Financial Literacy

by Gaurav Bisen

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Financial Literacy, Financial Behavior, and Life Insurance Investment Decisions: Evidence from Individual Investors

Gaurav Kumar Bisen[1]

Prof. (Dr,)Arun Kumar Singh[2]

1. Research Scholar, Department of Commerce, Udai Pratap Autonomous College, Varanasi, gaurav.kumar.bisen@gmail.com
2. Professor, Department of Commerce, Udai Pratap Autonomous College, Varanasi, drarunupc@gmail.com

Abstract

In a financial system that is getting progressively more competitive, financial literacy has emerged as a major factor affecting the way people make financial decisions. This study aims to examine the effect of financial literacy on people's financial behavior and the way these two factors affect people's life insurance investment decisions. The main aim of this study is to find out whether financial behavior acts as a mediating factor between financial behavior and people's life insurance investment decisions, as well as whether financial literacy has a direct effect on people's life insurance investment decisions. This study will use a structured questionnaire to gather primary data. The study will use a quantitative research method. The structured questionnaire will be administered to a sample population of 159 people. Various statistical tools will be used to analyze the relationship between financial literacy, financial behavior, and people's life insurance investment decisions.

The results obtained from this study revealed that people's financial behavior improves greatly with financial literacy. People with high financial literacy are more likely to engage in responsible financial practices such as saving money on a regular basis, planning investments properly, and assessing financial risks before making a decision. The results also demonstrate that investment decisions in life insurance are significantly influenced by financial behavior. The results also indicate the impact of financial behavior on the investment decisions related to life insurance. Moreover, financial literacy, through its effect on financial behavior, affects these decisions both directly and indirectly. This study highlights the importance of financial literacy to ensure the right investment decisions related to life insurance products and the efficient management of money.

Keywords: Financial Literacy; Financial Behavior; Life Insurance Investment Decisions; Investment Behavior; Financial Decision-Making; Insurance Investment; Personal Financial Management; Behavioral Finance

1. Introduction

The world is going through a period of globalization, and there have been significant advancements in technology and the financial markets. These factors have significantly changed the financial scenario of the world over the last few years. With the availability of more financial products and services, it becomes more difficult to make financial decisions. Thus, to maintain financial stability, it becomes important for people to make the right financial decisions related to their retirement planning, investments, and savings. Life insurance, being a financial instrument offering both financial protection and investment opportunities, holds a special place among the different financial products and services currently available. Life insurance products not only aid in financial planning and investments, but they also offer financial protection to families. Consequently, the level of financial literacy of individuals is of critical importance in determining the nature of their financial behavior and the decisions they make in life insurance investments.

Financial literacy is the knowledge and understanding that enables individuals to make informed decisions in the management of financial resources. Individuals with adequate financial literacy are able to comprehend the meaning of risk, return, diversification, and investment planning. Such an understanding enables them to make more informed decisions in the selection of the best financial alternatives based on the desired objectives. The modern financial system has seen life insurance transform from a mere risk management alternative to an effective financial planning alternative. The modern life insurance products have incorporated features such as savings and investment in the management of risks. The various life insurance alternatives include term insurance plans, endowment plans, pension plans, and unit-linked insurance plans, which offer individuals various alternatives based on the financial needs they seek to meet.

However, the growing complexity of insurance products necessitates that individuals should possess financial knowledge to select or invest in the right insurance products. Otherwise, individuals may face difficulties in analyzing the features of the insurance products or the benefits and risks associated with the investment. Financial behavior is equally important to financial decision-making. It is defined as the way individuals manage their financial resources. In this context, financial behavior includes budgeting, saving, and investing. Individuals who exhibit good financial behavior are more likely to attain financial stability and manage the risks associated with future uncertainties.

Research studies have shown that financial literacy is one factor that significantly affects financial behavior. Individuals with high financial literacy levels may plan their financial resources more systematically and save enough. In the context of life insurance, financial literacy enables individuals to understand the benefits of insurance as a tool to manage risks and encourages individuals to incorporate insurance products into their financial planning.

2. Literature Review

Researchers have spent a lot of time looking at financial literacy and how it shapes the way people invest and handle money. These days, financial markets feel more complicated than ever, and there are so many financial products out there. People really need to know their stuff to make smart money moves.

