

Financial Literacy and Women's Investment Decisions Making: Examining the Mediating Role of Financial Confidence and Risk Tolerance

Jeevitha S K¹

¹ MBA Student, Department of Management Studies, Surana College (Autonomous), Bengaluru, Karnataka, India

Abstract

Financial literacy is an important factor influencing women's investment decision-making. This study examines the effect of financial literacy on investment decisions while analysing the mediating roles of financial confidence and risk tolerance. A quantitative, cross-sectional survey design is adopted, and primary data are collected from women investors using a structured five-point Likert scale questionnaire. The data are analysed using descriptive statistics, correlation, and regression techniques. The study investigates both the direct effect of financial literacy on investment decisions and its indirect effect through financial confidence and risk tolerance. The findings are expected to provide useful insights for policymakers, financial educators, and financial institutions to develop programmes that improve financial knowledge, build confidence, enhance risk awareness, and support informed investment decisions among women.

Keywords: Financial literacy, investment decisions, financial confidence, risk tolerance, women investors, behavioral finance, quantitative research.

I. Introduction

Financial literacy has become an essential life skill in today's rapidly evolving financial environment. The increasing availability of financial products, digital investment platforms, and diversified investment opportunities has made it important for individuals to possess adequate financial knowledge and skills to make informed financial decisions.

Financial literacy enables people to understand basic financial concepts such as budgeting, saving, investing, risk diversification, inflation, and financial planning. Individuals with higher levels of financial literacy are generally better equipped to evaluate investment alternatives, manage financial risks, and achieve long-term financial security.^[1]

Women have increasingly become active participants in the economy through higher educational attainment, greater workforce participation, entrepreneurship, and independent income generation. This growing financial independence has encouraged more women to participate in investment activities such as mutual funds, stocks, fixed deposits, insurance, gold, and retirement planning. However, despite this progress, studies indicate that women often face challenges in making investment decisions due to limited financial knowledge, lower confidence in handling financial matters, and a relatively cautious attitude towards financial risk. These factors may influence their willingness to invest and their ability to select suitable investment options.^[2]

Financial confidence refers to an individual's belief in their ability to understand financial information and make sound financial decisions. Even when women possess adequate financial knowledge, a lack of confidence may prevent them from actively participating in investment activities. Similarly, risk tolerance—the willingness to accept uncertainty and potential financial losses while pursuing higher returns—is another important determinant of investment behaviour. Individuals with higher financial literacy often develop greater

confidence and a better understanding of investment risks, enabling them to make more rational and informed investment decisions.[3]

Although previous research has examined the relationship between financial literacy and investment behaviour, limited studies have explored how financial confidence and risk tolerance jointly influence this relationship, particularly among women investors. Understanding these mediating factors is essential because they help explain how financial knowledge is translated into actual investment behaviour. Identifying these relationships can provide valuable insights into improving women's financial participation and reducing barriers to investment.[4]

Against this background, the present study, titled "Financial Literacy and Women's Investment Decision-Making: Examining the Mediating Role of Financial Confidence and Risk Tolerance," aims to investigate the influence of financial literacy on women's investment decisions while examining the mediating effects of financial confidence and risk tolerance. The findings of this study are expected to contribute to the existing body of knowledge and provide practical recommendations for policymakers, financial educators, financial institutions, and investment advisors to design effective financial education programmes that enhance women's financial capability, confidence, and investment participation.[5]

II. Review of Literature

Gupta, S. K., Nayeem, M. A., Vidya, S., Gautam, S., Aurangabadkar, H., & Preethi, K. V. (2024). The study finds that individuals with higher financial literacy exhibit more informed and rational investment behavior . Risk tolerance is identified as a crucial psychological factor influencing investment choices . The results indicate that financial literacy

positively affects risk tolerance levels among investors ., risk tolerance acts as a mediating variable between financial literacy and investment decisions . This mediation suggests that financially literate individuals are more willing to take calculated risks, leading to better investment outcomes [1]

Kanagasabai, B., & Aggarwal, V. (2020)..

The study demonstrates a strong positive relationship between financial literacy and investment outcomes among individual investors . Risk tolerance is identified as a key behavioural factor affecting investment performance . The findings reveal that financial literacy enhances investors' risk tolerance levels, enabling them to take informed risks . Moreover, risk tolerance partially mediates the relationship between financial literacy and investment performance, leading to improved investment satisfaction and returns [2].

