

An Analysis Of Financial Literacy And Risk Perception On Investment Behaviour Among Investors In Cuddalore District, Tamil Nadu

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ABSTRACT

Financial literacy has become an essential factor influencing individuals' investment decisions in the modern financial environment. Investors are increasingly exposed to a wide range of financial products, making it necessary to possess adequate knowledge and understanding of financial concepts. This study examines the influence of financial literacy on investment behaviour among investors in Cuddalore District, Tamil Nadu, with a focus on the mediating role of risk perception. The study considers financial literacy and knowledge of financial concepts as independent variables, risk perception and risk tolerance as mediating variables, and investment behaviour and investment preference as dependent variables. Primary data were collected from investors using a structured questionnaire based on a five-point Likert scale. Statistical tools such as descriptive analysis, correlation, and regression were used to analyze the data. The findings reveal that financial literacy significantly influences investors' behaviour and preferences, while risk perception plays an important mediating role in shaping investment decisions. Investors with higher financial literacy demonstrate better investment behaviour and make more informed decisions. The study highlights the importance of improving financial literacy among investors to enhance effective investment decision-making. The study provides valuable insights for policymakers, financial institutions, and investors in designing strategies to improve financial awareness and promote better investment practices.

Keywords: Financial Literacy, Risk Perception, Investment Behaviour, Risk Tolerance, Investment Preference, Cuddalore District.

1. Introduction

The financial landscape has undergone significant transformation due to globalization, technological advancement, and the expansion of financial markets. Individuals are now exposed to a wide range of financial products such as mutual funds, insurance schemes, stocks, bonds, and other investment avenues. In this context, financial literacy has become a crucial factor influencing individuals' ability to make informed investment decisions (Baker, 2016). Financial literacy refers to the knowledge and understanding of financial concepts, products, and risks, which enables individuals to make effective financial decisions. It includes aspects such as budgeting, saving, investing, and understanding financial risks. Individuals with higher financial literacy are more capable of evaluating investment options and managing their financial resources efficiently. In contrast, a lack of financial knowledge often leads to poor investment decisions, financial losses, and inadequate portfolio diversification (Hilgert, et al., 2003).

Another important factor influencing investment decisions is risk perception. Risk perception refers to an individual's subjective judgment about the level of risk associated with a particular investment. It varies from person to person and is influenced by psychological, economic, and social factors. Along with risk perception, risk tolerance plays a significant role in determining the level of risk an investor is willing to take. Investors with high risk tolerance tend to invest in high-return but risky assets, whereas risk-averse investors prefer safer investment options (Grable & Lytton, 1999).

Investment behaviour is a critical outcome of financial literacy and risk perception. It includes the way individuals plan, select, and manage their investments. Similarly, investment preference reflects the choice of investment avenues based on factors such as risk, return, liquidity, and security. Investors with better financial knowledge and understanding are more likely to exhibit rational investment behaviour and make diversified investment choices (Shefrin & Statman, 2000). Despite the increasing importance of financial literacy, many investors still lack adequate knowledge of financial concepts and products. This gap often leads to poor investment decisions and ineffective financial planning. Moreover, risk perception varies significantly among individuals and influences their investment behaviour in different ways. While several studies have examined financial literacy and investment behaviour independently, there is limited research that integrates financial literacy, risk perception, and investment behaviour in a single framework, particularly in the context of developing regions like Cuddalore District in Tamil Nadu.

