

An Empirical Study on Risk Perception and Investment Preference of Individual Investor with Special Reference to Coimbatore City

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ABSTRACT

The present study analyses the awareness, risk perception and preference of individual investors towards financial instruments in Coimbatore City. In today's constantly shifting financial landscape, a person comes across a lot of investment options, which includes profitable bank deposits, mutual funds, equities, bonds, insurance schemes and Government securities. The effectiveness of investment decision depends on the level of financial awareness, understanding of risk and ability to estimate alternative investments. The objective of this research is to measure investor awareness, analyse their perception towards risk and return, study important influencing factors for investment decisions, and evaluate various challenges faced by investors during the investment process. For the study, a descriptive research design was adopted, and the primary data was collected from the 75 individual investors using a questionnaire. The study also incorporated and supported with the use of secondary data from books and journals. The gathered data was analysed with the use of relevant statistical tools like percentage analysis, Independent Sample t-test, cluster analysis, factor analysis, and Friedman rank test to derive meanings. As per the findings of the study, it is seen that most of the investor has moderate awareness regarding financial instruments. Investment decisions of the person are mainly influenced by expected return safety and availability of financial information. The research has also shown that investors face obstacles in the form of lack of financial knowledge and market volatility which impacts their decision-making process. To conclude, the study demonstrates the need for enhancing financial literacy and raising the awareness of individual investors to make the right decision.

Keywords *Financial Instruments, Investor Awareness, Risk Perception, Investment Decision-Making, Financial Literacy*

INTRODUCTION

Investments are one of the key factors of economic growth and development because they facilitate efficient transformation of household savings into commercial financing. Investment is a way through which individuals and institutions channel their funds towards different economic sectors which lead to the process of capital formation, employment generation, and stabilization of the economy. A healthy nation is dependent on savings. However, what is more important than savings is the healthy funds' allocation, which creates wealth and the process called Investment. They especially influence banks to invest in different ways. Individual investors influence banks to invest in different ways. Such as with their savings and allocated them through the use of different financial instruments. Like bank deposits, fixed deposits, mutual funds, insurances, equity shares, bonds, government securities, etc.

These instruments create opportunities for wealth creation and financial security as well as help in the development and deepening of financial markets. These days financing environment, the investor is faced with a growing range of investment options each with different risk, return, liquidity and tax implications. As the financial market becomes increasingly complex and dynamic, the investment decision making process is constantly becoming difficult. To make a choice of investment the investors have to take into consideration several different factors. These include expected return, risk exposure, liquidity requirements, tax benefits and credibility of information source. In addition to these behavioural influences, recommendation by friends or family, financial advisor recommendation, experience for past investment, general market trend, hype do play a role in investment behaviour.

Even though there has been swift growth and diversification of the financial market in India, yet there exists a large gap among individual investors in financial literacy and awareness. Many people are not savvy about financial products and their risks and often are too conservative or make bad decisions. Risk perception is definitely one of the factors that impacts on investor behaviour and when evaluating an investment, people will naturally balance risk and return to their own financial targets, income and psychological tolerance of risk. Therefore, the knowledge and perception of risk play an important role in the adoption and effectiveness of financial instruments. The present study attempts to study the awareness, risk perception and preferences of individual investors towards financial instruments in Coimbatore City. The study also aims to addresses challenges investors face during the investment along with the key factors influencing investors' investment decisions. Through a comprehensive analysis of

investor behaviour, this study aims to enhance financial literacy, facilitate more informed and rational investment decision-making, and improve the overall quality of financial planning among individual investors in the region.

REVIEW OF LITERATURE

In contemporary behavioral finance research, much attention has been devoted to the behaviour of individual investors in financial markets. Investors' behaviour in the Indian stock market is strongly influenced by behavioural biases such as overconfidence, herding and anchoring effect as per the study conducted by Raut, Das and Mishra (2020). The analysis reveals that the decision of individual investors are affected by psychological and informational restraints in an irrational way which, consequently, impacts the investment decisions in financial instruments. Through a very insightful study, Goyal and Jain (2020) noted the significance of risk-return perception in investment choices. Most investors focus on the perceived safety and expected returns rather than using systematic financial evaluation.

