JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue

JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)

An International Scholarly Open Access, Peer-reviewed, Refereed Journal

AN INTRODECTION OF FINANCIAL LITERACY AND ITS IMPACT ON INVESTMENT BEHAVIOUR

*Ankita Sharma ** Prof Dr. Sant Ram

Abstract:- Since ages, this world has been a male-dominated, where men run the society and women follow them. Though women are an important constituent of our society; rather they are the basis of humankind. It is rightly said that if we made a woman literate whole family becomes literate. In 2015, world literacy was 86.3%, among which 82.7% of women were literate. The Indian scenario is a bit grim where among 72% literate persons, 62.8% women were literate ("Literacy Statistics Metadata Information Table". UNESCO Institute for Statistics. September 2015). Women, not only play an important role socially but economically too. The economic development of a country revolves around the economic empowerment and financial well-being of women. McKinsey Global Institute (2015) has mentioned in their report that India can increase its GDP to 16 % if the participation of women in the workforce is increased by 10%, by the year 2025. Thus, women have been identified as the major economic agent in contributing to the economic growth of the nation. Financial literacy is important for women because nearly 90 per cent of all women will end up managing their financial portfolios alone at some time in their life (Oppenheimer Funds, 2005). Until and unless some tragedy such as divorce or death of their husband does not happen in their life, they are not ready to take responsibilities of financial matters. For them it is very difficult to separate money, family and emotions. Moreover, they are hesitant to discuss financial issues because they think they will be treated as uneducated or unaware and they fear that they will not understand the process of financial dealings. Well educated and informed women may make better financial decisions and can manage their financial portfolios.

1.INTRODUCTION

Financial planning is a solution which converts our goals into action and helps in determining the short and long term financial goals and provides direction to achieve these goals. With the help of financial planning, one can have worry-free retirement, the best education for their children and can buy a house or a car. The importance of financial planning cannot be overstated because of two reasons mainly inflation and changing lifestyles. With higher disposable incomes, it is common for individuals to upgrade their standard of living. For example, earlier cars were considered as luxuries but are a necessity today. Financial planning helps individuals in both maintaining and upgrading their lifestyle. The individual's ability to manage the monetary resources efficiently will help them to accomplish their financial well-being which ultimately will improve their satisfaction towards life (Hira et al, 1989).

Need for the Study

❖ **Growing Importance of Financial Literacy**

In today"s scenario, emerging as well as developed economies have started giving much attention on the financial literacy of their people. For many people, the term financial literacy sounds unfamiliar and many find it beyond their understanding.Financial literacy puts a burden on the country in the form of a higher price of financial security and lesser prosperity. Financial ignorance carries significant costs. Consumers who fail to understand the concept of interest compounding spend more on transaction fees, run into bigger debts, and pay higher interest rates on loans (Lusardi and Tufano, 2015; Lusardi and de Bassa Scheresberg, 2013). Financially literate people can understand the financial world and make well-informed decisions that will help in achieving financial wellbeing. The need for financial literacy in a country like India is because of:

❖ **Increase in Life Expectancy** Now days, the people become more conscious about their health and improvements in health care services has increased the life expectancy in India, whichresults in a longer time to spend in retirement. This will certainly increases the need offinancial planning such as savings for post-retirement, investment decisions,expanded insurance plans and provision for unexpected future eventualities. Only knowing the importance of financial planning is not enough, the individual must know how they can make their financial plan in better way so that their purposes could be achieved. For doing better financial planning one must know the basic concepts of money management like computation of compound interest, risk diversification etc.

❖ **Changes in the Family Structure** The trend of nuclear family is increasing day by day. Earlier, in a joint family the decisions were taken by the head of the family with everyone's consent and everyone being accountable for that decision. The profit earned or the loss suffered was shared equally among all, no one was responsible for profit or loss alone. The structure of the nuclear family increased the responsibilities of individuals in respectof spending, saving and investment. The concept of Liberalization, Privatization and Globalization opened the greater job opportunity which increased the mobility of an individual. For availing the better opportunities the individual starts moving fromtheir native places and thus get separated from their whole family. The individual husband and wife are only responsible for their decisions and have to face the consequences of their choice. Moreover, it becomes very essential for parents to makea plan and do investment accordingly so that they may fulfil the necessities of their children's education because of an increase in education costs. These challenges force an Individual to be financially literate so that they can make informed and accountable decisions

❖ .**Shift in Risk** The risk has been transferred from government and employer to an individual. Now, an individual has to plan their financial security by themselves so that they can secure their after retirement period and may achieve financial wellbeing. Every financial product and services available in the financial market involves certain risk and many times individuals are not aware of that risk because of lack of financial literacy, thus they have to face serious financial problems. Now, an individual has to be more conscious while doing investments, they have to manage their portfolio in such a manner so that they may achieve lifetime financial wellbeing. Most the survey proves that the majority of the individuals are unaware of the risks which they have to face nowadays; they do not have skills and knowledge to deal that risks adequately, even if they are aware of them (OECD, 2008). Therefore, having knowledge of financial market will not fulfil the purpose alone; one must have the skill to access theinformation available so that their investment must provide profitable return.

❖ **Innovations in Financial Products and Services** In today's scenario, the financial market has been providing a myriad of financial products and services by an array of providers through different distribution channels. Due to liberalization and reduction in expenses with the help of financial engineering; because of advancement in information technology, many innovative financial products and services are being modified to meet the specific needs of the financial market. The products available in the financial market are complex, therefore some considerations have to be taken care of such as interest on products, fees charged and level of risk involved in particular product etc. The available opportunities in the financial market could be chased, only if an individual is financially literate. One must have the skill to analyse the best option from the available alternatives which would help in achieving financial wellbeing.

in providing financial services to the doorstep of every individual. The development in technology makes the functioning of financial market speedier. With the help of

❖ technological development,nowadays almost every bank provides their services through online portals as well as through mobile applications; thus providing ease in accessing the financial services. But knowing all these may not serve the purpose, an individual must have the skills touse these apps, skill to check their authenticity

because there is always a risk of cyber theft. National Payments Corporation of India (NPCI) release BHIM application towards one step of achieving a cashless economy. The individuals who are associated with the services of banking, insurance and financial markets, they must have to be aware of the application of this technological development.

