the investment decision till earning more profit, accumulating satisfaction till reducing the risk in the investment.

Key Words: Financial Awareness, Financial Literacy, Behavioral Finance, Investors decision making.

Introduction:

Awareness means the knowledge, consciousness or interest. In other words, it is the quality or state of being aware: knowledge and understanding that something is happening or exists. This knowledge and understanding helps the investors to take rational decision for the investment purpose. In the process of decision making the investors tend to maximize their return and minimize their risk. "As the educational level of the respondents increased, their

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knowledge and awareness increased linearly and significantly. Investors having more knowledge are more passionate and invest regularly in ongoing basis (Deene & Pathi, 2013)

This awareness helps the investors to maintain their risk and return tradeoff among the various investment avenues available in the market and increase their financial well-being. The financial well-being helps to develop a healthy financial market for the investors to invest and derive satisfaction among the investors (Bhattacharjee & Singh, 2017).

Financial Literacy and Level of awareness or financial awareness are the two interchangeable words that are used by the investors and the investment market. Financial awareness and financial literacy play a very important role in the planning process. They lead to the better financial planning. According to Investopedia financial literacy is the ability to understand and effectively use various financial skills, including personal financial management, budgeting and investing. "Financial literacy plays a significant role in defining the attitude to the investment behavior" (Sivaramakrishnan, S. et al 2017)

Financial awareness plays a crucial role in developing an informed and effective decision-making process of an individual investors through proper understanding of finance, as they refer to a set of skills and knowledge (Bhattacharjee & Singh, 2017).

India being divergent in its social and economic conditions the investors decision making pattern also changes with the different avenues. Education and investment knowledge have a positive impact on the investment duration among the different investment avenues. More educated investors tends to invest for three or more than three years, also they are aware about the avenues and tend to invest in various investment avenues (Rebello, 2017).

Research methodology

The purpose of the study is to explore the various attributes associated with financial awareness or level of financial awareness and financial literacy among the individual investors. It also attempts to understand the impact of financial awareness or level of financial awareness and financial literacy and their attributes in the investor's decision-making process. It also tried to investigate the extent of impact of these attributes in the investor's decision- making process.

The current study is secondary data based. The study is being conducted by reviewing available literature and articles available in the various data base like, books, journals, etc. we tried to study the most recent studies of various researchers with special reference to India

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during last one decade. All studies related to India in specific and financial awareness and financial literacy in general is taken.

Financial awareness

Awareness is the concept about knowing, perceiving and being cognizant of events. Taking this concept, the study of financial awareness among the investors are done in the varied form. In this study we classified the literature into four areas: Awareness about different avenues for investment, Awareness attributes, Impact of awareness in financial decision making, Impact of awareness among other factors.

1. ***Awareness about different avenues for investment***

Mutual fund is also an emerging investment avenue in the market. Most of the investors are aware about the mutual fund investment which helps them to generate maximum profit through their investment (Pratap & Rajamohn, 2013). The extent of awareness about mutual funds were taken into consideration including its profit, duration, risk, etc. The level of awareness is measured with age, income and education of the mutual fund investors the awareness about the investment avenues plays important role in decision making.

Another study reveals that though the investors are fully aware about the investment avenues like real state, shares, but they have little knowledge about indexed futures, options, ETF etc. (Deene & Pathi, 2013).

(Shrikrishna K S & Rakesh, 2014) found that the investors have moderate awareness about the derivatives. They also found that the investors are partly aware about avenue equity Futures and Options.

Investors in order to earn more return they invest in different avenues. (Sathya, 2015) in order to increase return on investment and reduce risk associated to the same, investors tend to invest in Equity, Commodity and Currency Derivatives. There exists a negative correlation among the equity, commodity a currency returns. The risk premium among the derivatives were also analyzed. The results showed that equity and commodity have similar risk premium whereas currency risk premium was half of the other two.

