

FINANCIAL LITERACY AND INVESTMENT BEHAVIOUR IN INDIA: ANALYSING THE GAP BETWEEN INVESTMENT AWARENESS, ACTUAL PARTICIPATION AND PREFERRED FINANCIAL CHOICES

Sudarshan Akhare¹, Dr. Swati Sisodiya²

Research Scholar, Mansarovar Global University, Sehore (Bhopal)¹

Research Supervisor, Mansarovar Global University, Sehore (Bhopal)²

ABSTRACT

Financial literacy has become increasingly important with the rapid expansion of financial products, digital investment platforms and individual participation in securities markets. Although awareness of investment products is increasing in India, actual participation in market-linked instruments remains comparatively low. The present paper examines the relationship between financial literacy, investment awareness, risk perception and investment behaviour, with particular emphasis on the gap between actual and preferred investment choices. The study adopts a review and secondary-data-based analytical approach using recent findings from the SEBI Investor Survey 2025 and contemporary empirical literature. The evidence reveals a substantial awareness–participation gap: approximately 63% of Indian households are aware of securities-market products, whereas only about 9.5% participate in them. Mutual fund/ETF ownership is approximately 6.7%, while direct equity ownership is around 5.3%. Participation is substantially higher in major metropolitan areas than in rural India. At the same time, capital preservation remains a dominant consideration for approximately 80% of households. Recent studies further demonstrate that financial literacy, digital financial literacy, financial behaviour, risk tolerance and behavioural biases influence investment decisions. The paper conceptualizes an “Awareness–Investment Conversion Gap” and argues that financial knowledge alone does not necessarily translate into investment participation. Financial confidence, risk tolerance, income, investment experience, digital capability and behavioural factors determine whether awareness is converted into actual investment. The findings have implications for financial education, investment advisory services and policies aimed at improving household participation in formal financial markets.

Keywords: *Financial literacy¹, Investment awareness², Investment behaviour³, Professionals⁴, Financial planning⁵, Investment preferences⁶, Risk tolerance⁷, Securities market⁸, Mutual funds⁹, Digital financial literacy¹⁰*

1. INTRODUCTION

The Indian financial landscape has undergone a major transformation during the last decade. Traditional investment avenues such as bank deposits, provident funds, insurance, gold and real estate now coexist with mutual funds, systematic investment plans (SIPs), direct equities, exchange-traded funds, bonds and digitally accessible investment products. Technology has further changed the investment environment. Investors can open accounts, purchase mutual funds, trade securities and monitor portfolios through smartphones. While this democratization of financial markets has increased access, it has simultaneously increased the knowledge required for informed investment decision-making. Financial literacy therefore occupies an important position in contemporary personal finance. Financial literacy is not simply knowledge of financial terminology. It encompasses an individual's capacity to understand financial concepts, evaluate financial alternatives, assess risk, plan for future financial needs and translate knowledge into appropriate financial behaviour. This distinction between knowledge and behaviour is particularly important. An individual may know about equity investment without actually investing in equity. Similarly, a professional may understand the benefits of diversification but continue to hold most savings in fixed deposits, insurance or real estate.

The SEBI Investor Survey 2025 demonstrates this issue at the national level. Awareness of securities-market products among Indian households is approximately 63%, whereas participation is only about 9.5%. This represents a substantial difference between awareness and actual investment behaviour. The issue is especially relevant to professionals. Doctors, academicians, engineers, lawyers, managers, IT professionals and other salaried professionals generally possess relatively high educational qualifications and regular income. However, educational attainment should not automatically be equated with financial literacy. Professionals may also have substantially different actual and preferred investment portfolios. An individual may presently invest predominantly in fixed deposits but prefer mutual funds for future wealth creation. Another may prefer real estate but lack sufficient capital. Similarly, an investor may be interested in equity but avoid it because of inadequate knowledge or fear of market volatility. Therefore, the present paper examines financial literacy through three interconnected dimensions:

Investment Awareness → Actual Investment → Preferred Investment

The gap between these dimensions provides important insights into investor behaviour.

2. OBJECTIVES OF THE STUDY

The major objectives are:

1. To examine the level of financial and investment awareness among Indian investors.
2. To analyse the gap between awareness of investment products and actual participation.
3. To examine actual investment patterns across selected financial instruments.