❖ **Deregulation of Financial Market** After Liberalisation, Privatisation and Globalisation, the economic policy of 1991 has changed the shape of the Indian financial market. The new economic policy of 1991 has brought structural changes in the economy of India; change has been witnessed in almost every sector. Due to liberalisation, the foreign players are started entering into the Indian financial market very easily. **Beal and Delpachitra (2003)** stated that "over the last decade the need for financial skills had increased rapidly due to deregulation of financial market and also because of easy availability of credit from financial institutions to hold more market share to bear competition".

❖ **Worldwide Status of Financial Literacy** In 2014 S&P Global FinLit Survey (Standard & Poor"s Ratings Services Global Financial Literacy Survey) conducted a survey on financial literacy in more in 140 countries; the survey was conducted on more than 1, 50,000 adults aged 15 and above. The financial literacy included questions on basic knowledge of fundamental concepts in making a financial decision such as knowledge of interest rates, compounding interest, inflation and risk diversification. The individual would be considered financially literate if they answer correctly at least three out of the four questions. It was found that financial literacy significantly differs in the major advanced and emerging economies. In the advanced economies, the percentage of financially literate people ranges from 37 per cent in Italy to 68 per cent in Canada. On average, 55 per cent of people in the major advanced countries- Canada, France, Germany, Italy, Japan, the United Kingdom and the United States were financially literate. Whereas, in major emerging countries like Brazil, China, India, the Russian Federation and South Africa on average 28 per cent people were financially literate. The percentage of financially literate people in major emerging economies ranges from 24 per cent in India to 42 per cent in South Africa. Among the emerging economies, India has the lowest rate of financial literacy. (Fig.1)

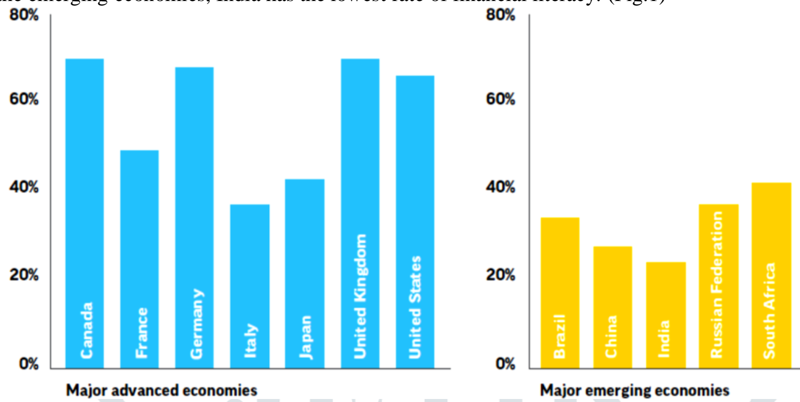
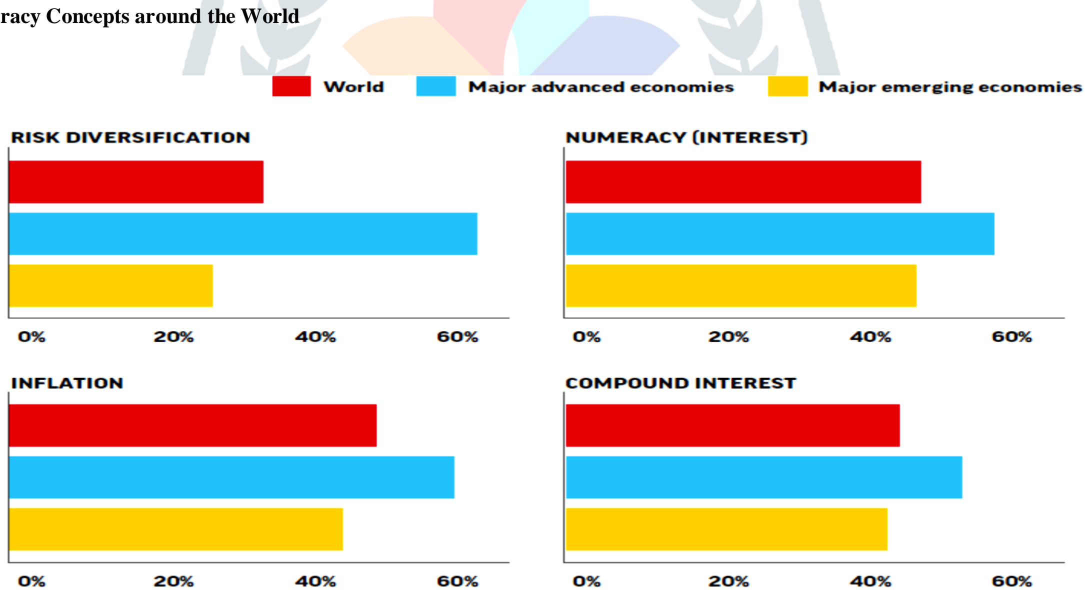


Figure 1: Financial Literacy around the World

(Source: S&P Global FinLit Survey, 2022)

Further, the survey revealed that among all the four concepts (inflation, numeracy, compound interest and diversification) inflation and numeracy is the most understood concept among the people. Only 35 per cent of the people have the Knowledge of risk diversification thus representing the least understood conceptamong all the four concepts. In the case of risk diversification, 64 per cent of the people in the major advanced economies have an understanding of risk diversification. It is evident that the difference in other concepts are less marked, ranging from 15 per cent for inflation to 10 per cent for the concept of compound interest. (Fig. 2)