2. Review of Literature

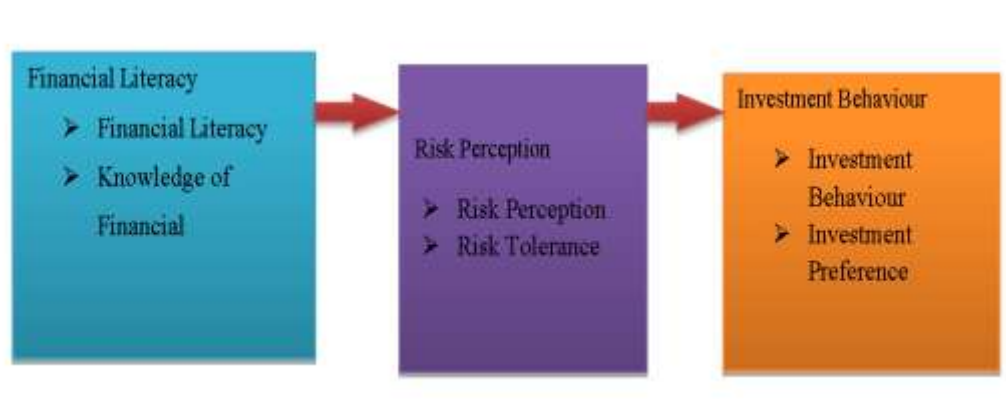
Lusardi (2025) highlights that financial literacy played a crucial role in shaping individuals' financial decision-making and investment behaviour. The study emphasizes that individuals with higher financial knowledge are more capable of assessing risks and making informed investment choices. Kumar (2025) examined the relationship between financial literacy and investment behaviour and found that financial knowledge significantly influences investors' risk perception and decision-making patterns. The study also highlights the mediating role of psychological factors in investment decisions. Shang (2024) found that individuals with better financial literacy demonstrate higher confidence in managing investments and show improved investment behaviour. The study also indicates that risk perception significantly influences investment preferences. Wang (2024) analyzed the impact of financial knowledge on investment decisions and concluded that investors with higher financial literacy exhibit better portfolio diversification and effective decision-making. Agarwal (2023) stated that financial literacy significantly improves individuals' ability to understand financial products and risks, leading to better investment behaviour. The study also highlights that risk tolerance plays an important role in shaping investment decisions. Singh (2022) explains that investors' perception of risk influences their investment choices and behaviour. The study reveals that individuals with higher financial awareness are more likely to take calculated risks and invest in diversified portfolios. Brown (2021) highlights that financial literacy improved individuals' understanding of financial markets and enhances their ability to make rational investment decisions. The study emphasizes the importance of financial education in improving investment behaviour. Klapper (2020) found that lack of financial literacy leads to poor financial decisions and low participation in financial markets. The study suggests that improving financial knowledge can significantly enhance investment behaviour and financial well-being.

3. Research Problem

In the modern financial environment, individuals are required to make complex financial decisions due to the availability of a wide range of investment options. Financial literacy has become an essential skill that enables individuals to understand financial concepts, evaluate risks, and make informed investment decisions. In India, particularly in semi-urban and rural regions like Cuddalore District, financial literacy levels vary significantly among individuals. Many investors lack adequate knowledge of financial products and concepts, which affects their ability to make effective investment decisions. This often results in poor investment behaviour, limited diversification, and low financial security. Risk perception is another important factor influencing investment behaviour. Investors often rely on their subjective judgment to evaluate risks, which may not always be accurate. Risk tolerance also varies among individuals, influencing their willingness to invest in different financial instruments.

Investment behaviour and investment reference are outcomes of both financial literacy and risk perception. Individuals with higher financial knowledge and better understanding of risks tend to make more rational investment decisions and prefer diversified investment options. Despite the growing importance of these factors, limited research has been conducted to examine the combined influence of financial literacy and risk perception on investment behaviour, especially in the context of Cuddalore District. Therefore, this study aims to fill this gap by analyzing the relationship between financial literacy, risk perception, and investment behaviour.

4. Research framework of the study



5. Objectives of the Study

To analyze the relationship between financial literacy and risk perception among the investors.

To study the relationship between financial literacy and investment behaviour among the investors.

6. Hypotheses of the Study

H₁: There is a significant relationship between financial literacy and risk perception.

H₂: There is a significant relationship between financial literacy and investment behaviour.

7. Research Methodology

Research Design

The present study adopts a descriptive research design to analyze the relationship between financial literacy, risk perception, and investment behaviour among investors in Cuddalore District, Tamil Nadu. This research design is appropriate as it helps in describing investors' opinions and examining the relationship between variables without manipulating the study environment. The descriptive approach enables the researcher to understand how financial literacy and risk perception influence investment behaviour.