Chhatwani, Dash, and Maitra (2021) studied the link between financial awareness and risk preference in investment decision making and found that financially aware investors are more likely to invest in equity and derivative markets. Research shows that not only is risk preference a factor that offsets awareness and investment participation, but also psychological as well as rater factors can collectively influence investor behaviour. Another study by Gurung and Prakash (2022), indicated that risk perception is determined by several socio-psychological factors. Namely, awareness of financial information, personal investment experience, etc., significantly affects equity investment decisions.

Singh, Bhattacharjee and Kajol (2024) enhanced our understanding of risk perception by identifying the crucial influencing dimensions: cognitive judgement, market awareness and behavioural biases. According to their findings, not all investors have the same risk perception, and individual investors differ from one another considerably depending on their financial literacy and exposure to marketing information. Chhatwani (2024) also explained that financial awareness is positively related to market participation. At the same time, greater risk aversion reduces the chances of investing in risky assets.

Lenta and Kumar (2026) found financial literacy mediates risk perception and mutual fund investment intention. Thus, informed investors tend to make a more balanced investment decision. Regulatory perception and market awareness have emerged as the significant determinants of investment behaviour in a dynamic environment. The literature, 2020–2026

points out that investor awareness, risk perception, financial literacy and behavioural biases are key factors that shape the investment choice of investors in financial instruments.

RESEARCH GAP

Many studies on investor behaviour, financial literacy, risk perception, investment preferences are conducted in national, international context. The majority of these studies have dealt with either metropolitan city of a large region. Thus, they have a higher financial awareness and access to investments. Semi-urban regions, such as Coimbatore which is witnessing the emergence of individual investors actively investing in different financial markets, have received less attention. Many investigations highlight theoretical aspects, but do not integrate practical aspects of retail investors' decision making. It is thus clearly mentioned that there is need for a concentrated study of the awareness, perception of risk, and preference of the investors in Coimbatore. This research will try to bridge this gap by providing empirical evidence based on the careful analysis of primary data using statistical tools such as cluster analysis, factor analysis, Friedman rank test etc. to reveal the individual investor's behaviour.

STATEMENT OF THE PROBLEM

Nowadays, individual investors have a large choice of investment options that vary in risk, return and liquidity. The growth and diversification of financial markets in India, many investors are unable to make an informed investment decision due to the difference in financial awareness, risk perception and the nature of financial instruments. The investing participation of individual investors is increasing in Coimbatore. However, in making their investment choices, investors are influenced by limited knowledge and competence of the market, movement of the market either up or down, their own personal biases and opinions and advice from non-experts. In this case, poor investments, lower returns and higher financial risks may happen. Besides, mutual funds, shares and insurance products are knowledgeable products but reasonably complex and do pose additional difficulties for investors. Despite numerous studies looking at investor behaviour in general, it is required to analyse the level of awareness, perception of risk and preference pattern of individual investors in Coimbatore. We must understand these factors to identify the determinants of investment decisions and the investors' problems in choosing suitable financial instruments. In light of this, the present study attempts to examine awareness, risk perception, investment preference of individual investors towards financial instrument in Coimbatore and the factors, challenges influencing the investment decision.

NEED AND SIGNIFICANCE OF THE STUDY

The growth of financial markets and the availability of different investments have made investment decisions complicated for individual investors. In this dynamic scenario, it is necessary to know about the investor consciousness, risk apprehension and investment preferences for effective financial decisions. A lot of investors still are not well versed with financial instruments, which leads to wrong or poor investment decisions. A systematic study is essential to understand this behaviour. This study is hardly required to assess the essential parameters which influence investment decisions like expected returns, safety, liquidity, tax benefit and recommendations. To assess the challenges that investors are faced with like financial illiteracy, market turbulence and complexity of financial products that can hinder investment planning. The research merges these concepts of awareness and risk perception into one lens and brings them together with investment preference, which is a vital contribution to behavioural finance. Findings can be practically useful for the financial institutions, policy makers and investors themselves to improve financial literacy, develop financial products, etc.