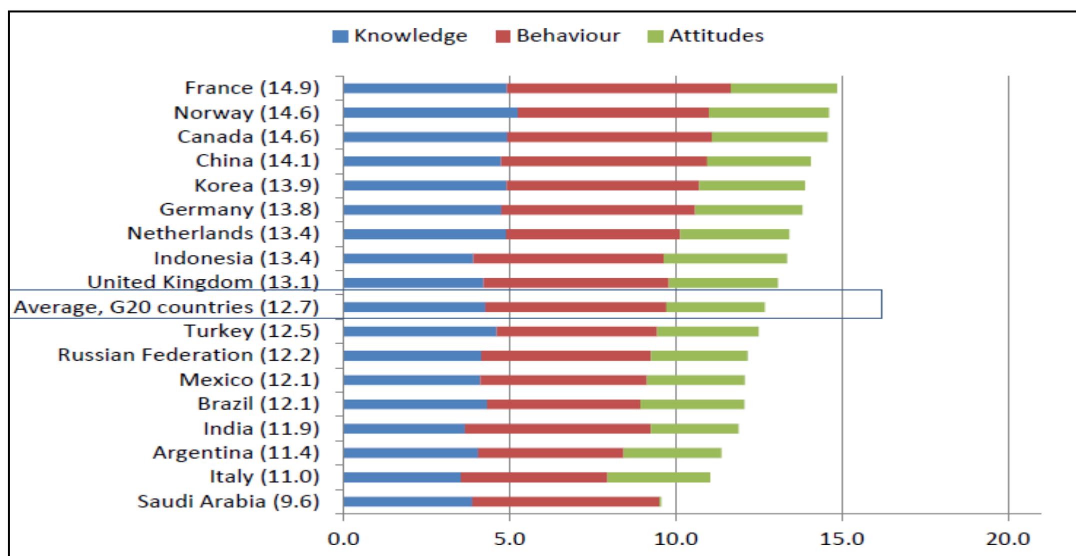
Figure 2: Financial Literacy Concepts around the World



(Source: S&P Global FinLit Survey, 2022)

In 2021 OECD/ INFE (International Network on Financial Education) conducted an international survey in G20 countries using Financial Literacy and Financial Inclusion Measurement Toolkit which included three components viz. Financial Knowledge, Financial Behaviour and Financial attitude. The survey was conducted on 101,596 adults aged 18 to 79. As per the survey, average scores across the G20 countries that submitted sufficient data of just 12.7 out of a possible 21 (madeup of a total possible 7 points for knowledge, 9 for behaviour and 5 for attitudes). France has an average score of 14.9, both Canada and Norway have an average score of 14.6 and China has an average score of 14.1. The average score of Korea, Germany, Netherlands, Indonesia and the United Kingdom are 13.9, 13.8, 13.4, 13.4 and 13.1 respectively. These countries secured above the average score of 12.7 amongall the G20 countries. The average score of Turkey, Russian Federation, Mexico and Brazil are 12.5, 12.2, 12.1 and 12.1 respectively. India has an average score of 11.9; Argentina has an average score of 11.4. The average score of Italy and Saudi Arabia are 11.0 and 9.6 respectively. France (14.9), Norway (14.6), Canada (14.6) and China (14.1) were the only four G20 countries achieving an above-average score. Whereas, India, Argentina, Italy and Saudi Arabia were the countries who scored below the average score of 12.

Figure 3: Financial Literacy in G20 Countries



(Source: G20/OECD INFE report on adult financial literacy in G20 countries, 2021)

❖ **Financial Literacy in India**

Financial inclusion and financial literacy are the two aspects of a proficient economy which ensures financial stability in the economy. In India, financial inclusion is one of the most prioritized segments, for which the government has made various awareness programs and launched different schemes from time to time. Financial inclusion talks about numbers whereas financial literacy talked about quality. For achieving financial inclusion more emphasis is given on opening more bank accounts at zero balance, to provide basic banking facilities to every individualof the country. Whereas, financial literacy emphasises on increasing the knowledge offinancial matters to achieve lifetime financial wellbeing. A Financially literate person can evaluate and compare the financial products, can make better financial decisions, understand and manage the risks efficiently.

❖ **Financial Literacy Initiatives Taken in India**

Financial literacy has been recognised as most important by the government and policymakers, therefore various initiatives have been taken for the growth and promotion of financial literacy with the help of financial education. Ministries like Ministry of finance, Financial Stability and Development Council, Ministry of Human Resource and Development; financial bodies like RBI, SEBI, NABARD and IRDA have taken numerous steps to promote financial education in India to empower people on the personal financial matter by providing necessary concepts and skills on financial issues. The detailed descriptions of initiatives taken by different financial institutions are as follows-

❖ **Initiatives taken by Reserve bank of India** Financial education and financial inclusion are the two significant aspects of the Reserve Bank of India. For achieving this objective RBI has created quantity of literature which was uploaded on its website in 13 languages with an aim of creating awareness regarding financial products and services, various financial practises as well as consumer protection. The RBI has provided a booklet named as "FAME", (Financial Awareness Messages) which provide the basic financial literacy awareness messages like importance of budgeting, savings borrowing and investing, documents required while opening a bank account, how to file complaints at the bank etc. RBI also issued a booklet called "Raju", which provides knowledge on basic banking concepts and inculcating a habit of savings among people. There is another booklet issued by the RBI named as "Money Kumar", which give details on the role and functioning of central bank in India. The financial literacy guide provided by RBI has covered topics like electronic fund transfer, kissan credit card, saving deposits and fixed deposits etc.