4. To identify differences in investment participation across geographical segments.
5. To analyse factors affecting actual and preferred investment choices.
6. To review recent empirical literature concerning financial literacy and investment behaviour.
7. To examine the role of risk tolerance, behavioural biases and digital financial literacy.
8. To propose a conceptual framework explaining the gap between investment awareness and actual investment behaviour.

3. RESEARCH METHODOLOGY

3.1 Research Design

The paper adopts a descriptive and analytical research design based on secondary data and review of literature. The quantitative component primarily draws upon the SEBI Investor Survey 2025, supplemented by recent academic research concerning financial literacy, investment behaviour, risk tolerance and digital financial literacy. The approach is appropriate because the objective is to identify broader patterns in awareness and investment participation rather than claim original survey findings.

3.2 Sources of Data

Secondary information was collected from:

- Securities and Exchange Board of India (SEBI);
- Recent peer-reviewed journal articles;
- OECD-related financial literacy literature;
- Studies of financial and digital financial literacy; and
- Research on investment decision-making and behavioural finance.

The latest studies from 2024–2026 have been given particular emphasis.

3.3 Analytical Approach

The analysis focuses on:

- Percentage comparison;
- Awareness–participation gap;
- Product-level investment participation;
- Geographical differences;
- Investment objectives;

- Risk preferences; and
- Synthesis of recent empirical findings.

No artificial primary dataset has been generated for the present study.

4. REVIEW OF LITERATURE

Yadav and Banerji (2024), Yadav and Banerji examined digital financial literacy, saving and investment behaviour in India. Their investigation used data from 500 respondents aged 24–45 years in Delhi-NCR and applied Structural Equation Modelling. The findings revealed that higher levels of digital financial literacy significantly promoted both saving and investment behaviour. Income positively influenced digital financial literacy, whereas age and educational attainment did not demonstrate the same relationship. The study is particularly relevant because it demonstrates that conventional education cannot automatically be treated as a substitute for financial capability. Digital financial competence has emerged as an independent determinant of financial behaviour.

Saini et al. (2025), Saini and colleagues investigated the role of financial literacy and risk preference in shaping individual investment decisions. The study used quantitative data from 150 active individual investors. The findings reinforced the relationship between financial literacy, risk preferences and informed investment behaviour. The research highlights an important issue for professionals: two individuals possessing similar income and education may select substantially different investments because their risk preferences differ. Thus, financial literacy needs to be analysed jointly with risk tolerance.

Rani and Narang (2025), Rani and Narang studied the behavioural dimensions of risk tolerance among 120 salaried-class investors in Haryana. The study reported that income was significantly associated with risk tolerance, with higher-income respondents demonstrating greater willingness to consider high-risk investments. Younger salaried investors were also comparatively more willing to accept risk. Behavioural factors such as:

- Loss aversion;
- Overconfidence; and
- Herd behaviour

were found to influence investment choices. This research is directly relevant to professional investors because it demonstrates that investment decisions cannot be explained exclusively through financial knowledge.

5. ANALYSIS OF FINANCIAL AWARENESS IN INDIA

The SEBI Investor Survey 2025 provides particularly useful evidence regarding the difference between investment awareness and actual market participation. Approximately 63% of Indian households are aware of securities-market products. However, only around 9.5% actually participate in securities markets.

Table 1: Awareness and Actual Participation

Indicator	Percentage of households
Awareness of securities-market products	63.0%
Actual securities-market participation	9.5%
Awareness–participation gap	53.5 percentage points

The difference is substantial. For every 100 households: 63 know about securities-market products but only about 10 actually participate. The findings indicate that awareness alone is insufficient to generate investment behaviour.

6. AWARENESS–INVESTMENT CONVERSION RATIO

A simple conversion measure can be calculated as:

$$\text{Investment Conversion Ratio} = \frac{\text{Actual Participation}}{\text{Awareness}} \times 100$$

Therefore:

$$9.5 / 63 \times 100 \approx 15.1\%$$

This means that actual securities-market participation is equivalent to only about 15% of the level of reported product awareness.

The remaining gap may be influenced by:

- Risk perception;
- Inadequate detailed knowledge;
- Insufficient surplus income;
- Lack of confidence;
- Preference for capital protection;
- Family obligations;
- Limited financial advice; and
- Behavioural biases.

This may be described as the:

Awareness–Investment Conversion Gap

It represents the inability or unwillingness of aware individuals to translate financial awareness into actual market participation.

