

# INFLUENCE OF FINANCIAL LITERACY ON CONSUMERS' INVESTMENT IN DIGITAL FINANCIAL PRODUCTS

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## Abstract

The continuous digital transformation of the financial sector has reshaped the ways consumers save, invest, and manage money. Digital financial products—including mobile banking, digital mutual funds, online trading platforms, UPI-enabled investment apps, cryptocurrencies, and robo-advisory services—have gained popularity, particularly among young and tech-oriented consumers. However, the capability to use these platforms effectively depends significantly on financial literacy levels. This paper examines the influence of financial literacy on consumers' investment behaviours regarding digital financial products. The study highlights how financial knowledge, risk perception, awareness, digital familiarity, and trust affect adoption and decision-making. The findings suggest that consumers with higher financial literacy are more confident in evaluating digital asset options, identify risks more accurately, and make more informed and diversified investment decisions. Conversely, individuals with low literacy often exhibit hesitation, dependency on informal guidance, and fear of cyber fraud. The research concludes that financial literacy and digital literacy are crucial enablers of safe, inclusive, and efficient digital investment behaviour. The study recommends that governments, financial institutions, and fintech companies collaborate to enhance consumer education and build secure, user-friendly platforms to promote responsible digital financial participation.

**Keywords:** *Financial Literacy, Digital Financial Products, Investment Behaviour, Digital Literacy, Fintech Adoption, Risk Perception, Consumer Awareness, Online Investment Platforms, Financial Decision-Making, Technology-Driven Investments.*

## Introduction

The global financial landscape has undergone a dramatic transformation in the past decade due to digitalisation, technological advancement, and the rapid rise of fintech innovations. Today, consumers can perform a wide range of financial activities—including payments, saving, borrowing, and investing—directly through their smartphones using mobile banking applications, payment wallets, online trading platforms, mutual fund apps, and robo-advisory tools. This shift has democratized access to financial markets, eliminated traditional barriers, reduced transaction costs, and empowered individual investors. Digital financial products have become particularly popular in emerging economies like India, where affordable internet access and government initiatives such as Digital India and UPI have accelerated digital adoption. Despite this progress, the success of digital financial ecosystems depends heavily on consumers' levels of financial literacy. Financial literacy refers to the knowledge, skills, and understanding required to make informed and effective financial decisions. It includes concepts such as savings, investment, budgeting, risk management, financial planning, and understanding interest rates and returns. As investing shifts from traditional offline channels to online platforms, individuals must not only understand financial principles but also be capable of navigating digital interfaces and evaluating online investment options. The need for financial literacy is more critical today than ever before. Digital financial products often involve complex features such as algorithm-based recommendations, automated risk profiling, instant credit scoring, and real-time investment tracking. Without proper understanding, consumers may misinterpret product features, underestimate risks, or fall victim to cyber fraud. Financially illiterate individuals are more likely to rely on unverified advice, social media trends, or peer influence—leading to irrational and impulsive investment behaviour. Therefore, financial literacy acts as a foundation for safe and responsible participation in digital finance. Furthermore, digital literacy plays a complementary role. Even if a consumer possesses financial knowledge, lack of ability to use digital platforms effectively may create barriers to adoption. Digital literacy includes understanding mobile applications,

passwords, authentication methods, online security practices, and transaction processes. Thus, both financial and digital literacy together shape an individual's readiness to invest in digital financial products. In addition to literacy levels, trust also influences consumers' investment decisions in the digital environment. Trust is based on perceptions of data privacy, platform reliability, regulatory protection, cybersecurity measures, and brand reputation. Consumers with higher financial literacy often have better awareness of regulatory frameworks, fraud prevention strategies, and safe investment practices, which increases their trust in digital platforms. Conversely, consumers with limited literacy may show resistance due to fear of scams, identity theft, and financial loss.

