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Financial Literacy and Investment Decisions among Young Adults: A Study of Indian Consumers

Dr. Tahseen
Associate professor, in Dept of commerce,Government R C college,
Bengaluru,Karnataka India balli

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Correspondence Address:
Dr. Tahseen
Associate professor, in Dept of commerce,Government R C college, Bengaluru,Karnataka India
Email: abdulbasheer82@gmail.com

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Abstract

Financial literacy has emerged as a critical influence on the financial behaviour of youth in India. Investment opportunities have become more accessible than ever with the growth of digital banking, mutual funds, online trading apps, insurance products and more. Ease of access to financial products also does not guarantee that young consumers have the necessary knowledge to assess risk, return, inflation, diversification, tax, and long-term financial goals. This paper aims at studying the correlation between financial literacy and investment behaviour of young adults in India. It is about the importance of financial knowledge, saving behaviour, risk perception, investment goals, information sources, digital platforms and behavioural motives in making investment decisions. This study is descriptive in nature, which is based on the secondary literature and recent evidence in India with regard to financial behavior and investor participation. In general, prior studies show positive relationships between financial literacy and making informed investment decisions; however, there are other factors, such as social influence, overconfidence, convenience and digital exposure that can impact the relationship. In fact, in the recent years the Securities and Exchange Board of India also indicates the growing significance of investor education and financial awareness in the evolving investment landscape. The paper puts forward the proposition to adopt financial literacy to go beyond mere awareness and evolve their practical decision making skills among young consumers.

This came in handy for me last year when I was doing my masters in Finance at MADRAS UNIVERSITY.This proved to be very useful to me this past year when I was in my masters in Finance at MADRAS UNIVERSITY.

Introduction

There has been a phenomenal shift in the attitude of the individual towards money and their involvement in the financial market in India. While the traditional saving method is still relevant, young adults are now gaining knowledge of mutual funds, shares, systematic investment plans, insurance products, fixed-income products, and digital gold, among other investment options. Mobile apps and websites have also lowered the geographical and administrative hurdles that stand in the way of investing. This makes investment no longer available only to those with financial specificities or rich pockets.

This change raises an important question: Does it make sense that more financial product equals more financial decisions? Access and understanding are not necessarily the same. A young consumer could be familiar with the names of a few investment products, but may lack an understanding of the correlation between risk and return. Likewise, someone might grasp the concept of saving but not be aware of what inflation is, the effect of compound interest, diversification, liquidity or the impact of short-term market fluctuations on investment choices.

Financial literacy is more than just the terminology of financial knowledge. It requires knowledge of financial information, the ability to identify alternatives and use knowledge to take decisions about personal finance. Financial literacy is an important human capital that can facilitate economic decision-making, write Lusardi and Mitchell. This is especially relevant in the context of India — as financial participation is growing with the digitalisation.

The Investor Survey 2025 by the Securities and Exchange Board of India (SEBI) revealed that despite the rising awareness of investing in the capital markets, the participation in such products in the country is still lacking among the population in both urban and rural areas. The survey also explored motive, constraints, information sources, information and education tools for investors. (Securities and Exchange Board of India)

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Young adults are a particularly significant age group as a large number start their own financial life during this time. They can have an impact on their future financial stability. Thus, the study of financial literacy of young consumers can help to determine whether knowledge, attitudes of young consumers and financial behaviour have an impact on the investment choices they make.

Review of Literature

Financial literacy and investment behavior has been studied and analyzed under economic, behavioral and consumer aspects. Lusardi and Mitchell prove that financial literacy has an impact on key economic choices, given that people should possess the basic knowledge of interest, inflation, risk, and financial products to effectively manage their resources. They offer a conceptual framework to study financial knowledge as a key factor influencing financial behaviour.

The researchers, Van Rooij, Lusardi and Alessie, have discovered that financial literacy correlates with being invested in the stock market. According to their findings, those with higher financial knowledge have more opportunities to understand and take part in investment opportunities. It applies to young investors who are more likely to be exposed to securities-market products via digital platforms.

In India, Nag and Shah found that there is a positive correlation between financial literacy and investment decision. They also undertook a study of 401 people, where they included attitudinal, PBC, social and subjective norms as variables, highlighting that financial knowledge is not enough to explain investment decisions. (Indian Journal of Finance)

Shroff et al. studied 384 investors from India and determined that financial literacy has a positive effect on investment decision. They used a multidimensional approach to financial literacy and took several factors related to investment decisions into account. (Wiley Online Library)

In recent years, Indian studies have also been increasingly focused on behavioural biases. The 2025 Journal of Risk and Financial Management study examined how financial literacy interacts with financial decisions can be impacted by behavioural biases, including herding, framing effects and cognitive biases. (MDPI)

Research Gap

Although existing literature has found a vital link between financial literacy and investment behaviour, there are some aspects that could benefit from additional studies. Most of the research focuses on the students, the investors in a particular city or the involvement of investors in the stock market. Comparatively, there is a lesser degree of integrated discussion about young Indian consumers as a broader segment simultaneously exposed to digital platforms, social media, peer influence and multiple investment products. Also, awareness is sometimes conflated with financial literacy, but just the knowledge of a product does not necessarily equal ability to assess it. In the current paper, this gap is filled by analysing financial literacy from the points of financial knowledge, financial behaviour, financial risk perception and practical investment decision-making.