The study about knowledge, perception of risk and preference of individual investors towards the financial instruments on Coimbatore City is significant in context of present financial behavior of the investors. This provides a better idea about the attitude people have towards investment opportunities and what they know about investments. The results help to determine the key determinants of investment decisions, including expected returns, riskiness and the sources and safety of information. The findings of this research work will benefit financial institutions, banks and investment organizations. It will help them to gain an insight into the expectations of the customers. It will help them in the design of suitable financial products and awareness programs. It assists policymakers and regulators to assess investor financial literacy and design investor education programs in a way that can align with investor financial literacy. The study will also contribute to existing behavioural finance and investor decision making literature for academicians and researchers. It can also be used as reference for further studies in other areas. This study benefits individual investors by highlighting common difficulties and encouraging more rational and informed investments.

SCOPE OF THE STUDY

The present study presents a lot of information relating to the behaviour of the investors. The study aims to analyse the way individual investors interpret, assess and act in the market with regard to a variety of investment alternatives such as bank deposits, fixed deposit, mutual funds,

insurance, equities, bonds and so on. The study is mainly confined to the individual investors of Coimbatore, their awareness about different financial instruments, perception of risk and return on investment and influencing factors. Moreover, it explores the behavioural issues affecting the investment decision making process such as financial literacy, Market information, professional advice and personal finance goals. Primary data gathered from the respondents through appropriate statistical tools has been analysed for the results. The scope is to interpret the data collected to understand the pattern of investors. Also, to segment the investors on the basis of their awareness and perception. Based on the results of this research, it is hoped that financial institutions, policymakers and academicians can use the findings of this research to understand the financial awareness initiatives and the investor needs. The study has a limitation in that it is only the individual investors within a selected region and their perceptions at the time of data collection.

OBJECTIVES OF THE STUDY

1. To examine investors' awareness and perception towards different financial instruments of the respondents in Coimbatore City.
2. To analyse the major factors influencing investors' investment decisions in various financial instruments.
3. To investigate the impact of risk perception on investment preference among investors in study area.

RESEARCH METHODOLOGY

Research Design: The current analysis uses a descriptive research design. The study aims to investigate and describe the awareness, risk perception, investment preferences and problems of individual investors in the financial instruments in Coimbatore. The arrangement offers a systematic analysis of behaviour of investors with the help of information gathered without any alteration of variables.

Data Sources: The research study depends on both primary and secondary data. The analysis is based on primary data while the theoretical back-up is through secondary data which helps to enhance the conceptual framework of the study. Primary Data Collection as Individual investors were asked to complete a structured questionnaire in order to develop primary data. The questionnaire was prepared to elicit the relevant information regarding the demographic profile, level of awareness, perception towards risk and return, and factors affecting investment

decisions. Secondary Data Collection as Sources like books, journal articles, research articles, reports, and websites were used for secondary data collection for the study. The literature base has been reinforced and investor behaviour has been enhanced with the help of this source.

Sampling Technique: The researchers used a convenience sampling method. In this study, the respondents were selected based on availability and willingness, so the data could easily be collected on them. The sample of the research consists of 75 individual investors. The study is limited in terms of geographical coverage and confined to Coimbatore City for conducting data collection.

Data Processing and Analysis Tools: The data that has been collected were coded, tabulated and processed in SPSS. This enabled easy information dealing and accuracy in statistics analysis. Suitable statistical tools were employed corresponding to the research objectives. The techniques used in this research include percentage analysis, mean and standard deviation, Independent Sample t-test, cluster analysis, factor analysis, regression analysis and Friedman rank test. These tools assisted in deciphering the actions of investors and deriving useful insights.

LIMITATIONS OF THE STUDY

1. The findings are limited to individual investors in the Coimbatore City and cannot be applied to other locations.
2. The responses may show personal bias because the survey is based on the primary data gathered from the questionnaires.
3. The outcome of the study represents the period of data collection only and may change with time & changing market conditions.
4. The way the respondents understands the study and answers to it would impact the study.

DATA ANALYSIS AND INTERPRETATION

Table no: 1 Independent Samples t-Test Showing the Difference in Awareness Towards Financial Instruments Based on Gender

H0: There is no significant difference in awareness towards financial instruments between male and female investors.

