

# Digital Financial Literacy and Its Impact on Individuals Investment Decisions in Rural India with Special Reference to Indore District

Raksha Mittal\* Dr. Sanjay Sharma\*\*

\*Research Scholar, Institute of Management Studies, DAVV, Indore (M.P.) INDIA

\*\* Assistant Professor, Indore Management Institute, Indore (M.P.) INDIA

**Abstract :** The paper studies the impact of financial literacy on investment decisions and rural India development. Digital financial literacy has become the current need for India. Despite of various initiative by the government on digitalization, individuals lack in knowledge of available digital financial product primarily in rural area. Lack of knowledge and awareness of financial matters to individuals with lower education level is one of the biggest challenges in front of different stakeholders of financial institutions, such as policy makers, financial institutions, bankers, and government. The primary data was collected through a questionnaire with sample size of 220 respondents. It studies that gender is directly propionate to investment decisions in rural India. Age has an impact on financial literacy level of individuals. The paper concludes that individuals from rural area lacks in and should focus on gaining digital financial literacy and discovers some potential sources. As per the study there are various factors that affect digital financial literacy, such as individual interest, occupation, opportunities, income, marital status, access to digital platforms, internet access, peer groups. People from urban areas are more digitally literate as compared to people from rural areas. Government needs to take multiple initiatives to aware individuals about avenues to invest digitally. Some of the major investment avenues are sovereign gold bonds, stock market, mutual funds, ETF's, government bonds, pension schemes, post office deposits. For a developing country like India, it is necessary to focus on the investment behavior of women as it is observed in maximum cases that women earn and give the money in hands of husband, son, or other dependent for investment. The major problem here is of lack of education to women about investments and their dependency on males.

**Keywords:** Behavioral Finance, Financial Literacy, Investment decision-making, Rural development, Digital finance.

**Introduction** - The aim is to examine the impact of investment decision and awareness of digital financial products and services in rural India. Savings and investment are crucial part of persons income. Investment is the link between saving and harvesting returns. Investment is done with multiple motives which can be earning a good return, incur future planned expenses, taxation benefit, future liability, safety, and retirement planning. Nowadays, there are various digital platforms to invest.

There must be proper understanding before investing to prevent frauds and scams in the current market scenario. The major problem is lack of awareness to individuals about investment decisions. A structured process must be followed by an individual in rural area that should include setting financial goals for short team and long term, evaluate risk taking ability, conduct research on investment avenues available, make informed decisions, evaluate portfolio, and make necessary changes as and when required. Therefore, in today's changing times more emphasis is laid over

personal finance, corporate finance, and behavioral finance. Within behavioral finance, it is presumed that information and the features of market participants y influence individual's decisions regarding investments as well as overall market results.

Finance is the backbone of everyone whether individual, business, or the government. Independent variables influencing Digital Financial Literacy of Individuals: age, gender, income, religion, social groups, family size, marital status, educational level, occupation, etc.

**Demographic Profile of Indore District:** Indore is one of the most popular cities located in Madhya Pradesh and in central India. According to the official 2011 census, the total population of Indore is 3,276,697, in which the population living in the rural area is 848,988. Out of the total population 74.09% belongs to urban population and 25.91% belongs to rural population. **Financial Literacy:** Traditionally literacy means ability to read and write. Now in recent time literacy has been widened and includes the ability to use language,

numbers, images, computers, and other basic means to understand, communicate, and gain useful knowledge and use the dominant symbol systems. The Oxford English Dictionary (1952) defines literacy as the quality or state of being literate; knowledge of letters; condition in respect to education, ability to read and write. Financial literacy means the possession of knowledge and understanding of financial matters and is mainly used in connection with personal finance matters.

**Investment Decision:** Investment Decision generally means the knowledge of properly making decisions pertaining to certain personal finance areas like real estate, insurance, investing, saving, tax planning and retirement. It is the decision made by an individual for achieving a long term or a short-term goal. Here in context to the study it stands for financial goals. It mainly includes the design of an individual for where are how much capital to be invested for generating highest returns.

**Digital Financial Literacy:** Term Digital financial literacy describes the impact of new technologies and on the financial services industry. Digital financial literacy is not having a specific definition. It could be considered as the proper awareness of digital financial risks, better utilization of the knowledge of digital financial products and risk control. Digital financial literacy is a vital tool to access financial services for achieving economic mobility and digital financial illiteracy of the people is a major hindrance in using digital technology.

#### Literature Review

Research work has been carried out by both Indian and foreign researchers to establish the research gap. In the present study the focus is to study the impact of digital financial literacy on investment decision. Therefore, the following studies have been reviewed to carry out the present study.