The study's aims are:

There are four objectives of the study:

1. To analyse Financial Literacy of young Indian adults level and significance.
2. To analyse the relationship between financial literacy and investment decisions.
3. To detect the important factors affecting investment decision of the young consumers.
4. To recommend ways to increase responsible and informed investment attitudes of young adults.

Research Methodology

This study uses descriptive and analytical research methods. It is mainly based on secondary sources such as peer-reviewed research articles, academic books, and institutional reports and publications of regulatory bodies. The relevant literature was reviewed to gain knowledge about financial literacy, investment behaviour, risk perception, behavioural influences and digital investment among young adults. Recent published evidence by SEBI has also been taken into account due to its relevance in the changing Indian investment landscape.

The focus of the study is conceptual, with a focus on young adults as a population broadly defined as young people in the early stages of their financial independence. The analysis does not reflect the views of all young consumers in India due to variations in investment behavior based on income, education, employment, geographical location, family background and access to financial services. However, the conclusions are interpreted as an assessment of the literature, and not as the outcome of a primary survey. The methodology also acknowledges that the study of financial literacy should be done from both the knowledge and financial behaviour dimensions.

Financial Literacy and Financial Decision-Making among Young Adults

Financial literacy empowers people to understand and apply financial data and information to their decisions based on their situation. This skill is relevant for young adults when they get their first job, when they start taking care of their own finances, when they take out a loan, get insurance, or when they begin investing. The choices people make at this point can create a pattern of financial behaviors that may last over the course of many years.

Knowing the relation between risk and return is an important aspect of financial knowledge. A young consumer might choose to purchase the wrong product if he or she expects high returns and doesn't realize that there are risks involved. An understanding of diversification can also help to avoid over-concentrating on one investment or one type of asset. It's also essential to learn about inflation, as the value of money fluctuates over time. A nominal return might seem good, but may not offer much for the real growth after inflation.

The other fundamental concept that has a long-term significance is compound interest. Early and frequent investments can lead to returns accumulating over time. But compounding is only beneficial if it is consistent and the type of investment. By educating young consumers on these principles, rather than viewing investing as a way to make quick money, everyone can benefit from financial literacy.

The consumer search for information is also influenced by financial education. When making a choice, a financially informed person can consider costs, liquidity, risk, historical performance and investment goals. However, an uninformed consumer is likely to rely heavily on friends, social-media content or promotional messages.

So it is important to differentiate between financial awareness and financial capability. Awareness is an information about the existence of a product. Capability is the ability to know if that product is right for a specific monetary goal. The lack of participation in investments despite awareness has been explicitly acknowledged by SEBI in recent evidence and explored from the lens of information channels, digital platforms and investor education. Securities and Exchange Board of India (SEBI)

The factors that influence investment decisions of young consumers are discussed.The factors that affect the choice of investments of young consumers are discussed.

Most of the time, financial knowledge is not the sole basis for investment decisions. One of the most fundamental influences is income. If young adults are employed and have regular income, they may be able to invest more than students or people with fluctuating income. Disposable income is the amount of income that is left after paying for living expenses and emergency needs.

Another significant consideration is risk tolerance. Some young investors may be able to tolerate the ups and downs of the market since they have a long time horizon. Others may choose products that they consider safer due to their concerns for capital protection. While financial literacy can be a tool for people to comprehend risk, it is also essential for developing personal attitudes about risk.

Family influence is also a considerable influence in India. Young Adults can observe saving and investment policies in their parents and relatives. A family with a long experience in the use of bank deposits, insurance or gold might encourage younger members to use these products, too. Meanwhile, younger people are likely to take up new financial products that are pushed via digital channels.

There's another influence: social media. Nowadays, financial information is accessible in the form of videos, posts and influencers as well as online communities. This accessibility may boost awareness, yet with low standard of information quality. Claims for investments to young consumers might be simplified, but do not provide enough information on the risks of investments.

Peer influence is also pertinent. People can feel motivated to invest when they hear about investments like shares, mutual funds or digital investment platforms from their friends. When it comes to participation, it can be helpful if it's done in conjunction with independent evaluation, but it can add to behavioural risk if it's done without understanding the investment.

By influencing investment goals, decisions are further shaped. An individual may choose different products based on different reasons such as saving for education, emergency fund, a home or retirement. Therefore, a decision to invest must be linked to a financial objective and not solely based on its prospects of return.

The impact of digital platforms on investment behavior.The effects of digital platforms on investment behavior.

Digitalisation has turned the financial markets upside down for young consumers. Mobile apps enable customers to open accounts, wire money, buy mutual funds and track investments with minimal physical contact. This has helped to enhance the availability of financial products more broadly.

But convenience comes at a price. While digital platforms can help the financially savvy person invest with ease, they can also limit psychological barriers, which makes consumers more inclined to take a plunge into an investment. A streamlined application might lead investors to believe that investing is much like any other online transaction.