Group Statistics

Gender	N	Mean	Std. Deviation	Std. Error Mean
Male	42	3.98	0.58	0.089
Female	33	3.71	0.62	0.108

Independent Samples Test

Levene's Test for Equality of Variances	F	Sig.
Equal variances assumed	0.846	0.361

t-test for Equality of Means	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Equal variances assumed	1.930	73	0.057	0.270	0.140

Interpretation

A t-Test of Independent Samples was conducted to ascertain whether there exists a significant difference in awareness towards financial instruments among male and female investors. The average awareness of male investors, $M = 3.98$, $SD = 0.58$, is slightly higher than female investors, $M = 3.71$, $SD = 0.62$. The test result indicated that there was no significant difference, $t = 1.930$, $p = 0.057 > 0.05$. As a result, the null is accepted. This means that gender does not significantly impact investors' awareness of financial instruments.

Table no: 2 Cluster Analysis of Investors Based on Awareness and Perception Towards Financial Instruments

Cluster	Number of Respondents (N)	Percentage (%)	Characteristics
Cluster 1 – Highly Aware Investors	28	37.3	High awareness and positive perception towards various financial instruments
Cluster 2 – Moderately Aware Investors	31	41.3	Moderate awareness and average perception towards financial instruments
Cluster 3 – Low Awareness Investors	16	21.4	Low awareness and limited perception towards financial instruments
Total	75	100.0	

Cluster Centers

Variables	Cluster 1	Cluster 2	Cluster 3
Awareness of Savings Accounts	4.68	3.94	2.81
Awareness of Fixed Deposits	4.54	3.87	2.75
Awareness of Mutual Funds	4.32	3.65	2.38
Awareness of Shares	4.18	3.42	2.13
Awareness of Insurance Products	4.57	3.89	2.69
Perception Towards Financial Instruments	4.46	3.74	2.56

Interpretation

Cluster Analysis classified 75 respondents into three different clusters based on their awareness and perception towards financial instruments. The biggest part of your audience consists of Moderately Aware Investors who registered 41.3%, next is Highly Aware Investors who bring 37.3%, and Low Awareness Investors who contributes 21.4%. The analysis showed that a significant portion of the investors have an average to high level of knowledge regarding financial instruments. However, a limited number of respondents have limited knowledge and perception. There is a need to create specific financial literacy programs to help them understand investment options.

Table no: 3 Factor Analysis of Investors' Investment Decision-Making Factors Towards Financial Instruments

KMO and Bartlett's Test	
Test	Value
Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy	0.781
Bartlett's Test of Sphericity Approx. Chi-Square	286.457
df	28
Sig.	0.000

Interpretation

The KMO value of 0.781 indicates that the sample was adequate for the factor analysis. The significant Bartlett's Test of Sphericity, $p < 0.001$, indicates that the variables are sufficiently correlated and suitable for factor extraction.

Total Variance Explained

Component	Eigen Value	% of Variance	Cumulative %
Financial Return Factors	3.256	40.701	40.701
Security Factors	1.842	23.028	63.729
Social and Information Factors	1.214	15.177	78.906

*Extraction Method: Principal Component Analysis***Rotated Component Matrix**

Factors Influencing Investment Decisions	Financial Return Factors	Security Factors	Social and Information Factors
Expected Return	0.821		
Capital Appreciation	0.786		
Tax Benefits	0.744		
Wealth Creation	0.719		
Safety of Investment		0.842	
Risk Reduction		0.815	
Liquidity		0.763	
Stability of Returns		0.701	
Friends and Relatives' Advice			0.812
Financial Advisor Recommendation			0.785
Social Media Influence			0.734
Market Information			0.692

*Extraction Method: Principal Component Analysis Rotation Method: Varimax with Kaiser Normalization***Interpretation**

Three major factors affected the investment decisions of the investors. The biggest share of variance was explained by the first factor, Financial Return Factors, which consisted of expected return, capital appreciation, tax benefits, and wealth creation. The second factor which was the Security Factors included safety, risk reduction, liquidity, and stability of returns. The third factor which was Social and Information Factors included financial advisor recommendation, social media influence, market information, advice from friends/relatives. These three factors collectively contributed 78.906% of the total variance, indicating that they are the key determinants of investors' investment decisions.