Source of Data

The primary data were collected directly from investors in Cuddalore District through a structured questionnaire. The data reflect the respondents' opinions on financial literacy, risk perception, and investment behaviour. The secondary data were collected from various sources such as research journals, books, reports, and online publications. These sources were used to support the theoretical framework and literature review of the study.

Population of the Study

The population of the study consists of individual investors residing in Cuddalore District, Tamil Nadu. These investors include individuals who are actively involved in various investment activities such as savings, insurance, mutual funds, stocks, and other financial instruments. The population represents investors from different demographic backgrounds, including variations in age, gender, income, education, occupation, and investment experience, providing a comprehensive understanding of financial literacy, risk perception, and investment behaviour.

Sample Size

The study a total of 60 respondents was selected from the population of investors in Cuddalore District, Tamil Nadu. The sample size is considered adequate to analyze the relationship between financial literacy, risk perception, and investment behaviour, and to draw meaningful conclusions using statistical tools.

Sampling Technique

The study adopts a convenience sampling method, which is a type of non-probability sampling technique. This method was used due to the ease of access to respondents and time constraints. The respondents were selected based on their availability and willingness to participate in the study. Although convenience sampling may have certain limitations, it is suitable for this study as it enables quick data collection from investors in the selected area.

Statistical Tools Used

Descriptive Statistics (Mean and Standard Deviation) used to analyze the overall opinion of investors towards financial literacy, risk perception, and investment behaviour. Pearson Correlation Analysis used to examine the relationship between variables such as financial literacy, risk perception, and investment behaviour.

8. Result and Discussion

Table 1: Investors' Opinion towards Financial Literacy, Risk Perception and Investment Behaviour

Study Variables	Mean	SD	t-value	p-value
Financial Literacy	4.02	0.66	16.84	0.001
Knowledge of Financial Concepts	4.08	0.61		
Risk Perception	3.96	0.69		
Risk Tolerance	4.00	0.64		
Investment Behaviour	4.05	0.63		
Investment Preference	4.07	0.60		

The above table presents the investors' opinion towards financial literacy, risk perception, and investment behaviour in Cuddalore District, Tamil Nadu. The mean values range from 3.96 to 4.08, indicating a high level of agreement among investors regarding financial literacy and investment-related factors.

Among the independent variables, knowledge of financial concepts (4.08) records the highest mean value, followed by financial literacy (4.02), indicating that investors possess a good level of financial knowledge and understanding. With respect to the mediating variables, risk tolerance (4.00) shows a slightly higher mean value compared to risk perception (3.96), indicating moderate to high awareness of risk among investors. Among the dependent variables, investment preference (4.07) shows a higher mean value than investment behaviour (4.05), indicating that investors demonstrate

positive investment choices and behaviour. The calculated t-value (16.84) is significant at the 5% level ($p = 0.001$), which indicates that investors' opinions are statistically significant. Hence the Hypothesis is accepted.

Table 2: Relationship between Financial Literacy, Risk Perception and Investment Behaviour

Variables	r-value	p-value
Financial Literacy vs Risk Perception	0.642	0.001
Knowledge of Financial Concepts vs Risk Perception	0.658	0.001
Financial Literacy vs Investment Behaviour	0.671	0.001
Knowledge of Financial Concepts vs Investment Preference	0.689	0.001
Risk Perception vs Investment Behaviour	0.702	0.001
Risk Tolerance vs Investment Preference	0.718	0.001

The above table shows the relationship between financial literacy, risk perception, and investment behaviour among investors in Cuddalore District, Tamil Nadu. The correlation values range from 0.642 to 0.718, indicating a strong positive relationship between the variables. All the p-values are significant at the 0.001 level, confirming that the relationships are statistically significant. Financial literacy is positively related to risk perception, suggesting that financially literate investors have a better understanding of risk. Knowledge of financial concepts also significantly influences risk perception, indicating that awareness of financial concepts improves risk evaluation. Financial literacy has a positive relationship with investment behaviour, showing that knowledgeable investors make better investment decisions. Risk perception significantly influences investment behaviour, indicating that investors who understand risk tend to make more informed decisions. Risk tolerance is positively related to investment preference, showing that investors with higher risk tolerance prefer diversified and higher-return investments. Hence the hypothesis is accepted.