As digital financial services become more prevalent, financial literacy becomes more critical. Consumers should make themselves familiar with the fees, risks, market volatility, taxation, and suitability of products before they use digital platforms. They must also be able to identify the regulatory information from promotional or misleading information.

The SEBI Investor Survey 2025 particularly addresses the contribution of digital tools, intermediaries, trust, information channels, and investor education in the Indian households' involvement in the securities market. (Securities and Exchange Board of India)

Digital information is especially targeted at young consumers because financial decisions take place in the context of a new world of digital information. It is not just a challenge to give more information, it is a challenge to learn how to assess information. Financial education should thus cover practical activities like comparing investment products, recognising risk, working out the real return on investments and diversification.

When developed responsibly, digital platforms can help with financial education. Consumers can use the educational material, risk disclosures, calculators and goal-based investment tools to make better-informed choices. Therefore, technology is not good or bad in itself, but rather has a positive or negative impact based on its user and how they behave.

Financial Literacy, Biases and Investment Decisions

However, behavioural finance reveals that investors are not always rational decision makers. Financial literacy does not guarantee one won't be swayed by emotions and mental tricks. This is especially important when dealing with young investors, as their behavior has a significant impact on their investments.

Overconfidence is an important bias. Investors may think that they know more or are able to predict market moves than they do. At times, those who are more confident may trade more, or take risks more than necessary. Another one is herding, which means people copy the investment behaviour of others and do not analyze it themselves.

The fear of losing money can also play a part in investment decisions. A decline in value may result in an investor's strong response and lead to the premature withdrawal of a long-term investment without assessing whether the investment's financial goal has evolved. Likewise, recent stock market activity can be too much to pay attention to.

So financial literacy and behavioural bias is rather complicated. While knowledge can offer means to make good decisions, knowledge is not a guarantee of disciplined behaviour. Studies of financial literacy and investment decisions specifically focus on Indian retail investors have investigated behavioural bias as a mechanism that drives the relationship between the two. (MDPI)

For young adults financial education should thus be a mixture of technical knowledge and behavioural awareness. While it is important to understand compound interest, it is also crucial for investors to understand how emotions, peer pressure and overconfidence can affect their investment decisions.

A more comprehensive approach can foster a moment of pause for consumers entering the investment market, allow for the definition of financial goals, and make them more aware of risk and compare trusted sources of information. These practices can help enhance the quality of decision making, but do not imply that any kind of investment product is appropriate for all individuals.

Implications for Financial Education in India.

Literature-based findings suggest that the financial education should be more practical and ongoing. Financial literacy should not be a theory that young people are taught. Educational institutions can incorporate real-life lessons in budgeting and saving, credit, insurance, taxes, inflation, and investment risk and retirement planning.

The content of financial education should also be tailored to the digital world. There is a need for guidance for students and young professionals on how to assess financial information on the internet and how to distinguish false claims from true claims, as well as an understanding of the risks associated with market-based financial products. Educational programmes should be used to encourage and inform participation in investments.

Employers can also contribute by providing financial-wellness programmes to young employees. These can cover topics like salary management, emergency savings, retirement planning, and the responsible use of credit.

The role of the regulatory institutions in investor education and protection is also significant. The Investor Survey 2025 by SEBI highlights investor education, investor confidence, information sources and investor barriers as significant aspects of the Indian investment landscape. Securities and Exchange Board of India (SEBI)

Educational communication can become clearer if financial institutions can simply put risks in words that a layman can understand. Financial product providers, including banks, mutual-fund firms, insurance companies and investment firms, should not sell financial products just with return-centric sales messaging. Clear communication can be used to educate consumers about the benefits and risks.

Most significantly, financial literacy should be considered a life skill, and not a once a year course. The financial situation of young adults shifts from education to work, marriage and family life, to planning for retirement. It is therefore important for their financial knowledge to be constantly developed.

Conclusion

With greater access to financial markets and digital investment services, financial literacy is becoming a growing concern for young Indian adults. The question is not whether young consumers invest, it's whether they know what they are doing. Previous studies suggest that greater financial knowledge is generally linked to better investment practices but other factors such as income, risk-taking attitudes, family environment, peer influence, social media, digital platforms, and behavioral biases also shape investment decisions. (Indian Journal of Finance)

The study highlights the need to distinguish financial awareness from financial capability. Knowing the names of shares, mutual funds or insurance products does not necessarily mean that an individual can evaluate their suitability. A good financial literacy should assist young consumers in knowing risks and returns, inflation, diversifying, compounding, and liquidity and investment goals.

This need is growing even more crucial with the changing digital environment. It's easy to access, but the question is whether that invites participation or responsible participation, which demands informed judgement. Thus, efforts should be made to achieve practical and accessible financial education, both by educational institutions and by the regulators, employers and financial-service providers.

The young adult population is an important chunk of the emerging consumer and investor population in the country of India. Better financial capacity could help them make better financial choices and have increased financial awareness over time. Ultimately, the goal of financial education should be to enable individual decisions that are aligned with his or her situation, objectives, and risk-taking ability.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of thesis paper.

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