Lusardi and Mitchell (2014) call financial literacy a basic life skill—without it, it's tough to make good financial choices. They found that people who understand finances better tend to save more, make smarter investments, and actually plan for retirement. Huston (2010) puts it this way: financial literacy isn't just about knowing the terms or definitions—it's about using that knowledge when it really matters. It's practical, not just theoretical.

Lots of studies back up this link between knowing about money and behaving wisely with it. Hilgert, Hogarth, and Beverly (2003) saw that financially savvy folks are more likely to budget, save, and manage debt responsibly. Atkinson and Messy (2012) make a similar point: the more financially literate you are, the better your financial choices, and the better off you'll be.

Insurance is a big piece of this puzzle, too. Insurance policies are often confusing and lock you in for the long haul, so it takes real financial know-how to navigate them. Giné, Townsend, and Vickery (2008) found that people who are more knowledgeable about finance are also more likely to buy insurance to protect themselves from financial risks.

Looking at investments, it's the same story. Van Rooij, Lusardi, and Alessie (2011) report that those with stronger financial skills are far more likely to get involved in the markets, putting their money in stocks and mutual funds. In short, the more you know, the better you do—especially when it comes to making your money work for you. In developing countries, financial literacy remains relatively low among many segments of the population. Klapper, Lusardi, and van Oudheusden (2015) reported that limited financial knowledge restricts individuals' participation in financial markets and reduces their ability to use financial products effectively.

Overall, the existing literature clearly demonstrates that financial literacy plays an important role in shaping financial behavior and influencing investment decisions.

Literature Review Summary Table

Author(s)	Year	Method / Data Source	Key Findings
Browning & Lusardi	1996	Review of household saving behavior studies	Financial knowledge encourages long-term financial planning and promotes saving and investment behavior.
Hilgert, Hogarth & Beverly	2003	Survey analysis of household financial practices	Individuals with higher financial knowledge demonstrate better financial practices such as budgeting, saving, and

			credit management.
Beck & Webb	2003	Cross-country econometric analysis	Economic and demographic factors along with financial awareness influence life insurance consumption.
Giné, Townsend & Vickery	2008	Field study on insurance adoption	Financial literacy positively influences individuals' willingness to adopt insurance for risk management.
Huston	2010	Conceptual analysis of financial literacy	Financial literacy includes both financial knowledge and the ability to apply it in financial decision-making.
Remund	2010	Literature review on financial literacy	Financial literacy helps individuals evaluate financial products and make informed financial decisions.
Van Rooij, Lusardi & Alessie	2011	Empirical study using survey data	Higher financial literacy increases participation in financial markets and investment in complex financial products.
Cole, Sampson & Zia	2011	Experimental and survey research	Financial literacy significantly influences the demand for financial services including insurance in developing economies.
Atkinson & Messy	2012	Cross-country OECD financial literacy survey	Higher financial knowledge leads to improved financial behavior and better financial well-being.
Klapper, Lusardi & Panos	2013	Empirical study on financial literacy and financial behavior	Financial literacy improves individuals' ability to manage financial risks and respond to economic shocks.
Agarwalla, Barua, Jacob & Varma	2013	Survey of urban working population in India	Financial literacy levels in India are relatively low, indicating the need for financial education initiatives.
Outreville	2014	Empirical analysis of insurance demand	Individuals with higher financial literacy are more likely to purchase insurance products.
Lusardi & Mitchell	2014	Global research review on financial literacy	Financial literacy is essential for retirement planning, saving behavior, and informed financial decision-making.
Klapper, Lusardi & van Oudheusden	2015	Global Financial Literacy Survey	Financial literacy levels remain low in many countries, limiting financial market participation.
Calcagno & Monticone	2015	Empirical analysis of financial advice demand	Financially literate individuals are more likely to seek professional financial advice and participate in financial markets.
Xiao & O'Neill	2016	Survey-based research on financial education	Financial education positively influences financial attitudes and financial behavior.

Allgood & Walstad	2016	Survey data analysis	Both perceived and actual financial literacy significantly influence financial behavior.
Demirgüç-Kunt, Klapper & Singer	2017	Global financial inclusion database analysis	Financial literacy promotes access to formal financial services and improves financial inclusion.
Grohmann, Klühs & Menkhoff	2018	Cross-country empirical analysis	Financial education improves financial behavior and contributes to financial inclusion.
Bapat	2020	Survey research on Indian households	Higher financial literacy is associated with better financial planning and investment decisions.