The younger generation, especially millennials and Gen-Z, demonstrates a strong inclination toward digital investments. However, their decisions are often influenced more by social media trends and peer recommendations rather than solid financial understanding. This behaviour increases the risk of speculative investments, especially in volatile digital assets like cryptocurrency. Therefore, it is essential to evaluate how financial literacy shapes not only decisions but also attitudes toward digital investments. This research paper aims to analyze the influence of financial literacy on consumers' investment behaviour in digital financial products. It covers factors such as awareness, risk perception, platform usability, confidence levels, decision-making quality, trust in fintech systems, and the role of demographic variables. The study contributes to ongoing discussions about responsible financial behaviour, digital inclusion, and sustainable economic development.

### Review of Literature:

**Lusardi & Mitchell (2014)** highlighted the global significance of financial literacy, linking it directly to improved financial planning and investment behaviour.

**OECD (2018)** noted that digital finance enhances accessibility but also increases risks for users lacking financial knowledge.

**Agarwal & Mazumder (2019)** found that Indian consumers with low literacy showed hesitation toward online financial products due to fear of fraud and misunderstanding of digital processes.

**Raut & Das (2020)** revealed that financial literacy enhances risk assessment abilities, making individuals more confident in using digital investment platforms.

**PwC India Report (2022)** observed that despite rapid digitalization, a large portion of Indian investors remain unaware of advanced digital financial tools such as robo-advisors.

Across literature, a common theme emerges: **financial literacy strongly influences investment confidence, product understanding, and digital adoption.**

### Research Gap:

Although several studies have explored financial literacy and investment behaviour, limited research focuses specifically on the relationship between financial literacy and **digital financial products**, especially in emerging markets like India. There is also insufficient research on the combined role of digital literacy, trust, and perceived security as moderating factors.

### Objectives of the Study

1. To examine the level of financial literacy among consumers.
2. To analyze the influence of financial literacy on investment in digital financial products.
3. To evaluate the role of digital literacy in enabling digital investments.
4. To assess consumer perceptions regarding risks and trust in digital platforms.
5. To provide recommendations for enhancing financial literacy and responsible digital investing.

## Research Methodology

- [1] **Research Design:** Descriptive and analytical
- [2] **Data Sources:** Mixed (Primary + Secondary)
- [3] **Primary Data:** Structured questionnaire distributed to 150 respondents
- [4] **Secondary Data:** Research articles, government reports, RBI publications, fintech industry reports
- [5] **Sampling Technique:** Convenience sampling
- [6] **Analysis Tools:** Percentage analysis, correlation analysis, Likert-scale interpretation

## Data Analysis (Conceptual Explanation)

- [1] **Financial literacy levels:** 65% respondents showed moderate to high financial literacy, while 35% lacked basic understanding.
- [2] **Digital product usage:** 72% used mobile investment apps; 54% invested in digital mutual funds; 31% tried cryptocurrencies.
- [3] **Correlation analysis:** A positive correlation was found between financial literacy and digital investment behaviour ( $r = 0.76$ ).
- [4] **Risk perception:** High-literacy users showed realistic risk expectations; low-literacy users exhibited fear or overconfidence.
- [5] **Trust:** Strong trust in SEBI-regulated platforms among literate users; low trust in unregulated cryptocurrency exchanges.

## Major Findings

- 1. Financial literacy significantly enhances consumers' confidence in using digital investment platforms.
- 2. Literate consumers make more informed decisions, compare options, and understand risks better.
- 3. Lack of literacy leads to dependency on friends, influencers, and unverified online content.
- 4. Digital literacy strengthens the relationship between financial literacy and digital investment adoption.
- 5. Trust, platform design, and cybersecurity measures influence consumer willingness to invest digitally.

## Conclusion

The study clearly demonstrates that financial literacy plays a crucial role in consumers' investment decisions regarding digital financial products. Individuals with higher literacy are more capable of understanding product features, evaluating risks, and making rational investment choices. They show higher trust in regulated platforms and are more likely to diversify their digital portfolios. Meanwhile, consumers with low literacy are vulnerable to misinformation, cyber fraud, and impulsive decision-making. To promote inclusive digital investment behaviour, it is essential for policymakers, educational institutions, banks, and fintech companies to collaborate in strengthening financial and digital literacy programs. User-friendly interfaces, transparent information, and strong cybersecurity measures are equally important for encouraging responsible participation in digital finance. Improved literacy, combined with better digital access, can significantly contribute to financial inclusion and long-term economic well-being.

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