9. Findings of the Study

- The descriptive analysis reveals that investors have a high level of agreement towards financial literacy and investment behaviour, as the mean values are above 4. This indicates that investors possess a good level of financial awareness.
- Among the independent variables, knowledge of financial concepts records the highest mean value, indicating that investors have better understanding of financial concepts such as interest rates, inflation, and risk-return trade-off.
- The findings show that risk tolerance has a slightly higher mean value than risk perception, indicating that investors are moderately willing to take risks while making investment decisions.
- The study reveals that investors demonstrate a positive level of investment behaviour and investment preference, suggesting that they actively participate in investment activities.
- The correlation analysis indicates a strong positive relationship between financial literacy and risk perception, showing that financially literate investors have better ability to assess and understand risk.
- The results also reveal that knowledge of financial concepts significantly influences risk perception, indicating that financial knowledge improves investors' understanding of investment risks.
- A significant positive relationship is observed between financial literacy and investment behaviour, indicating that investors with higher financial literacy tend to make better investment decisions.
- The findings show that risk perception has a strong influence on investment behaviour, suggesting that investors who understand risk are more likely to make informed and rational investment choices.
- The study also reveals that risk tolerance significantly influences investment preference, indicating that investors with higher risk tolerance prefer diversified and high-return investment options.
- Overall, the findings confirm that financial literacy and risk perception are key factors influencing investment behaviour and investment preference among investors in Cuddalore District.

10. Suggestions of the Study

- Government and financial institutions should conduct financial literacy programs and awareness campaigns to improve investors' understanding of financial concepts and products.
- Educational institutions should include financial education in the curriculum to develop financial knowledge among individuals from an early stage.
- Financial institutions should provide simple and transparent information about financial products, enabling investors to make informed decisions.
- Investors should be encouraged to improve their knowledge of financial concepts such as risk-return trade-off, inflation, and diversification to enhance their investment decisions.
- Organizations should promote investor education programs focusing on risk perception, helping individuals to understand and evaluate investment risks effectively.

- Financial advisors should guide investors in assessing their risk tolerance levels before making investment decisions, ensuring better alignment with their financial goals.
- Investors should be encouraged to adopt diversified investment strategies to reduce risk and improve returns.
- Digital platforms and financial apps should be utilized to provide accessible and real-time financial information, improving investors' awareness and decision-making ability.
- Special attention should be given to rural and semi-urban investors, where financial literacy levels are comparatively low, to improve their participation in financial markets.
- Continuous efforts should be made to bridge the gap between financial knowledge and investment behaviour, ensuring that investors apply their knowledge effectively in real-life situations.

11. Conclusion

The present study examines the relationship between financial literacy, risk perception, and investment behaviour among investors in Cuddalore District, Tamil Nadu. The findings clearly indicate that financial literacy and knowledge of financial concepts play a significant role in influencing investors' decision-making processes. The results of the study reveal that investors with higher financial literacy possess a better understanding of financial concepts and are more capable of assessing investment risks. The correlation analysis confirms that there is a strong and positive relationship between financial literacy, risk perception, and investment behaviour. It is evident that investors who have better knowledge of financial concepts tend to develop a more accurate perception of risk, which ultimately leads to more informed and rational investment decisions.

The study also highlights that risk perception and risk tolerance significantly influence investment behaviour and investment preference. Investors who are able to understand and evaluate risk effectively are more likely to adopt diversified investment strategies and choose appropriate financial instruments based on their risk appetite. In conclusion, financial literacy emerges as a key factor in shaping investment behaviour, while risk perception acts as an important link between financial knowledge and investment decisions. Improving financial literacy and enhancing investors' understanding of risk can lead to better investment outcomes and increased financial stability. Therefore, it is essential for policymakers, financial institutions, and educators to focus on improving financial awareness and promoting responsible investment behaviour among individuals. This will not only benefit investors but also contribute to the overall development of the financial system.

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