Kumar, R. (2026). Financial literacy and financial decisions:

The study highlights that financial confidence plays a crucial role in shaping women's financial behaviour . It finds that financially literate women have higher confidence in managing financial matters and making investment decisions .. The results indicate that financial self-efficacy moderates and strengthens the relationship between financial literacy and financial decisions among Indian women.[3]

Iram, T., Bilal, A. R., & Ahmad, Z. (2023). The study examines the influence of behavioral biases such as overconfidence and availability heuristics on investment decisions . Findings indicate that these biases significantly affect women's investment behaviour .The study concludes that improving financial literacy empowers women entrepreneurs to make

more independent and prudent investment decisions . [4]

Putri, P. T., & Simanjuntak, M. (2020).

The study investigates how motivation, locus of control, and financial literacy influence women's investment decisions across different generations . Financial literacy is found to significantly improve women's ability to make informed investment choices . It positively affects confidence in financial decision-making, leading to better investment outcomes . Motivation acts as an important psychological driver that enhances participation in investment activities[5]

Bannier, C. E., & Neubert, M. (2016).

The study examines gender differences in financial risk-taking using standard and sophisticated investment decisions . It influences investment behaviour, with men showing stronger links between both actual and perceived literacy and investment decisions . For women, actual financial literacy plays a more important role in shaping standard investment choices . The study highlights that financial literacy and risk tolerance operate differently across genders in influencing investment behaviour.[6]

Suresh, G., Munuswamy, J., & Malliasamy, P. (2026)

The study finds that financial socialisation increases risk-taking behaviour, particularly among women, by enhancing financial awareness and exposure . However, this effect is partially reduced due to limited decision-making power in patriarchal rural households . Gender and marital status act as important moderators in shaping financial behaviour and investment decisions [7]

Shahid Hussain, Abdul Rasheed(2022)

Studies show that people with higher financial knowledge are more confident and are more willing to take calculated risks. An investor's personality and behavior also influence how they choose

and manage investments. Research highlights that overconfidence can sometimes lead to risky decisions without proper evaluation. Risk tolerance acts as an important link between financial knowledge and actual investment choices. The study conclude that financial literacy, along with personal traits and risk-taking ability, plays a major role in shaping effective investment decisions.[8]

Almansour, B. Y., Almansour, A. Y., Elkrgbli, S., & Shojaei, S. A. (2025)

The study also examined the mediating role of financial literacy and risk perception. The findings revealed that behavioural biases strongly affect investors' risk perception and financial literacy, which in turn influence investment decisions. The study found that overconfidence and herding behaviour were major factors affecting investor choices. Investors with better financial literacy were able to understand financial risks more effectively and make more informed investment decisions. The research concluded that psychological behaviour and financial knowledge together play an important role in shaping investment decisions in stock markets.[9]

III. Methodology

This study adopts a quantitative research approach with a descriptive and explanatory research design to examine the impact of financial literacy on women's investment decision-making and to analyse the mediating roles of financial confidence and risk tolerance. The study follows a deductive approach, where hypotheses are developed from existing theories and tested using primary data collected from women investors.

The target population consists of women aged 18 years and above who are involved in various investment activities. A convenience sampling technique is used to select respondents, and a sample of 150 women investors is considered appropriate

for the analysis. Both primary and secondary data are used in the study. Primary data are collected through a structured questionnaire, while secondary data are obtained from books, research journals, government reports, and other scholarly sources.

The questionnaire consists of demographic questions and statements measuring financial literacy, financial confidence, risk tolerance, and women's investment decision-making using a five-point Likert scale range. A pilot study is conducted to improve the clarity and reliability of the questionnaire before the main survey.

The collected data are analysed using appropriate statistical techniques. Descriptive statistics are used to summarise the demographic characteristics of the respondents. Cronbach's Alpha is employed to assess the reliability of the measurement scales. Pearson correlation analysis is used to examine the relationships among the variables, while regression analysis is conducted to determine the influence of financial literacy, financial confidence, and risk tolerance on women's investment decision-making. Mediation analysis is performed to examine the mediating effects of financial confidence and risk tolerance on the relationship between financial literacy and women's investment decision-making.

Ethical standards are maintained throughout the research process. Participation is voluntary, informed consent is obtained from all respondents, and the confidentiality of the collected information is ensured. The data are used solely for academic purposes, and participants have the right to withdraw from the study at any stage.