Table1: Literature Review

3. Research Gap

Although a number of studies have been conducted to evaluate the role of financial literacy and its impact on financial behavior, very little literature exists to highlight the role of financial literacy as a determinant of life insurance investment behavior. Most of the literature highlights financial literacy as a determinant of various financial behaviors, covering a range of financial issues, including retirement planning, stock market investments, and financial management of the household sector. While a number of studies have been conducted to evaluate the determinants of demand for life insurance, these studies have shown a greater emphasis on the role of macro factors, demographics, and institutions rather than financial literacy.

The importance of financial literacy as a determinant of life insurance investment behavior assumes greater importance in the context of the Indian financial system, considering the significant changes the life insurance sector of the Indian financial system has witnessed over the years. While the life insurance sector of the Indian financial system has witnessed significant growth and changes, very little empirical evidence exists to highlight the role of financial literacy as a determinant of life insurance investment behavior.

4. Conceptual Structure

According to the conceptual framework of the study, financial literacy impacts financial behavior, which then affects the investment decisions individuals make regarding life insurance. Financial literacy is the level at which individuals comprehend financial concepts such as risk management, investment, and savings. When individuals are more financially literate, they can better evaluate financial products and make good decisions.

Financial behavior is the term used to refer to how individuals manage their finances. People manage their finances by planning their investments, saving money, and creating a budget. When individuals understand financial management techniques, financial literacy enhances their financial behavior. When individuals make investment decisions regarding life insurance, they refer to the decisions they make regarding the purchase of insurance products.

Life insurance investment decisions refer to the decisions individuals make regarding the purchase of insurance products.

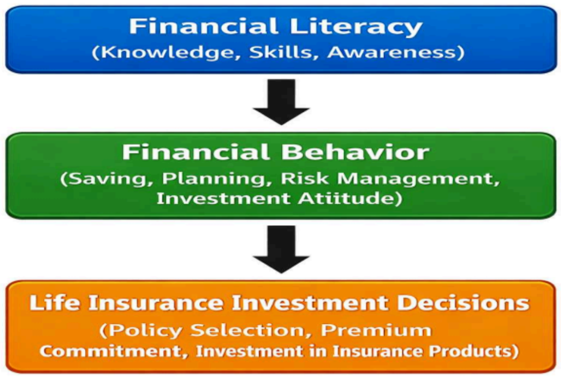

Figure1: Conceptual Framework

The framework thus suggests that financial literacy indirectly affects life insurance investment decisions through financial behavior. This is in the sense that individuals with higher levels of financial literacy are likely to exhibit good financial behavior, which in turn leads to rational investment decisions in life insurance.

5. Hypotheses Development

Financial literacy is widely recognized as an important factor influencing financial attitudes and decision-making. Individuals with adequate financial knowledge are better able to understand financial products and assess associated risks, which allows them to make informed financial decisions. Previous studies have shown that financial literacy encourages responsible financial behavior such as budgeting, saving, and investment planning. Financially literate individuals are also more likely to recognize the value of insurance as a risk-management tool.Based on this reasoning, the following hypotheses are proposed:

H1: Financial literacy has positively influenced financial behavior.

Financial behavior plays an important role in making investment decisions. Individuals who practice sound financial management are more likely to invest in such financial instruments that provide long-term financial security.

H2: Financial behavior has positively influenced life insurance investment decisions.

Financial literacy further directly affects the investment decisions of individuals as it enhances their ability to comprehend financial instruments and compare various alternatives in a more effective way

H3: Financial literacy has positively influenced life insurance investment decisions.

6. Methods of Research

6.1 Design of Research

To conduct the research into the relationship that exists between financial behavior, financial literacy, and investment decisions regarding life insurance, the current research will incorporate the use of a quantitative research methodology. In this case, the aim of the research is to evaluate how financial behavior among individuals has been influenced by their financial literacy.

To conduct the research into the trends that exist among the research variables, the use of a descriptive research methodology has been adopted.

6.2 Population and Sample

The population of this research includes individuals who are either existing life insurance policyholders or individuals who may be interested in investing in insurance products. Due to the difficulty of obtaining information from the population, the sample-based approach is used. A total of 159 respondents were selected for the study. The respondents included working professionals, salaried employees, and individuals engaged in business activities who actively participate in financial decision-making.

The convenience sampling technique was used for selecting respondents as it allows easy access to participants and provides efficient data collection technique.

6.3 Data Collection

As the study is based on primary data collected through a structured questionnaire. The questionnaire was designed to capture responses related to the three major variables examined in the study.