**N. P. Abdul Azeez<sup>1</sup> and S. M. Jawed Akhtar (2021)** studied digital financial literacy and its determinants. It states that effective financial transactions could be made possible through skills, awareness, and attitudes to use digital tools and digital transactions tools. The determinants of digital financial literacy focus on the socio-economic demographic factors and used ordinary least square, multiple regression model. The analysis is based on the primary data with five hundred samples collected from the rural areas of Aligarh district. The paper states that various attempts like demonetization, digital financial advancing system, and the development in mobile communication in a global perspective could not help poor people's inclusion financially.

**Karan Gupta and Prof. Sunil Kumar Gupta (2018)** determine the impact of financial literacy on investment decision of people living in rural areas of Himachal Pradesh in Shimla district. The author used sampling method to determine the size of sample for collection of data and to make analysis to draw inferences. The data was collected

from 500 respondents that belong to service class, small businessmen, agriculturalist, housewives, etc. The respondents were asked about different questions related to financial literacy like saving bank deposits, post office saving schemes, mutual funds, life insurance, stock market, etc. to determine the impact of financial literacy on investment decision of the respondents. Different demographic factors were considered, and hypothesis was tested.

**Riya Raju George (2020)** studied Digital Financial Literacy based on financial inclusion. The study examines various demographic variables and their effects on financial and digital financial literacy and factors that affect or hinder the use of digital financial products. A sample of respondents using convenience sampling technique was collected. Random sampling technique was used for the study. The findings suggest that external forces such as demonetization affect digital financial literacy, and government and fintech companies need to take measured steps to induce the people into using digital facilities.

**Fachrudin K.R. and Fachrudin K.A. (2016)** conducted a study on the influence of education and experience toward investment decision with financial literacy. This study used primary data by questionnaire and the sample consisted of 250 respondents. It concluded that education does not have a significant positive relationship with the investment decisions as educational factors do not affect the investment decisions of the investor directly. It showed that experience of the investors also does not have a positive and significant effect on investment decisions as the experience factor also does not affect investment decisions of the investors directly. It was concluded that financial literacy has a positive relationship with investment decisions of the investor because the investor who has high financial literacy level has a strong relationship with the investment decisions.

**Hawati Janor, Rubayah Yakob, Noor Azuan Hashim, Zanariah and Che Aniza Che Wel (2016)** examines in their study that financial literacy level is low and necessary measures should be taken by the government to increase awareness about financial related matters. The paper concluded that generally financial literacy relates to investment decisions. The data is collected through survey based on the questionnaire provided by the organization. These factors can be grouped into demographic, economic, social, and psychological in nature. The study also gave the guidelines for policy makers, administrators, and educators in instilling suitable components of financial literacy in their training endeavors.

**Michelle D. Coussens (2005)** conducted a study on the results of a qualitative survey of 40 financial literacy programs in the United States and relates these results to three hypotheses of program evaluation and its impact. It stated that financial literacy represents the combination of financial access, education, and understanding, as well as an individual's interest, attitude, and practices that directly

benefits the financial efficiency and effectiveness of the individuals and society at large.

**Rahul Singh Gautam, Dr. Shailesh Rastogi, and Aashi Rawal (2022)** studies financial literacy and its impact on rural development using panel data analysis. The research is conducted by collecting secondary data from twenty-nine states and two union territories in India for 3 years 2018 to 2020. As a result of research, financial literacy positively impacts financial inclusion and rural development. The present study suggests that the banks and government should pay much attention on promoting financial literacy. This paper examines the relationship between literacy rate as dependent variable and number of Kisan credit cards as independent variable. The paper has a limitation that it does not use primary data and studies relation between digital literacy and rural development as it need of current era.

**Anjali Mandal and Madaan Garima (2023)** studies digital financial literacy with the opportunity and challenges in Rural India. The study describes various programs and strategies provided by the government and RBI primarily for rural population. Secondary data was collected for study through journals, reports, articles, and internet. The paper concludes that people in rural area are not adequately aware about the concept of digitalization. As most of the rural population engages in agriculture field, there is need to aware rural population about various aspects of digital financial literacy.

#### Objective of Study :

1. To study the financial literacy level of rural people and its impact on their investment decisions.
2. To study and analyses the relationship between financial literacy and demographic factors like gender, age, income, education, and occupation.
3. To suggest ways to improve financial and digital financial literacy and thereby financial inclusion.
4. To aware and prevent people from frauds and scams in digital investment.
5. To suggest strategies so that investors can optimize their return on investment.

**Hypothesis :** The study formulates and tests following hypothesis about the above stated objectives.

$H_{01}$ : There is no significant relationship between financial literacy level and investment decisions among rural people.

$H_1$ : There is a significant relationship between financial literacy level and investment decisions among rural people.