Initially Indian investors were aware about the various investment avenues namely financial derivatives and commodity derivatives but they are more inclined towards the

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traditional method of investment namely banks, less risky stocks, etc. The various demographic factors are associated with the investment pattern. namely age, education and investment knowledge (Rebello, 2017).

2. Awareness attributes

Awareness plays an important role in defining the investment decision of the investors. (Chitra & T. Jayashree, 2015) researcher clubbed 10 variables of financial awareness into four dimensions. These dimensions are media, social learning, financial awareness and company information. They further concluded that the awareness helps the investors to understand the perspective of individual investors towards financial decision making.

According to (Bhattacharjee & Singh, 2017) awareness is determined by demographic, socio-economic and psychological factors, with respect to equity investment. Increased financial awareness leads to better investment decisions increasing their financial contentment. More over Awareness attributes were is defined 10 statements stating them as dimensions of investors awareness level (Robert, 2017).

Awareness can be studied in two dimensions as social learning and financial awareness. Where level of awareness was moderate and the impact of financial awareness is more as compared to social learning (Sarkar & Sahu, 2018). (Mailcontractor & Ingalagi, 2019) stated that investors awareness is the part of demographic and sociological factors.

3. Impact of awareness in financial decision making

Increase in the level of awareness helps the investors to earn more profit along with reduction in risk which ultimately leads to accumulate more satisfaction by the investors (Pratap & Rajamohn, 2013). Awareness related to the various aspects of the mutual fund has a positive impact on investment decision for investing in mutual fund related to Goa . (Kaur, I. & Kaushik, 2016). Also, Financial awareness enhances understanding and better management of risk associated to investment (Bhattacharjee & Singh, 2017).

The study reveals that the age, education, income level and occupation have a positive impact on the investor's awareness level. they further found that investors prefer expert advice, followed by acquiring knowledge through media, self-knowledge accumulation and campaign of stock exchange has a positive impact on the investors decision making process. (Robert, 2017) and (Sarkar & Sahu, 2018).

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The researchers conducted various studies in the various parts of India. As India being divergent in its demographic, geographic and socio-economic conditions. They found that there is a significant influence of awareness over investment behavior of the investors of west Bengal investing in stock market (Sarkar & Sahu, 2018).

4. *Impact of awareness among other factors.*

Demographic factor namely education is also associated with the investment decision. The education and level of awareness are significant and linearly correlated. Investors with better technical knowledge are more passionate about the investment and invest regularly (Deene & Pathi, 2013). Further Financial decision making process of the investors are mainly dependent upon media and social learning (Chitra & T. Jayashree, 2015).

The socio-economic factors are also associated with the awareness about the mutual fund and can influence the investment decision. (Kaur, I. & Kaushik, 2016) and (Kaur & Arora, 2018). Financial awareness has a positive impact on the duration of investment. Better the awareness related to the investment avenue longer is the duration of the investment (Rebello, 2017).

Financial literacy

Financial literacy is the ability and knowledge of making wise decision with money. In other words, it is the skill, knowledge and behavior that an individual poses to make informed decisions regarding money. According to Reserve Bank of India (RBI) financial literacy is the ability to understand how money works in our day today functions and how someone manages it, how he/she invests it and how a person offers it to others. It has five basic components of financial literacy: budgeting, saving, managing debt, investing and managing credit. This starts from the very initial place of an individual naming Home.

(Grohmann et al., 2015) In their paper "Childhood Roots of Financial Literacy," researcher explored various determinants that are helpful for the investors to develop understanding about the investment decision making process. They further classified this into various groups and named them as determinants of financial literacy. They further argued that degree of financial literacy can be enhanced thorough these factors. They are financial socialization of parents, economies of school, family background, education quality, etc.

(Singh et al., 2016) studied the level of financial literacy among the investors in Delhi. They also studied its impact on investment behavior and further analyzed the behavioral pattern of investors for their decision making. They inferred that financial literacy among investors

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have a positive impact on the decision. The boost financial literacy provides helps the investors to develop new insights in financial decision-making process.