The questionnaire consisted of statements related to:

- Financial Literacy
- Financial Behavior
- Life Insurance Investment Decisions

Respondents were asked to indicate their level of agreement with each statement using a five-point Likert scale, where:

1 – Strongly Disagree

2 – Disagree

3 – Neutral

4 – Agree

5 – Strongly Agree

The survey was distributed through online platforms i.e. Google Forms & in printed questionnaires, depending on the accessibility of respondents.

6.4 Measurement of Variables

6.4.1 Financial Literacy

Financial literacy refers to the level of knowledge individuals have possesed regarding financial terms such as savings, investment planning, inflation, risk diversification, and insurance management.

Sample statements used to measure financial literacy include:

- I understand financial concepts such as interest rates, inflation, and diversification.
- I am aware of different investment options available in financial markets.
- I have adequate knowledge about the features of life insurance policies.

6.4.2 Financial Behavior

Financial behavior includes the way individuals manage their financial resources in everyday life.

It includes activities such as:

- Saving regularly
- Planning investments
- Managing financial risks
- Budgeting income and expenses

Example statements include:

- I regularly save a portion of my income.
- I carefully evaluate investment options before making financial decisions.
- I consider potential risks before investing my money.

Life Insurance Investment Decisions

This variable measures individuals' thinking and decisions towards investment in life insurance products.

Example statements include:

- Life insurance is an important part of financial planning.
- I compare different insurance policies before purchasing decision.
- I consider life insurance as a long-term financial investment tool.

6.5 Data Analysis Tools

To analyze the collected data, following statistical techniques were applied.

6.5.1 Descriptive Statistics

Descriptive statistics such as mean, frequency distribution and standard deviation are to be used to conclude & interpret respondents' characteristics and responses to the questionnaire.

6.5.2 Correlation Analysis

Correlation analysis will be performed to examine the strength and direction of relationships towards financial literacy, financial behavior, and life insurance investment decisions.

6.5.3 Regression Analysis

Regression analysis was used to perform the test of hypotheses of the study and to determine whether the independent variables have significantly influenced the dependent variable.

The regression models used in the study are as follows:

- **Financial Behavior = $\beta_0 + \beta_1$ (Financial Literacy) + ε**

- **Life Insurance Investment Decision = β_0 + β_1 (Financial Behavior) + β_2 (Financial Literacy) + ε**

These models will help to identify whether financial literacy and financial behavior have significantly affected life insurance investment decisions.

7. Data Analysis and Results

7.1 Descriptive Statistics

Variable	N	Mean	Std. Deviation	Minimum	Maximum
Financial Literacy	159	3.395	0.846	1.40	5.00
Financial Behavior	159	3.530	0.678	1.80	5.00
Life Insurance Investment Decision	159	3.558	0.763	1.40	5.00

Interpretation

➢ Descriptive analysis was carried out to identify the general characteristics of the data gathered from the respondents.

➢ The mean for financial literacy was 3.39, implying that the respondents are possesing a moderate level of financial knowledge in terms of financial concepts and insurance products.

➢ The mean for financial behavior was 3.53, implying that the respondents are behaving in a responsible manner by engaging in saving and investment planning.

➢ Moreover, the mean for life insurance investment decisions was 3.56, implying that the respondents have a favorable attitude towards investment in life insurance products.

➢ Overall, the above results from the descriptive statistics reveal that the respondents have moderately high financial literacy and financial behavior, which in turn results in a favorable attitude towards life insurance investment tools.

Conclusion

Based on the results obtained from the descriptive statistics, it can be concluded that the respondents have moderately high levels of financial literacy, financial behavior, and life insurance investment decision-making. From this analysis, it can be deduced that people with high levels of financial knowledge may also have positive financial behavior and may be willing to invest in life insurance.

7.2 Correlation Matrix

Variables	Financial Literacy	Financial Behavior	Life Insurance Investment Decision
Financial Literacy	1.000	0.647	0.648
Financial Behavior	0.647	1.000	0.563
Life Insurance Investment Decision	0.648	0.563	1.000

Interpretation

To investigate the connections between the important variables, correlation analysis was done.

➢ The results reveal that there is a somewhat positive relationship between financial conduct and financial literacy (r = 0.647).

➢ This means that good money management techniques are normally demonstrated by those who are financially literate.

