

Impact of Financial Literacy on Saving and Investment Decisions among Individuals Under the Age of 30 in Bangalore

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Abstract

Financial literacy is increasingly regarded as a critical determinant of sound financial behaviour, particularly among young adults who are beginning to earn, save and invest independently in a fast-evolving digital financial ecosystem. This study examines (i) the relationship between financial literacy and saving and investment decisions, and (ii) the influence of behavioural and psychological factors on saving and investment decisions among individuals below the age of 30 in Bangalore. A quantitative, descriptive research design was adopted, and primary data were collected from 252 respondents through a structured, five-point Likert questionnaire administered using convenience sampling. The reliability of the instrument was confirmed using Cronbach's Alpha (0.826), indicating good internal consistency. Data were analysed using Pearson's correlation and multiple linear regression. The results reveal a strong, statistically significant positive relationship between financial literacy and saving and investment decisions ($r = 0.7309$, $p < 0.001$), and a statistically significant positive effect of behavioural and psychological factors on saving and investment decisions, explaining 79.23% of the variance ($R^2 = 0.7923$, $F(1,250) = 953.60$, $p < 0.001$). The findings underscore that both cognitive financial knowledge and behavioural-psychological disposition are pivotal, complementary drivers of sound financial decision-making among financially engaged urban youth.

Keywords: Financial literacy; saving and investment decisions; behavioural finance; psychological factors; young investors; Bangalore

1. Introduction

Financial literacy is increasingly recognised as a vital life skill in today's complex economic environment. It refers to the ability to understand and apply financial knowledge in areas such as budgeting, saving, investing, borrowing and long-term planning. With the rapid expansion of financial markets and digital innovations such as mobile banking, online trading and digital wallets, individuals are expected to make informed financial decisions independently; without adequate financial education, many risk poor savings, excessive borrowing and insecure investments.

Young adults below 30 years of age are a critical demographic because they are beginning to earn, manage finances and make independent investment choices. Bangalore, with its educated and technologically connected youth, provides an ideal setting to study these issues. Prior literature reinforces this context: financial literacy has been shown to moderate emotional and market pressures on investment decisions, shape risk tolerance and long-term planning, and mediate the relationship between behaviour, psychology and investment outcomes, while low literacy has been linked to overconfidence and herding biases, particularly among millennials in developing economies.

2. Literature Review

A substantial body of research links financial literacy to sound saving and investment behaviour. Studies have found that financial literacy shapes investors' risk tolerance, portfolio diversification and long-term financial planning, with higher literacy associated with disciplined saving and prudent risk assessment, while low literacy is linked to impulsive, biased decision-making, particularly in digital finance contexts. Occupational and demographic exposure - including income, education and experience - has also been shown to moderate how effectively individuals translate financial knowledge into practice, and studies among SACCO employees, MSME owners and salaried professionals across

multiple countries consistently report a positive relationship between financial literacy, savings capacity and investment decisions.

A parallel and complementary stream of research documents the role of behavioural and psychological factors in financial decision-making. Heuristics, overconfidence, herding behaviour, fear of loss and emotional reactivity to market fluctuations have all been shown to shape investment choices independently of, and sometimes more strongly than, financial knowledge alone. Prospect Theory-based work confirms that retail allocation choices are rarely fully rational and are heavily influenced by risk perception, psychological comfort and the surrounding information environment, consistent with the broader behavioural-finance foundations laid by Kahneman and Tversky (1979). Financial behaviour has also been found to mediate the relationship between financial literacy, psychological traits and ultimate investment decisions, suggesting that cognitive knowledge and behavioural disposition operate jointly rather than in isolation.

2.1 Research Gap

While financial literacy and behavioural-psychological determinants of investment decisions have each been studied extensively, relatively little research has examined these two dimensions jointly among young, digitally engaged adults in an Indian metropolitan context such as Bangalore. This study addresses that gap by empirically examining both the cognitive (financial literacy) and behavioural-psychological pathways through which saving and investment decisions are shaped among individuals below 30 years of age in Bangalore.

3. Theoretical Framework, Objectives and Hypotheses

The study draws on two complementary theoretical perspectives. Human Capital Theory (Becker, 1964; Lusardi & Mitchell, 2014) underpins Objective 1, framing financial literacy as a form of human capital that enhances the quality of financial decision-making. Behavioural Finance Theory (Kahneman & Tversky, 1979; Shefrin, 2000) underpins Objective 2, explaining how behavioural biases and psychological factors influence saving and investment decisions independent of purely rational, knowledge-based evaluation.

Objective 1

H₀₁: There is no significant relationship between financial literacy and saving and investment decisions among individuals under the age of 30 in Bangalore.

H₁₁: There is a significant relationship between financial literacy and saving and investment decisions among individuals under the age of 30 in Bangalore.

Objective 2

H₀₂: Behavioural and psychological factors do not significantly impact saving and investment decisions among individuals under the age of 30 in Bangalore.

H₁₂: Behavioural and psychological factors significantly impact saving and investment decisions among individuals under the age of 30 in Bangalore.

4. Research Methodology

A descriptive, quantitative research design was adopted. The population comprised individuals below 30 years of age residing in Bangalore, including students, employed, self-employed and unemployed individuals actively engaged in financial planning. A non-probability convenience sampling technique was used to reach 252 valid respondents through a structured, five-point Likert questionnaire. The reliability of the 20-item instrument was assessed using Cronbach's Alpha, which yielded a value of 0.826, indicating good internal consistency and confirming the instrument's suitability for further statistical analysis.