❖ Initiatives taken by Securities and Exchange Board of India SEBI conducted many programs nationwide for promoting financial educationwith the help of copious programs, campaigns, events etc. SEBI has its own panel of resource persons throughout India, who give training on various facets of financial matters like financial planning, savings, investment, banking, insurance, retirement planning etc. The programs were especially focusing on school and college students, self help groups, retired people, working class and women. It has also its website for imparting knowledge related to financial literacy to the investors; as well as has its toll free helpline number in 14 different languages, from where investors can seek information for redressal of their grievances and direction on various financial issues. SEBI has also initiated an investors association under the name "Sanchayan", where itorganises different financial literacy programs for investors.

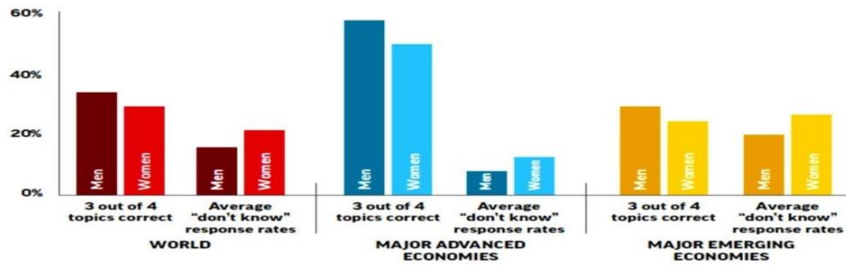
❖ **Initiatives taken by Insurance Regulatory and Development Authority** IRDA has conducted numerous awareness programs related to the rights and duties of policy holders, channels for dispute redressal as well as published various magazines and comic bank services related to insurance. IRDA published "policyholder handbooks" for investors as well as for children too it has prepared material. IRDA also organises seminar on a regular basis for protecting the interest of the investors. It has its website also for creating awareness regarding consumer rights and imparting education to investors.

❖ **Pension Fund Regulatory and Development Authority's initiatives** Pension Fund Regulatory and Development Authority has disseminated the sound security message system on its portal by through frequently asked questions related to the pension for helping people in resolving pension related issues. It has taken various steps to create awareness regarding pension products among people. Forproviding the retirement benefits, PFRDA has initiated the National Pension Scheme; since the life expectancy is increasing and change in family structure enlarges the requirement of retirement planning.

❖ **Initiatives taken by other Banks** Apart from RBI and commercial banks, the private and multinational banks also contributed their efforts towards financial inclusion through financial literacy. In the erge of opening FLCCs in the country, the Bank of India initiated a programme named as "ABHAY"; Canara Bank Mobile Van named as "Canara Gramina Vikas Vahini", Dena bank‟s programme called "Dena Mitra" and Allahabad bank initiated its programme under the name "Samadhan". The South India Bank has initiated "KIOSK banking Model" as a financial inclusion initiative in collaboration with Akshaya e-centres in Kerala.

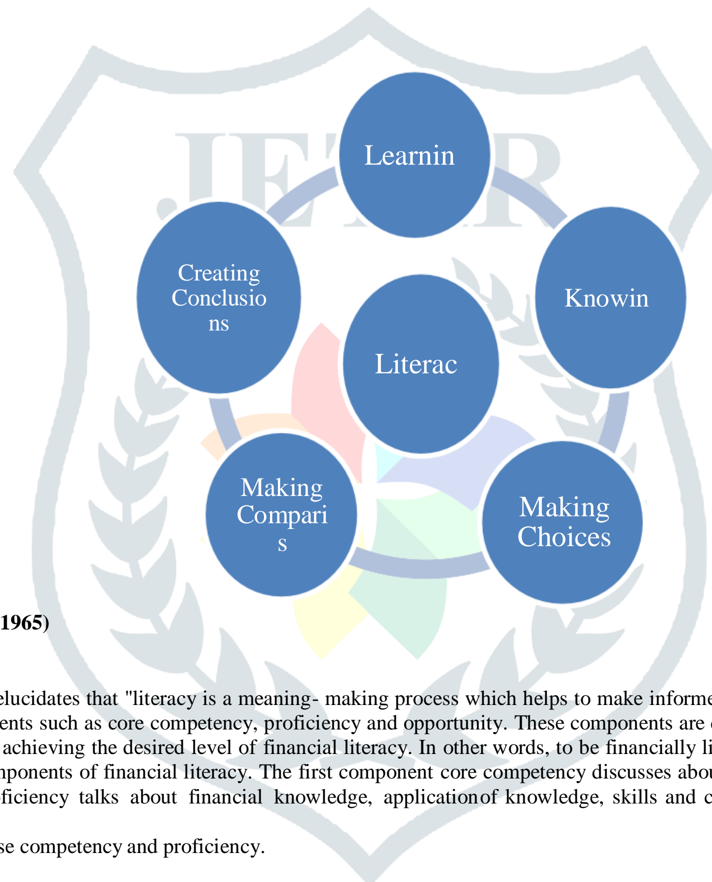
❖ **Initiatives taken by Non- Government Organisations** Non-Government Organisations also initiated financial literacy programmes asa part of their Self-help group development programmes. The Mangalore based Institutions in collaboration with Syndicate Bank and Vijaya Bank have started a programme named "Jnana Jyothi Financial Literacy and Credit Counselling Trust", "DHAN" Foundation, People‟s education and Development Organisation (PEDO), Centre for Community Economics and Development Consultants Society (CECOEDECON) in addition many more institutions across the country were working on imparting financial literacy to the excluded people, specially focusing on poor and women. Figure 4 shows the worldwide gender gap in financial literacy. It was observed that worldwide 35 per cent of men have given three out of four correct answers whereas only 30 per cent women have given three out of four correct answers. Thus, representing the world wide 5 per cent gender gap in financial literacy. The average gender gap in financial literacy in major emerging countries is the same as the worldwide gender gap i.e. 5 per cent, since 35 per cent of men gave the three out of four correct answers in comparison to 30 per cent of women who gave three outfour correct answers.