➢ Financially literate people are more likely to invest in insurance products, as revealed by the relationship between financial literacy and life insurance investment decisions (r = 0.648).

➢ In the same context, the relationship between financial conduct and life insurance investment decisions (r = 0.563) revealed that people are likely to invest in life insurance when they conduct themselves well financially.

Conclusion

The results of the correlation analysis showed that the three variables are positively related to each other. The results showed that the moderate positive correlation implies a positive relationship between financial literacy and financial behavior, as well as life insurance investments. Since the correlation values of the variables were below 0.80, the problem of multicollinearity does not exist, and the regression analysis could proceed to test the proposed hypotheses.

7.3 Regression Analysis and Hypothesis Testing

Impact of Financial Literacy on Financial Behavior

Variable	Beta (β)	t-value	p-value
Constant	1.771	—	—
Financial Literacy	0.518	10.63	0.000

$R^2 = 0.418$

Interpretation

Regression analysis was conducted to test the following hypotheses.

Financial Literacy → Financial Behavior (H1)

- The regression results indicate that financial literacy has a significant positive effect on financial behavior ($\beta = 0.518$, $p < 0.001$).
- The R^2 value of 0.418 indicates that financial literacy explains approximately 41.8% of the variation in financial behavior.

Therefore:

H1 is supported.

Impact of Financial Behavior and Financial Literacy on Life Insurance Investment Decisions

Regression Equation:

Life Insurance Investment Decision = $\beta_0 + \beta_1$ (Financial Behavior) + β_2 (Financial Literacy)

Regression Results

Variable	Beta (β)	t-value	p-value
Constant	1.081	—	—
Financial Behavior	0.279	3.20	0.002
Financial Literacy	0.440	6.30	0.000

$R^2 = 0.456$

Interpretation

- The findings reveal that financial behavior as well as financial literacy play important roles in influencing life insurance investment decisions.

- The impact of financial behavior is found to be significant and positive ($\beta = 0.279$, $p < 0.05$), while the impact of financial literacy is significant and positive as well ($\beta = 0.440$, $p < 0.001$).

- The value of R^2 is found to be 0.456, which reveals that 45.6% of the variation in life insurance investment decisions is explained by financial literacy and financial behavior.

Thus:

H2 and H3 are supported.

Table 3: Hypothesis Testing Summary

Hypothesis	Relationship	Result
H1	Financial Literacy → Financial Behavior	Supported
H2	Financial Behavior → Life Insurance Investment Decision	Supported
H3	Financial Literacy → Life Insurance Investment Decision	Supported

8. Conclusion

As shown in the results of the regression analysis above, it is clear that financial behavior and life insurance investment choice are largely influenced by financial literacy. For instance, financially literate people tend to have better financial management skills, thus encouraging them to include life insurance in their financial plans.

9. Discussion of Findings

The conclusions drawn from the study prove that the financial behavior and financial investments of people are affected by their financial literacy. This conclusion is supported by the fact that the results of the study proved that people with good financial literacy engage in prudent financial behaviors. This conclusion is supported by the results of previous studies, as they showed a positive correlation between financial behavior and financial literacy.

Furthermore, the results of the study proved that financial behavior has a significant impact on life insurance investments. People who exhibit good financial behavior are more likely to consider life insurance as a crucial component of their financial planning strategy. Moreover, financial literacy impacts life insurance investments directly and indirectly. People who are financially literate are able to evaluate financial products and appreciate the benefits of purchasing life insurance..

On a general level, it is evident that the results reveal the significance of financial literacy in terms of its ability to improve people's capacity to take sound financial decisions and to encourage them to engage in life insurance. It is essential to improve people's financial literacy in order to encourage sound financial behavior and efficient financial planning as financial systems continue to grow in size and financial products become increasingly complex in a short time frame. The results of this research can be valuable to all those involved in financial policy, education, and insurance. Improving financial literacy through awareness programs can enable people to become more efficient in managing their finances and to take informed decisions regarding life insurance products.

Implications of the Study

The findings of the research are significant for policy makers, financial institutions, and insurance companies. Financial literacy can assist individuals in developing sound financial behavior and making sound financial decisions. Government departments and regulatory bodies can encourage financial literacy programs that aim at improving financial awareness among people in general. Insurance companies can also benefit by educating people on the benefits of life insurance products.
Educational institutions can also play an important role in improving financial awareness among people by introducing financial literacy programs in the academic curriculum.