Study carried out in Malaysia showed that if proper financial knowledge is provided to the millennial generation then their financial behavior will improve (Lajuni et al., 2019). Financial institution plays a vital role in generating financial knowledge among the investors.

Financial literacy was studied in the following three areas: Financial literacy and theory of planned behavior, determinants of financial literacy and Relationship of financial literacy with demographic factors and behavioral biasness.

1. ***Financial literacy and theory of planned behavior:***

In the process of planning the finance by an individual, there is a need of a process. Here comes the importance of theory of planned behavior. (Sivaramakrishnan, S. et al., 2017), they studied the impact of attitudinal factors and financial literacy on investment behavior. They found that financial literacy (subjective and objective) has a positive and significant influence on investment intention but only objective financial literacy has an impact on investment behavior.

(Lajuni et al., 2019) The theory of planned behavior has both direct and indirect effect on financial knowledge which leads to the financial behavioral intention of investors. Financial knowledge has a positive impact on attitude, subjective norms, perceived behavioral control and financial behavioral intention of the investors.

2. ***Determinants of financial literacy:***

Financial literacy and the degree of financial literacy can be increased through various measures in childhood (Grohmann et al., 2015). These determinants of financial literacy are family background, financial socialization of parents, economics of school, education quality, financial socialization through work and money and understanding of numeracy. These determinants have a positive impact on the financial decision-making process.

As discussed above financial literacy has various components and determinants. (Singh et al., 2016) took level of knowledge, level of interest and level of commitment as main ingredients of financial planning process which in turn leads to the effective investment decision making. They further concluded that all the three parameters of planning process are interconnected to each other and has a positive impact on investment decision.

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3. ***Relationship of financial literacy with demographic factors and behavioral biasness*:**

Investors behavior towards investment can be influenced through financial knowledge and their investment risk preference (Mazumdar, 2014). These demographic factors are age, income, gender, marital status and regional differences.

(Grohmann et al., 2014) the researcher studied the impact of financial literacy on economically middleclass people. They found that financial literacy when provided have positive impact on profitability earned by the investors along with the demand of sophisticated financial products.

The investment behavior of an individual can be influenced by various socio-demographic variables along with financial literacy (Grohmann et al., 2015).

(Singh et al., 2016) The researcher stated that financial planning process plays a crucial role in investors behavior towards the investments, where age, education, annual income, duration and amount of investment were considered as part of analysis.

(Norwani, 2019) Financial well-being are the result of financial awareness and financial literacy. the researcher tried to determine the influence of financial literacy, debt and demographic factors on financial well-being of the investors. They found that the three factors have a positive impact on the investor's financial well-being.

(Lajuni et al., 2019) another study showed that though demographic factors like education qualification gender does not have any impact on financial decision-making process.

(Baker et al., 2019) they found that financial literacy has an association with the behavioral biasness. With the disposition and herding biasness there is a negative relation of financial literacy whereas it is positively related to mental accounting. Although it has no association with overconfidence and emotional biasness.

Conclusion

Even though financial awareness and financial literacy are interchangeably they have their different dimensions, attributes and impact on the investors decision making process. Both financial literacy and financial awareness has an impact on investors decision making

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process. The financial awareness is studied mainly over demographic, socioeconomic psychological factors. Financial literacy is mainly studied in the context with it capacity to act as mediator or moderator in the theory of planned behavior in order to understand its impact on investors decision making (Grohmann et al., 2014) and (Baker et al., 2019).

It can be stated that financial awareness is caused by financial literacy. (Lajuni et al., 2019)financial literacy provided at the initial level has a positive impact on the investors planned behavior and which in turn leads to the investment decision.

Scope for future research

This study is carried out as an exploratory search through literature review. Testing its validity empirically need to be taken up. Financial awareness and financial literacy factors, attributes and their association changes with the time, investment avenues, biasness etc. Longitudinal and cross-sectional analysis can be conducted taking both financial awareness and financial literacy in combination or separately.

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