Figure 4: World Wide Gender Gap in Financial Literacy
(Source: S&P Global FinLit Survey, 2022)



- **Introduction of the term Literacy** Before understanding the term financial literacy it is very important to know about the term „literacy". In layman terms literacy can be defined as the ability to readand write. In other words, the ability to understand, categorise, compute, interpret, converse by using written resources is termed as „literacy". It has been defined differently in different fields. The ability to read and write or the ability to make use of language efficiently is termed as literacy (Collins dictionary). The Oxford English Dictionary defines literacy as "the state of being literate, understanding of letters, state of education and skill of reading and writing". The first universally accepted definition of literacy was given by UNESCO (1958) which stated that "the individual who has the understanding of both readingand writing of short simple sentences may be treated as literate person". The Workforce Investment Act (1998), National Institute for Literacy defined literacy as "an individual's capability of reading, writing, speaking in English and solving problems in the family, at the workplace and in the society. It represents the broader view of literacy. This definition gives a broader view of literacy and not just the ability of read and write. Burnet (1965) describes that literacy is not just the ability of reading and writing but it also includes learning, achieving status and human rights, knowing and making choices, making comparisons and creating & confirming conclusions. Majorly focuses on the following elements-1. Learning Knowing , 2.Making Choices, 3.Making comparisons, 4.Creating and confirming conclusion

Figure 5: Elements of Literacy



(Source: Elements of Literacy, Burnet, 1965)

Mason L. J & Richard M.S.W. (2007) elucidates that "literacy is a meaning- making process which helps to make informed decisions to achieve desired outcomes". Financial literacy has three main components such as core competency, proficiency and opportunity. These components are distinctive but are dependent on each other. Absence of any one may create hurdle in achieving the desired level of financial literacy. In other words, to be financially literate one must have to be competent in all three aspects. Figure 1.10 depicts the components of financial literacy. The first component core competency discusses about five things- numerical ability, budgeting, savings, borrowing and investment. Proficiency talks about financial knowledge, applicationof knowledge, skills and confidence and behaviour and attitude. The third component
i.e. opportunity tells how to acquire and use competency and proficiency.

Core Competencies	Proficiency	Opportunity
• Numerical Ability • Budgeting • Saving • Borrowing • Investment	• Financial Knowledge • Application of Knowledg • Skills and Confidence • Behaviour and Attitude	• To acquire and use competency and proficiency

Figure 6: Components of Financial Literacy

❖ **Numerical Ability** Numerical ability means the basic calculations required for day to day living. This may related to the calculations associated with the purchasing of goods, discountcalculations, paying household bills, calculating interest on loans, calculation of simple and compound interest on savings deposited in banks etc. Without having numerical skills it would not be possible to be financially literate.

❖ **Budgeting** Budgeting is the process of balancing expenses with the income. Making a plan of spending your money is known as budgeting. Budgeting helps in keeping the track of finances and reducing unnecessary expenditures. It helps in determining in advance whether there is enough money or not; if not, it helps in prioritising the spending and focusing on achieving that objective which is most important to you.

Figure 7: Concept of Budgeting

❖ **Savings** Saving is a part of income which is not spent. In other words, it may be said that keeping aside a part of income for future use is known as saving. Savings may be done for a short time or maybe for the long term. Savings can also be defined as money that is saved through a bank or any other financial organization that provides the capability to meet future financial emergencies or unexpected expenses. Generally, these types of savings are done for a long period but the growth rate of money is very low. The motive of saving is very obvious and simple that is to remain prepared for the future and to keep the money safe so that it can be used whenever thesituation demands so.

❖ **Borrowing** Borrowing is the process of receiving something in exchange for an obligationto pay back something. In today‟s world almost every people have some borrowings from banks or other financial institutions. For borrowing, it is very necessary to understand between secured and unsecured personal loan as well as between fixed andvariable interest rates. The core competency of a financially literate person is the ability to understand debt, and the processes involved to avoid it, reduce it and repay it. It also relates to competence in using loans **(Lusardi and Tufano, 2009)**.

❖ **Investing** Investing is the process of buying a financial product or any valued item with the anticipation that positive returns will be received in the future. In general, investment means putting the saved money in various financial products like stocks, mutual funds, gold, etc. to earn returns and growth of wealth with taking into account the risk factor. **Hiroshi (2002)** identifies three criteria for choosing investments viz. safety, liquidity and profitability. As To make saving and investment decisions, individuals need to think about the savings needs, objective of investment, risk tolerance ability, collecting and processing information from various sources **(ASIC, 2011).**

❖ **Proficiency** To be financially literate all the five core competencies is necessary, but knowing these will not fulfil the purpose, an individual must have skill in dealing withthese areas. Therefore, an individual must have skill, ability and expertise in the core competencies supported by a positive behaviour and attitude towards money management. It includes- 1,Financial Knowledge, 2.Application of Knowledge, 3.Skill and Confidence. 4.Behaviour and Attitude

❖ Financial Knowledge **Cathy (2002)** defined financial knowledge as "understanding key financial terms and concepts needed to function daily in society". **"**Financial knowledge can be defined as "understanding issues related to personal finance" **(Robb & Woodyard, 2011**).

❖ Application of Knowledge Having financial knowledge is not enough; application of financial knowledgeis must. Various studies conducted by PACFL (United States, 2008), Task Force on Financial Literacy (Canada, 2010), Financial Literacy Foundation (Australia, 2008) focuses on the importance of application of financial knowledge to be financially literate. HM Treasury (2007) stated that financial capable individuals can plan ahead, find and use information, know when to take advice and can understand and act on theadvice received which ultimately helps in participating in the financial market.