Descriptive statistics (frequency, percentage, mean) were used to summarise demographic data. Pearson's correlation analysis was used to test Objective 1 (financial literacy vs. saving and investment decisions), and multiple linear regression was used to test Objective 2 (behavioural and psychological factors as predictors of saving and investment decisions). All hypotheses were tested at the 5% level of significance ($p < 0.05$).

5. Data Analysis and Results

5.1 Sample Profile

Of the 252 respondents, the largest age group was 23–24 years (34.52%), and gender representation was nearly balanced (50.80% male, 48.40% female). Half of the respondents (50.00%) held an undergraduate degree, and the majority (66.30%) were employed, followed by students (21.80%). The most common monthly income band was ₹20,000–₹30,000 (44.40%), indicating that the sample was predominantly drawn from a technologically engaged, middle-income, financially active young population well suited to examining the study's objectives.

5.2 Objective 1 – Pearson Correlation Analysis

Objective: To examine the relationship between financial literacy and saving and investment decisions among individuals under the age of 30 in Bangalore.

Statistic	Value
Pearson's r	0.7309
Observations (n)	252
p-value	2.28×10^{-43}

The analysis reveals a strong, statistically significant positive correlation between financial literacy and saving and investment decisions among individuals below 30 years of age in Bangalore ($r = 0.7309$). The associated p-value (2.28×10^{-43}) is far below the 0.05 significance threshold, indicating that the relationship is highly unlikely to be due to chance. Consequently, H_{01} is rejected and H_{11} is accepted: financial literacy is significantly and positively associated with saving and investment decisions, such that individuals with higher financial literacy tend to make more informed and effective saving and investment choices.

5.3 Objective 2 – Multiple Linear Regression

Objective: To analyse the impact of behavioural and psychological factors on saving and investment decisions among individuals under the age of 30 in Bangalore.

Regression Statistic	Value
Multiple R	0.8901
R Square	0.7923
Adjusted R Square	0.7915
Standard Error	0.3354
Observations	252

Predictor	Coefficient (β)	t Stat	p-value
Intercept	0.4891	4.378	1.76×10^{-5}
Behavioural & Psychological Factors	0.8764	30.880	2.72×10^{-87}

The regression model is statistically significant ($F(1,250) = 953.60$, Significance $F = 2.72 \times 10^{-87}$), with an R^2 of 0.7923 indicating that behavioural and psychological factors explain 79.23% of the variance in saving and investment decisions among the sample, while the remaining 20.77% is attributable to factors outside the model. The regression coefficient

for behavioural and psychological factors ($\beta = 0.8764$, $t = 30.88$, $p < 0.001$) is positive and highly significant. Accordingly, H_{02} is rejected and H_{12} is accepted: behavioural and psychological factors exert a significant, positive influence on the saving and investment decisions of individuals below 30 years of age in Bangalore - respondents exhibiting more favourable behavioural and psychological dispositions (e.g., lower fear of loss, better emotional control, reduced susceptibility to peer or social-media-driven decisions) are more likely to make sound saving and investment choices.

6. Discussion

The findings affirm that financial literacy is a strong, positive predictor of saving and investment decisions among young adults in Bangalore, consistent with prior literature linking financial knowledge to disciplined saving, informed risk assessment and long-term financial planning. This supports Human Capital Theory's premise that financial knowledge functions as a productive asset that improves the quality of economic decision-making.

At the same time, the very strong explanatory power of behavioural and psychological factors ($R^2 = 0.7923$) reinforces the behavioural-finance view that saving and investment decisions are not purely a function of financial knowledge but are substantially shaped by psychological dispositions such as overconfidence, fear of financial loss, emotional reactivity, peer influence and the desire for psychological comfort. Taken together, the two findings suggest that financial literacy and behavioural-psychological readiness are complementary, not competing, levers: raising financial knowledge alone may be insufficient without also addressing the behavioural biases that shape how that knowledge is applied in practice.

7. Implications

7.1 Managerial Implications

Financial institutions, investment platforms and employers should design structured financial literacy programmes covering budgeting, risk management, diversification and tax planning, while simultaneously incorporating behavioural coaching to help young investors manage overconfidence, fear of loss and emotionally driven decision-making. Digital investment platforms should be designed to nudge users toward long-term, disciplined saving and investment behaviour rather than reactive, sentiment-driven choices.

7.2 Theoretical Implications

The findings jointly support Human Capital Theory and Behavioural Finance Theory, demonstrating that cognitive financial knowledge and behavioural-psychological disposition operate as complementary, rather than independent, determinants of saving and investment decisions among young, digitally engaged investors - extending governance and financial-literacy literature into the domain of youth financial behaviour in an urban Indian context.

8. Conclusion

This study examined how financial literacy and behavioural and psychological factors jointly shape saving and investment decisions among 252 individuals below 30 years of age in Bangalore. Financial literacy was found to have a strong, statistically significant positive relationship with saving and investment decisions ($r = 0.7309$, $p < 0.001$), while behavioural and psychological factors significantly and positively predicted saving and investment decisions, explaining nearly 80% of the variance ($R^2 = 0.7923$, $p < 0.001$). The study concludes that strengthening financial education while simultaneously addressing behavioural biases represents a complementary, twin-track strategy for promoting sound financial decision-making among technologically engaged young adults.

9. Limitations and Future Research

Findings are geographically confined to Bangalore and may not generalise to other cities or regions. The use of convenience sampling and a cross-sectional design limits generalisability and precludes analysis of behavioural change over time. Self-reported Likert-scale data may be subject to response bias, and the study examined only two determinants

of saving and investment decisions, leaving other potential influences (e.g., income, occupation, financial technology adoption, personality traits) unexamined. Future research could replicate the study across cities, employ probability sampling, and incorporate additional variables such as occupation, financial risk tolerance and social influence using longitudinal designs.

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