Study Limitations

- The research provides valuable information, but there are certain limitations that need to be kept in mind.

- Firstly, the research findings may not be generalizable to the larger population as they could be due to the small sample size.

- Secondly, sample bias could be present in the research due to the convenience sampling method used.

- Thirdly, questionnaires were used to collect data, and it could be biased due to the opinions of the people.

- Lastly, only three factors are being researched in the study, but investment decisions could also be influenced by other factors like risk, attitude, and income.

10. Future Research Directions

Future research in this area may increase the scope of the research by using a larger sample size and diverse participants in the study, thus making the findings of the research more reliable. Future research may also include other factors such as financial attitude, risk tolerance, etc., in the research to gain further insights into the behavior of investors. Future research may also be done on the effectiveness of financial education programs in enhancing financial literacy.

By researching in these areas, future research may further strengthen the understanding of the research in the area of financial decision-making and gain further insights into the importance of financial literacy in shaping the financial behavior of individuals.

11. Conclusion

The objective of the study was to ascertain the relationship that exists between financial behavior, financial literacy, and life insurance investment. Due to the growth of the market, technology, and the availability of financial products, the financial environment has experienced tremendous changes in recent years. Individuals have to make more complicated financial decisions compared to earlier times. Given that life insurance is a financial planning tool as well as a safety net against financial uncertainty, it has become an important financial instrument. Consequently, the need to investigate the factors that affect people's decisions to purchase life insurance products has become crucial. From the study, it is evident that people's financial behavior is largely influenced by financial literacy. Individuals who are knowledgeable about financial matters tend to manage their financial resources in a responsible manner. From the study, it is evident that people who are financially literate have the ability to save regularly, assess financial risks before investing, and organize their financial behavior in an efficient manner. People might be more critical when assessing financial opportunities and might make decisions that are more likely to lead to the achievement of their financial goals if they have a good understanding of basic financial principles such as interest rates, inflation, diversification, and risk management. The link between financial behavior and life insurance investments is another key finding by this study. People with good financial behavior tend to be more inclined to include life insurance investments in their financial planning. Cross-checking a number of financial options before arriving at a decision is promoted by good financial behavior. Life insurance investments have become a preferred financial option for people due to the long-term benefits that come with them, as well as the security they provide. The study findings suggest that people’s decisions to invest in life insurance are largely affected by their financial knowledge. People with high financial knowledge are usually aware of the various insurance options that are available in the market. This allows them to compare these options and make informed decisions on the insurance options that suit their financial goals best. Therefore, people with high financial knowledge are usually better placed to make rational decisions on insurance investments.

In addition to the direct impact, financial literacy also affects life insurance investment decisions indirectly through financial behavior. Individuals who are financially skilled often develop strong disciplined financial habits, such as systematic saving and long-term financial planning. These habits improves their ability to manage financial risks and encourage them to view life insurance as a practical instrument for securing their financial future. In this sense, financial behavior acts as an important channel through which financial literacy shapes investment decisions.

At the same time, the research also emphasizes the importance of financial literacy among the major population. In many developing countries, including India, financial knowledge is found to be at a low level among the majority of the population. As a result, financial planning, insurance, and investment decisions remain at a low level. Thus, financial knowledge is found to play a significant role in helping individuals understand financial products better and make more effective financial decisions. Financial knowledge may be able to play a significant role in helping individuals understand financial products better. Financial knowledge may be able to play a significant role in helping individuals understand financial products better.

The research has significant implications for insurance companies as well. Insurance companies may be able to help individuals make better decisions regarding their insurance investments with the help of consumer financial knowledge. In addition, consumer trust and consumer confidence may be improved with the help of better communication regarding the features, benefits, and risks of the products. In addition, consumers may be able to understand the benefits of life insurance with the help of consumer financial knowledge. Financial literacy improvement can also be significantly assisted by educational institutions. Early financial awareness development for young people may be facilitated by the implementation of financial education programs in schools and universities. Such programs may enable people to become financially responsible and to manage their financial resources well. The ability of young people, such as students and young professionals, to make wise financial decisions in the future may be significantly improved by financial literacy programs.

On the other hand, the conclusions drawn from the study support the idea that financial behavior and life insurance investment are significantly affected by financial literacy. Individuals with sufficient financial knowledge may be able to make wise financial investment decisions and exhibit the right financial behaviors. The ability to evaluate financial products and select the right financial solutions for investments may be improved by financial literacy.

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