❖ Skills and Confidence For application of knowledge skill is required so that financial resources may be managed effectively. Without skill and confidence it is not possible to take financial decisions thus achieving in financial wellbeing of an individual. "Financial literacy may be defined as having the skills, knowledge and confidence for making responsible financial decisions" (**Sandra Huston, 2010**). **Remud (2010)** stated that financial literacy definitions may be grouped into five categories such as having the knowledge of financial concepts, capability to communicate financial concepts, skillof managing personal finances, ability of making appropriate financial decisions and confidence in planning for future financial needs effectively.

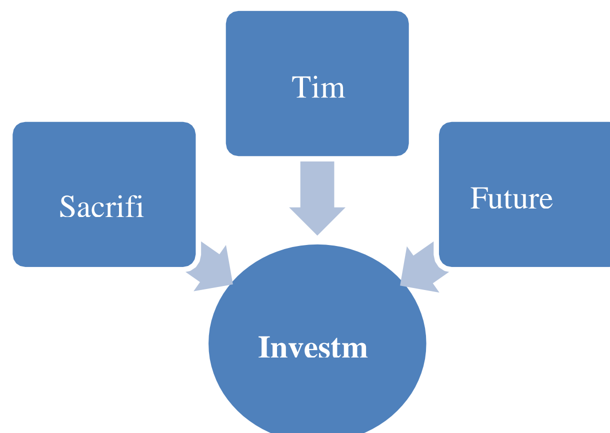
❖ Behaviour and Attitude To be financially literate an individual must have positive behaviour and attitude towards, money management, budgeting and planning, savings and investment. **Xiao (2008)** defines "financial behaviour as any human behaviour which is relevant to money management. The common financial behaviour includes cash, credit, and saving behaviours". Financial attitude is defined as a state of mind, opinion, and judgment of a person about finances **(Pankow, D. (2012).** Attitudes include whether people live for today or for the future, or whether insurance is necessary or preferences for risk etc. **(Financial Literacy Foundation, Australia, 2008).**

❖ Opportunity to acquire and use Competency and Proficiency Participation in economic life should maximise life chances and enable people to lead fulfilling lives and this requires knowledge and competence, ability to apply that knowledge and opportunity and environment to act (**Elizabeth and Margaret, 2007**). To use knowledge and skills there must be the availability of opportunity in thefinancial market. The opportunity here focuses on- equal distribution of financial as well as social resources so that an individual may participate in the financial market tofulfil his required needs. A financial literate individual has financial knowledge, skill and confidence to use that knowledge and proficient enough to grab the financial opportunities, knows from where and how information can be accessible so that financial wellbeing may be achieved.

❖ Investment Investment is a process of sacrificing something today in the anticipation of gaining something in future. The word investment can be defined in many ways according to different theories and principles. It is that term which can be used in a number of contexts. **According to economics,** investment is the utilization of resources in order to increase income or production output in the future. **According to finance,** the practice of investment refers to the buying of a financial product orany valued item with the anticipation that positive returns will be received in the future. **According to business theories,** investment is that activity in which a manufacturer buys a physical asset, for example, stock or production equipment, in expectation that this will help the business to prosper in the long run. In general, investment means putting the saved money in various financial products like stocks, mutual funds, gold, etc. in order to earn returns and growth of wealth with taking into account the risk factor. The moment savings start earning returns, it becomes investment. The deployment of money or other assets in the anticipation of gaining future benefits is known as investment. In investment the individual forgoes something of value at the moment, with a hope to get benefit from that sacrifice in future. Investment could be done in the form of capital investment, equity investment, investment in lands, stock investment, retirement investment planning, financial market investment, share market investment, portfolio investment, gold investment, business investment and real estate investment.

❖ In nutshell, it can be said that there are three dimensions of investment such astoday‟s sacrifice, time and prospective future gain. In other words, investment means the use of today‟s money in the expectation of making more money in future. Figure 8 shows the dimensions of investment.

Figure 8: Dimensions of Investment



❖ **Driving factors for Investment** One of most important reasons for which an individual makes an investment isto **earn income**. It may be in the form of interest earned on principal amount, dividend received on shares or in the form capital appreciation. Income or capital appreciations are the two main factors of employment of

funds (**Pandian, 2001).** Another **factor is the Liquidity;** investment product that is easily saleable or marketable or realizable with no loss of time possesses the element of liquidity. An individual generally prefers liquidity for his/her investment with good return and at minimum risk. The next important factor is **safety and security of the funds;** Investment Avenue that features assurance of return with no loss of money and time isconsidered as a safe investment product. Investors always want assurance of return of capital with no loss of money. One of prime factor of investment is the **risk;** Risk is innate in any investment. It may be defined as capital loss, postponement in capital repayment, default in paying of interest and inconsistency of returns. Individual considers maximisation of return with given risk while making investment decision.

❖ **Investment Avenues** There are various investment instruments available in the Indian financial market, among them some are highly liquid, some are marketable while others are non- marketable; some involve high risk whereas some are risk free. Individuals have to choose among the alternatives as per their needs, preferences, risk tolerance and expected return. The Reserve bank of India classifies investment instruments into two sub head s-

A. Physical Investment- Investment in silver, gold or real estates.

B. Financial Investment- Investment in bank deposits, insurance, mutual funds and shares etc.

SEBI and NCAER (2011) identifies the eight investment instrument which are available in the Indian financial market such as post office saving schemes like POMIS/ NSC/ KVP, PPF etc., bank deposits, insurance & pension plans, mutual funds, real estate, precious metals, bonds & debentures and shares as given in thefollowing fig. 9-

Figure 9: Investment Avenues

1. Bank Deposits

The investments in bank deposits are available in the form of fixed deposits, post office fixed deposits and company fixed deposits. It is risk free investment avenue and higher liquid in nature and offers normal return. Bank offers various types of deposits account like savings account, fixed deposit account and recurring deposits account etc.