7. ACTUAL INVESTMENT BEHAVIOUR

Indian households continue to maintain a strong preference for conventional and relatively secure financial assets. At the same time, market-linked products are gaining importance. SEBI Investor Survey 2025 data indicate:

Table 2: Selected Market-Linked Investment Participation

Investment avenue	Household participation
Mutual Funds/ETFs	6.7%
Direct Equity	5.3%

The relatively low percentages are significant because awareness of financial-market products is substantially greater. The result suggests that many potential investors remain outside market-linked products despite knowing about them.

8. GEOGRAPHICAL DIFFERENCES IN INVESTMENT BEHAVIOUR

Investment participation varies considerably by location.

Table 3: Market Participation: Major Metros versus Rural Areas

Investment Product	Top 9 Metros	Rural Areas
Mutual Funds/ETFs	18%	4%
Direct Equity	14%	3%

The difference is substantial. Mutual fund participation in major metropolitan areas is approximately:

$$18 \div 4 = 4.5 \text{ times}$$

the rural level.

Similarly, direct equity participation is approximately:

$$14 \div 3 = 4.7 \text{ times}$$

the rural level. This indicates a strong geographical dimension to investment participation. Possible explanations include differences in:

- Income;
- Financial literacy;
- Professional employment;
- Digital access;
- Exposure to financial services;
- Availability of investment advisors; and
- Familiarity with market-linked products.

9. INVESTMENT GOALS

Investment behaviour is also determined by financial goals. SEBI's 2025 survey indicates that approximately 16% of households identify supporting family as an important investment objective. Wealth growth accounts for approximately 15% among investor households, compared with around 11% among non-investor households. Buying a house is an important objective for approximately 11% of households. Financial independence is prioritized by approximately 7% of investor households compared with 5% of non-investor households.

Table 4: Selected Financial Goals

Financial objective	Reported pattern
Supporting family	16%
Wealth growth – investors	15%
Wealth growth – non-investors	11%
Buying a house	11%
Financial independence – investors	7%
Financial independence – non-investors	5%

These differences demonstrate that actual investment decisions are connected to life goals rather than merely expected returns.

10. PREFERENCE FOR CAPITAL PRESERVATION

One of the most important explanations for limited participation in market-linked products is risk preference. The SEBI Investor Survey indicates that approximately 80% of households prioritize capital preservation over growth. This provides an important explanation for the persistence of traditional investment products. Investors may prefer:

- Bank fixed deposits;
- Provident funds;
- Insurance;
- Gold; and
- Other relatively familiar assets

even when they are aware that equity or mutual funds may offer greater long-term return potential. Thus, Awareness does not eliminate risk aversion.

11. ACTUAL VERSUS PREFERRED INVESTMENT PLANS

The distinction between actual and preferred investment deserves greater academic attention.

Actual Investment

Actual investment represents assets currently owned by an investor.

Preferred Investment

Preferred investment represents the portfolio that an individual would ideally like to maintain given:

- Adequate financial resources;
- Appropriate knowledge;
- Acceptable risk;
- Suitable investment horizon; and
- Access to financial advice.

A conceptual comparison may be represented as follows.

Table 5: Conceptual Actual–Preferred Investment Matrix

Investment Avenue	Actual tendency	Potential preferred tendency
Fixed deposits	High	Moderate
Provident fund	High	High
Insurance	High	Moderate
Gold	Moderate–high	Moderate
Real estate	Capital constrained	High among some professionals
Mutual funds/SIPs	Emerging	High
Direct equity	Relatively low	Moderate
Bonds/debt funds	Low	Moderate
ETFs	Low	Increasing

12. THE ACTUAL–PREFERRED INVESTMENT GAP

The paper proposes another construct:

Actual–Preferred Investment Gap (APIG)

APIG refers to the difference between the investment portfolio currently held by an individual and the portfolio that the individual would prefer to hold.

For example: A professional's actual portfolio may consist of:

- 40% fixed deposits
- 30% provident fund
- 20% insurance
- 10% mutual funds

while the individual's preferred portfolio may be:

- 20% fixed deposits
- 20% provident fund
- 10% insurance
- 40% mutual funds
- 10% equity.

The difference indicates an investment preference gap.