$H_{02}$ : There is no significant relationship between the perception of working male and female and their investment decision.

$H_2$ : There is a significant relationship between the perception of working male and female and their investment decision.

$H_{03}$ : There is no significant relationship between age and digital financial literacy in rural India.

$H_3$ : There is a significant relationship between age and digital financial literacy in rural India.

**Research Methodology:** The research methodology section outlines the procedures and techniques that applied to conduct the study. This section provides a clear framework for data collection, analysis, and interpretation. This study adopts a quantitative research design. Quantitative methods allow for the systematic collection and analysis of data. Research design is mainly an arrangement of data collection and analysis of data in a manner that aims to combine relevance to the research purpose. It acts as a blueprint for the collection, measurement, and analysis of data. For the present study exploratory and descriptive research design methods have been used to explore the digital financial literacy level of individuals and then described effect of digital financial literacy level on the investment decisions and preference towards financial products. To accomplish the above stated objectives of the present study both primary and secondary data is collected. Simple random sampling method will be used in the study. The research is based on Convince sampling of non-probability. The confidence level of 95% and confidence interval of 5% will be used to calculate sample size. Descriptive statistics is used to summarize and present the characteristics of sample. In the paper above mentioned three hypotheses are tested. In the first hypothesis the obtained value is less than 0.05, hence null hypothesis is rejected. It implies that there is a significant relationship between financial literacy level and investment decisions among rural people. As a result, for the second hypothesis, the obtained value is less than 0.05, hence null hypothesis is rejected, which interpreted that there is a significant relationship between the perception of working male and female and their investment decision. For the third hypothesis, the obtained value is more than 0.05, hence null hypothesis is accepted and states that there is no significant relationship between age and digital financial literacy in rural India. In person interviews were also conducted and based on responses it was concluded that individuals that are financially literate were able to make financial decisions and bridge the gap between savings and investment.

**Primary Data:** The data was collected from the rural areas in Indore district. Primary data was collected through structured questionnaires administered to the selected sample of retail investors, as well as personal interviews were conducted. The questionnaire consisted of questions related to investment decisions, frequency, income and savings, risk tolerance, and education level, and ROI.

A five-point Likert scale questionnaire containing (1) Strongly Disagree, (2) Disagree, (3) Neutral, (4) Agree and (5) strongly Agree was used to measure the response of sampling population.

Multiple choice questions and open-ended questions were also part of primary data collection. **Secondary Data:**

Secondary data was gathered from various sources that includes financial reports, websites, press releases, stock market indices, and academic journals. This data provided context and background information on investment decisions, financial literacy, and digital investments.

**Factors influencing Individual Financial Decisions:**

|                 |               |                         |               |                   |             |
|-----------------|---------------|-------------------------|---------------|-------------------|-------------|
| Age             | Income making | Decision status         | Gender        | Occupation        | Marital     |
| Education level | Place         | Frequency of investment | Family size   | Savings           | Family size |
| Frauds/scams    | ROI           | Investment mode         | Social groups | Taxation benefits | Attitude    |

**Research Findings and Suggestions :**

1. Women should take part in the digital world and trainings must be provided regarding various aspects which can help bring women a step closer to technology, especially in rural India.
2. There is a lack of awareness of different investment avenues available primarily to the rural population.
3. Before taking an investment decision by individual emphasis should be on factors, such as return, growth, alternatives, future path, and others.
4. Prime focus should be on improving digital technical skills that will contribute to uplift the GDP of India. Digital financial literacy act as ways to overcome the national divide between the rich and the poor, gender bias, and generation gap.
5. Financial Intermediaries must play a vital role in encouraging rural population to take part in digital investments and payments.

**Conclusion :** Financial inclusion could be effectively achieved through the promotion of digital financial literacy and prosperity in a sustainable manner, and digital financial literacy is more profound in an era where technology evolves daily. The weaker sections of society or technically disabled section continues to use conventional methods of banking and are reluctant to change. The fear of mistrust of digital solutions and payment systems is part of the culture of the older generation, who consider that fintech is not for them and thus miss out on that part of technology that can open various avenues of greater convenience and financial freedom to them. Proper consumer education is key component which is critical in convincing target groups mainly the rural population of the investment avenues available digitally.

Financial literacy can help the adoption of financial technology and rural development. Improving rural financial literacy benefits both the individual and the financial system at large. Lot of factors influence investors in framing their perceptions on various investment options. Financial market has a considerable role to take part in the economic development of the country, therefore, the mobilization and provision of savings is very critical in the growth process. Growth is possible when savings are channelized into productive investments which in turn boost the competence of the economy to manufacture goods and services, which have bearing on the standard of living of the masses.

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