2. Post Office Saving Schemes

There are various saving schemes are being offered by post office like national saving certificate, kissan vikas patra, public provident fund etc. These are the safest investment avenues and provide a bit higher interest rate as compared to bank deposits. Investment in post office saving schemes are also qualifies for exemption under the Wealth Tax Act.

3. Insurance and Pension Plans

Insurance and pension plans are one of the most important and preferred investment avenues in India. Besides the endowment policies unit linked insurance plans are very popular in India nowadays. Insurance helps in sharing the risk or spreading the risk, provides financial protection against loss. Individual may get tax rebate on some policies as well as earn reasonable interest on their invested insurance premium.

4. Mutual Fund

Mutual fund is a pool of funds and it has a collection of securities. It acts like an intermediary which collects money from the investors and on their behalf invests in various securities. It diversifies the investor"s risk because it makes the portfolio in which varieties of securities are considered as per the requirement and objective of theinvestors. It sells units of the funds to the investors, return will be given periodicallyor at the maturity; it charges a fees for their services. It is a moderate risk investment instrument.

5. Precious Metals

Precious metals is very popular investment avenue in India, it has a moderate risk and available in physical form. Investments could be done in the form silver, gold coins, jewelleries or bars. It acts like a hedge against inflation. Nowadays many banksas well as companies provide loans against gold.

6. Real Estate

Nowadays, real estate is also preferred as investment avenues in India. It provides very attractive return therefore individuals are shifting their interest from traditional to this modern investment avenue. Investing in real estate may involve the management, purchase, possession, selling and rental of house property or land for profit making. There are various banks and financial institutions which provide loans or finances for buying or constructing a residential or commercial flat; interest on these loans are tax deductible up to certain limit.

7. Bonds/ Debentures

A bond is a fixed income security issued by a company or government. Purchasing a bond means an individual is lending his/ her money to the company or government. The issuing company is knows as borrower and the lender is known as investor. The lenders earns fixed interest as fixed by the borrower at the time of issuing at periodically may be annually, quarterly or semi annually and receives recovery amount on the maturity date. The main appealing feature of bonds is that it is relatively safe and stable. But, because there is little risk involved in it, the potential return is also less. Generally, the rate of return on bonds ranges between 7-10% annually.

8. Shares

Equity as an investment avenue offers potentially high return but involves high risk too. There is a possibility of losing a part of invested capital in the case of loss.

Investment in equities may be made directly by purchasing the shares of a company from the financial market or it may be done through mutual fund. In good times, it may offer return of 15 to 50% annually.

Investment Decision Making

A determination made by directors and/or management/ individual as to how, when, where and how much capital will be spent on investment opportunities. The decision often follows research to determine costs and returns for each option (**business dictionary.com**). Investment decision making may be defined as the process of selecting investment avenues from available options. The individuals make financial decisions on a daily routine, even though that decision is vital for every day survival or may be a daunting task (**Karlsson et al., 2004).**

Harrison (2003) suggested that "the past investment experience and expertise often influence the investors" decision with regard to purchase of financial stuff.**SEBI and NCAER (2011)** reported that "liquidity and safety are the two major considerations while making the choice of assets for investment".

As per **Chrisann Palm (2014)** financial risk tolerance, source of advice and information, investment objective and socio-demographic characteristics are associated with investment decision. **Gayatri jagdale, founder fund-matters (2018)** identifies the eight important elements of investment decisions viz. goal, age, risk capacity, type of asset, time horizon and returns expectations. Another study found three important elements of investment decision i.e. time, risk & return and objective of the investment **(Prakash Gagdani, CEO, 5paisa, 2018).**

❖ **Things to be considered before making Investment Decision**

1.Identify your Personal gaol to be achieve

Before making an investment decision, an individual must have to identify their needs and goals to be achieved in the long run. The first step to making a successful investment decision is to make a plan and check your financial situation. Because not necessarily every investment will give you a good or high return. Therefore, you must be clear about your goal then only you can gain financial securityin the long run.

2.Identify your risk tolerance level

Since every investment involves some amount of risk, therefore an individual must identify their comfort zone or the degree of risk they can take. In investment, there is a possibility of losing entire principal money or earning a very high return. The compensation on taking risk is the possibility of receiving a greater return on investments. If an individual has a long term financial goal, they may make more money by investing their money in assets such as stocks and bonds which involves higher risk; rather than restricting themselves to less risky investments instruments which yield a low return.

3.Make Investment Portfolio

Before making an investment decision it is very necessary to make an appropriate portfolio of investment instruments. To lessen the risks of investing diversify your investment. It is common sense: don't put all your eggs in one basket, because if you invest your whole amount in one category, the chances of getting a lowreturn or losing your money become higher. Therefore a portfolio must have a proper mix of assets such as stocks, bonds and cash etc. It was observed that stocks, bonds and cash have not gone up and down at the same time. By investing in more than one asset, an individual will reduce the chances of losing their money and portfolio"s overall investments will give a certain amount of return. Asset allocation is necessary because it has a wider impact on the financial goals of an individual; if portfolio will not include enough risk, the investment will not earn a larger return which meets your financial goals.

4.Creation of Emergency Fund

Before investing, it is important to put your money in a savings product so thatyou may fight against future emergencies. An individual must have a mix of short term and long term investments; moreover, they must have a range of high liquidity tolow liquidity assets in their portfolio. If a need arises or some emergency like medical issue or unemployment may happen the assets which are highly liquid in nature may be converted into cash to cope up with future emergencies.