Potential causes include:

Knowledge Gap + Risk Gap + Income Constraint + Confidence Gap + Access Gap + Behavioural Bias

13. ROLE OF DIGITAL FINANCIAL LITERACY

The findings of Yadav and Banerji are particularly important in the Indian context.

Their study of 500 respondents found that digital financial literacy positively influences both saving and investment behaviour.

Digital literacy may increase participation by making investors more capable of:

- Opening investment accounts;
- Comparing products;
- Accessing mutual funds;
- Using SIPs;
- Tracking portfolios; and
- Obtaining financial information.

However, greater digital access can simultaneously expose investors to:

- Misinformation;
- Online investment scams;
- Unregulated advice;
- Social-media recommendations; and
- Speculative trading.

Therefore, digital financial literacy must include both access capability and risk awareness.

14. MAJOR FINDINGS

The study generates the following major findings:

1. Financial-product awareness is considerably greater than actual securities-market participation in India.
2. Approximately 63% of households are aware of securities-market products, while only about 9.5% participate.
3. The resulting awareness–participation difference is approximately 53.5 percentage points.
4. The calculated participation-to-awareness conversion ratio is only about 15.1%.
5. Mutual fund/ETF ownership, at approximately 6.7%, remains relatively limited.
6. Direct equity ownership is approximately 5.3%.
7. Major metropolitan areas demonstrate substantially higher market participation than rural areas.
8. Mutual fund participation in the top nine metros is approximately 4.5 times the rural rate.
9. Direct equity participation in major metros is approximately 4.7 times the rural rate.
10. Capital preservation remains a dominant investment consideration, helping explain the preference for conventional assets.

15. CONCLUSION

Financial literacy has become indispensable in India's increasingly diverse and digital financial environment. However, the evidence examined in this paper demonstrates that awareness does not automatically translate into investment participation.

The SEBI Investor Survey 2025 indicates that approximately 63% of Indian households are aware of securities-market products, while only around 9.5% actually participate. The resulting awareness–participation gap of 53.5 percentage points demonstrates a significant disconnect between financial awareness and behaviour. Market-linked participation also remains comparatively limited, with approximately 6.7% of households holding mutual funds/ETFs and 5.3% participating in direct equity. At the same time, investment participation is several times higher in major metropolitan areas than in rural India. Recent empirical research reinforces the conclusion that financial knowledge represents only one component of investment behaviour. Digital financial literacy, risk tolerance, income, financial behaviour and behavioural biases all influence investment decisions.

The study therefore proposes two related concepts: the Awareness–Investment Conversion Gap and the Actual–Preferred Investment Gap. These concepts are especially relevant to professionals, who may possess high general educational qualifications and adequate incomes but nevertheless demonstrate substantial differences between the investments they currently hold and those they would prefer to hold.

16. REFERENCES

- [1] Karumuri, V., Bastray, T., Goranta, L. R., Rekha, B., Mary, M., Joshi, R., & Basha, S. M. (2025). Optimizing financial outcomes: An analysis of individual investment decision factors. *Indian Journal of Information Sources and Services*, 15(1).
- [2] Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, 52(1), 5–44.
- [3] Rani, M., & Narang, M. (2025). A study of behavioral insights into risk tolerance of salaried class investors. *International Journal of Innovative Research and Creative Technology*, 11(1).
- [4] Securities and Exchange Board of India. (2025). *Investor Survey 2025*. SEBI, Mumbai.
- [5] Yadav, M., & Banerji, P. (2024). Digital financial literacy, saving and investment behaviour in India. *Journal of Social and Economic Development*. <https://doi.org/10.1007/s40847-024-00367-z>
- [6] Saini, S., Arora, A., Nag, M., Sharma, N., & Rawat, N. (2025). The role of financial literacy and risk preference in shaping the investment decisions of individual investors. *European Economic Letters*.
- [7] Rahmiyati, N., & Somodiharjo, K. (2025). The impact of financial literacy, investment decision-making, risk tolerance, and behavioral biases on individual investment performance. *The ES Accounting and Finance*, 3(3).
- [8] van Rooij, M., Lusardi, A., & Alessie, R. (2011). Financial literacy and stock market participation. *Journal of Financial Economics*, 101(2), 449–472.
- [9] Fernandes, D., Lynch, J. G., Jr., & Netemeyer, R. G. (2014). Financial literacy, financial education, and downstream financial behaviors. *Management Science*, 60(8), 1861–1883.