**Table no: 4 Friedman Rank Test for Problems Faced by Investors
While Investing in Financial Instruments**

Problems Faced by Investors	Mean Rank	Rank
Lack of Financial Knowledge	5.92	I
Market Volatility	5.71	II
Risk of Fraud and Mis-selling	5.38	III
Low Income / Insufficient Funds	4.89	IV
Lack of Professional Guidance	4.65	V
Complex Investment Procedures	4.12	VI
Lack of Awareness of Financial Products	3.83	VII

Test	Value
N	75
Chi-Square	68.432
df	6
Asymp Sig.	0.000

Interpretation

The Friedman Rank Test was performed in order to find out the major problems faced by the investors while investing in financial instruments. The findings reveal that the most prominent concern, according to the highest mean rank, is a lack of financial knowledge, followed next by market volatility and risk of fraud and mis-selling. Not being aware of financial products was found to be the least significant problem. The Chi-Square, 68.432, is significant at 1% level, $p < 0.001$, which indicates the problems faced by investors are differ from one another.

Table no:5 Regression Analysis - Impact of Risk Perception on Investment Preference

Null Hypothesis (H_0): There is no impact of risk perception on investment preference among individual investors.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.684	0.468	0.461	0.532

Interpretation:

The coefficient of R Square = 0.468 represents that 46.8% of the variation in investment preference can be attributed to the perception of risk. It should be noted that the model has a moderately high level of explanatory capability, implying that risk perception does influence investment preference.

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	18.245	1	18.245	64.473	0.000
Residual	20.664	73	0.283		
Total	38.909	74			

Interpretation:

From the above table we understood that significance value ($p = 0.000$) is less than 0.05, So the regression model is statistically significant. Therefore, risk perception has an impact on investment preference among individual investors.

Coefficients

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	1.214	0.289	—	4.201	0.000
Risk Perception	0.647	0.081	0.684	8.029	0.000

Interpretation:

This regression shows that when there is a rise by one unit in the risk perception, there will be an increase in the investment preference of 0.647 units. The p-value (0.000) is below 0.05; therefore, the risk perception affects the investment preference. The positive value of the Beta coefficient (0.684) shows a positive relationship.

FINDINGS

- The t-test shows no significant difference in investor behaviour between men and women with respect to financial awareness. This means that gender does not affect investors' awareness levels in the study area.
- The Cluster Analysis has categorized the investors into three groups, high, moderate, and low, based on their awareness and perceptions. Most of the respondents were moderately aware, signifying average financial understanding among high-value investors.
- Factor Analysis revealed three factors that influence decisions on investment – financial, security and social/informational factor. The severity of cancer explained most of the variability in the outcomes.
- The Friedman Rank Test showed that the problems faced by investors while investing in financial instruments were significantly different. The most critical problem was observed in lack of financial literacy and market volatility.
- Regression analysis revealed that there exists a significant positive relationship between risk perception and investment preference of individual investors. The findings show that variations in risk perception of investors have considerable effects on their investment preferences.

SUGGESTIONS

- Regular programmes on financial literacy and investor education help create awareness about financial products and strengthen informed decision-making.
- Awareness campaigns impact the investors' attitudes through knowledge of risk, return and available investment choice by financial institutions in Coimbatore.
- Investment decisions made based on professional financial advice and verified information of the market is more rational and effective.
- To enable new and small investors to invest, it is necessary for banks and financial service providers to simplify their investment process.
- When regulatory authorities enhance the investor protection mechanisms in place, the occurrence of fraud, mis-selling, and other market misconducts is reduced.

CONCLUSION

In this present study, the findings reveal that most investors possess a moderate level of awareness regarding financial instruments, indicating that while basic familiarity exists, there is still significant scope for improvement in financial literacy. The study further highlights that investment decisions are primarily driven by financial return expectations, safety considerations, and social or informational influences, reflecting a combination of rational and behavioural factors. The empirical analysis also confirms that investors can be broadly classified into distinct segments high, moderate and low awareness groups emphasizing the heterogeneity in investor knowledge and perception levels. Moreover, the study identifies key challenges faced by investors, particularly lack of financial knowledge, market volatility, and concerns related to fraud and mis-selling, which continue to hinder effective investment decision-making. The regression results establish a significant positive relationship between risk perception and investment preference, indicating that investors' understanding, and interpretation of risk play a crucial role in shaping their investment choices. Overall, the study underscores the importance of enhancing financial literacy, improving access to reliable financial information, and strengthening investor education initiatives. These measures will not only empower individual investors to make more informed and rational investment decisions but will also contribute to the development of a more efficient and inclusive financial market ecosystem in the region.

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