5.Review of Portfolio Occasionally

It is very important to rebalance your portfolio so that proper asset allocation mix could be achieved. By doing so, it will ensure that portfolio is notoveremphasising on one or the same types of asset categories and will also ensure thatyour risk is not concentrated on one but it is diversified in a mix of assets. Moving of asset category which is not doing well to the asset which is yielding good return is a wise move in investment decision making. It is suggested by many financial experts that an individual may rebalance their portfolio regularly such as every half-yearly or annually.

REFERENCES

I. *Agarwalla, S. K., Barua, S. K., Jacob, J., & Varma, J. R. (2013). Financial literacy among working young in urban India. Indian Institute of Management Ahmedabad, WP, (2013-10), 02.*

II. *Ahmad, F. A., White, A. J., Hiller, K. M., Amini, R., & Jeffe, D. B. (2017). An assessment of residents" and fellows" personal finance literacy: an unmet medical education need. International journal of medical education, 8, 192.*

III. *Ahuvalia, M. S. (2006). Speech at launching of the book—How India Earns, Spends and Saves, launched by Deputy Chairman, Planning Commission, Government of India, Montek Singh Ahluwalia, February 6, 2006. New Delhi.*

IV. *Akims, M.A. & Jagongo, A. (2017). Financial literacy and its impact on investment decisions in Nigeria: a theoretical perspective. International Journal of Scientific Research and Innovative Technology, 4(11).Akisimire, R., Abaho, E., & Basalirwa, E. M. (2015). Microfinance and entrepreneurial empowerment of women: The Ugandan context. International Journal of Economics. Commerce and Management. Vol. Ill,*

V. *Carlin, B. I., & Robinson, D. T. (2012). What does financial literacy training teach us? The journal of economic education, 43(3), 235-247.*

VI. *Cavezzali, E., Gardenal, G., & Rigoni, U. (2012). Risk taking, diversification behavior and financial literacy of individual investors. Università Ca'Foscari Department of Management Venezia Working Paper, (17).*

VII. *Chakraborty, S., & Digal, S. K. Empirical evidence of household saving objectives–a demographical comparison.Chen, H., & Volpe, R. P. (1998). An analysis of personal financial literacy among college students. Financial services review, 7(2), 107-128.*

VIII. *Commonwealth Bank Foundation (CBF). (2004). Improving financial literacy in Australia: Benefits for the individual and the nation.*

IX. *Coussens, M. D. (2006). Towards financial literacy: program leaders comment on evaluation and impact. Consumer Interests Annual, 52, 315-326.*

X. *Dash, B. S., & Das, B. (2017). Assessing the Degree and Factors Influencing Financial Literacy among Women Entrepreneursin Selected districts of Western Odisha. Siddhant-A Journal of Decision Making, 17(4), 287-298.*

XI. *Goyal, M. & Sharma, A. (2014). A Study of Investment Behavior of Middle Income Group towards Different Kinds of Investment Avenues. IOSR Journal of Business and Management (IOSR-JBM), 16(8), 1-10.*

XII. *Mahfudh, M. A. (2014). Financial Literacy and Investment Decisions in Kenya: A Case of Individual Investors in the Nairobi Securities Exchange (Doctoral dissertation, United States International University-Africa).*

XIII. *Malti, C. (2014). A Study of Financial Literacy among Working Women in Pune. International Journal for Scientific Research & Development, 1(11), 2456- 2458.*

XIV. *Mandell, L. (2008). Financial literacy of high school students. In Handbook of consumer finance research (pp. 163-183). Springer, New York, NY.*

XV. *Mandell, L. (2008). The financial literacy of young American adults. The Jumpstart Coalition for Personal Financial Literacy.Marcolin, S., & Abraham, A. (2006). Financial literacy research: Current literature and future opportunities.*

XVI. *Mason, C. L., & Wilson, R. (2000). Conceptualising financial literacy. © Loughborough University.*

XVII. *Mbabazi, M., & Daniel, T. (2017). Effect of Financial Literacy on Stock Market Participation by Small and Medium Enterprises in Rwanda: a case kimironko market. European Journal of Business and Social Sciences, 6(2), 246-259.*

XVIII. *Mittal, V. & Aggarwal, N. (2017). Investment behaviour of Working Women---A Study of Ludhiana district in Punjab. International journal Of Business Management, 3(1), ISSN NO. 2349-3402.*

XIX. *Mohan, D. (2016). A study on income and investment pattern of working women in Kollam city. Intercontinental Journal of Finance Research Review, 4(9).*

XX. *Mulasi, A., & Raju, M. A. (2017). The Impact of Financial Literacy on Investment Decisions of IT Professionals. Asian Journal of Research in Business Economics and Management, 7(10), 26-34..*

XXI. *Mutswenje, V. S. A Survey of the Factors Influencing Investment Decisions: The Case of Individual Investors at the NSE. International Journal of Humanities and Social Science, 4(4). Shukla, N. (2016). A Study of Investment Preference of Working Woman of North Gujarat Region. IJSART, 2(2).*

XXII. *Shusha, A. A. (2017). Does Financial Literacy Moderate the Relationship among Demographic Characteristics and Financial Risk Tolerance? Evidence from Egypt. Australasian Accounting, Business and Finance Journal, 11(3), 67- 86.Singh, A. &*

XXIII. *Sharma, R. (2016). Financial Literacy & its impact on Investment Behaviour for Effective Financial Planning. International Journa*

XXIV. *lYoshino, N., Morgan, P. J., & Trinh, L. Q. (2017). Financial literacy in Japan: Determinants and impacts (No. 796). ADBI Working Paper Series.*

XXV. *Zakaria, Z., Nor, S. M. M., & Ismail, M. R. (2017). Financial Literacy and Risk Tolerance towards Saving and Investment: A Case Study in Malaysia. International Journal of Economics and Financial Issues, 7(4), 507-514.*