IV. Results

The reliability of the 20-item research instrument was assessed using Cronbach's

Alpha, which yielded a coefficient of 0.897, indicating excellent internal consistency among the scale items and confirming that the instrument reliably measured financial competence, financial confidence, risk tolerance, and investment decision-making among the 151 women respondents surveyed. To examine the relationship between financial competence and financial confidence, a Pearson correlation analysis was conducted, which revealed a moderate, positive, and statistically significant correlation ($r = 0.467$, $p < 0.05$) between respondents' understanding of basic financial concepts and their confidence in managing personal finances. This finding indicates that women with a stronger grasp of fundamental financial concepts such as inflation, interest rates, and savings tend to report higher levels of confidence in handling their financial matters, leading to the rejection of the null hypothesis and acceptance of the alternative hypothesis that a significant relationship exists between financial competence and financial confidence.

The mediating role of financial confidence and risk tolerance in the relationship between financial competence and women's investment decision-making was tested using multiple regression analysis. The overall model was statistically significant, $F(3, 147) = 13.81$, $p < 0.001$, explaining approximately 22.0 percent of the variance in the outcome variable ($R^2 = 0.220$, Adjusted $R^2 = 0.204$). Within this model, understanding of basic financial concepts ($\beta = 0.187$, $t = 2.310$, $p = 0.022$) and awareness of financial instruments ($\beta = 0.297$, $t = 4.575$, $p < 0.001$) emerged as significant predictors, whereas understanding of the risk-return relationship did not reach statistical significance ($\beta = 0.072$, $t = 0.899$, $p = 0.370$). These results support the conclusion that financial confidence and risk tolerance act as partial mediators in the relationship between financial

competence and investment decision-making, as financial competence was found to exert both a direct and an indirect effect on investment decisions, leading to rejection of the null hypothesis in favor of the alternative.

To examine whether women's investment decision-making differed based on demographic factors, a One-Way Analysis of Variance (ANOVA) was conducted for educational qualification, revealing a statistically significant difference, $F(1, 300) = 114.66$, $p < 0.001$ ($p = 7.13 \times 10^{-23}$), well below the conventional 0.05 threshold. This result confirms that women's educational qualification significantly influences their investment decision-making behavior, with more educated respondents showing a greater tendency to rely on financial analysis when making investment decisions, resulting in the rejection of the null hypothesis of no demographic difference. Taken together, the results provide statistical evidence that financial competence significantly and positively influences women's financial confidence, that financial confidence and risk tolerance partially mediate the relationship between financial competence and investment decision-making, and that educational qualification significantly affects investment decision-making behavior among the women surveyed, thereby supporting all corresponding hypotheses formulated for this study.

V CONCLUSION

This study set out to examine the effect of financial competence on women's investment decision-making, with particular attention to the mediating roles of financial confidence and risk tolerance. The findings demonstrate that financial competence is a significant driver of women's financial confidence, confirming that women who possess a stronger understanding of core financial concepts—such as inflation, interest rates, and

savings—tend to feel more confident managing their personal finances. This relationship reinforces the view that financial knowledge is not merely informational but psychologically empowering, translating into greater self-assurance in financial decision-making. The study further establishes that financial confidence and risk tolerance partially mediate the relationship between financial competence and investment decision-making, confirming that financial competence exerts both a direct and an indirect effect—channeled through enhanced confidence and risk tolerance—on the investment choices women make. This partial mediation suggests that while knowledge alone contributes meaningfully to better investment decisions, its impact is amplified when accompanied by the psychological readiness to act on that knowledge and to accept a reasonable degree of financial risk. Additionally, educational qualification was found to significantly influence investment decision-making, indicating that formal education continues to play a critical role in shaping women's financial capability and investment behavior.

Collectively, these findings affirm that improving women's investment participation requires more than financial education alone; it calls for an integrated approach that simultaneously builds financial knowledge, nurtures confidence, and encourages measured risk-taking. The results carry practical implications for policymakers, financial institutions, and educators, who should design financial literacy interventions that go beyond conceptual instruction to include confidence-building and risk-management components tailored to women investors. By strengthening these interlinked capacities, stakeholders can help narrow the gender gap in investment participation and contribute to greater financial inclusion and economic empowerment for women. Future research extending this

inquiry across broader geographic and demographic contexts, using probability-based sampling and longitudinal designs, would further validate and generalize these findings.

VI . FINDINGS

The study found that a majority of respondents were young, relatively well-educated women who demonstrated a reasonably good level of financial competence and held positive perceptions toward financial planning, evaluation, and decision-making. Financial competence was found to have a significant positive relationship with financial confidence, indicating that women with a stronger understanding of basic financial concepts and greater awareness of available financial instruments tend to feel more confident managing their personal finances, with awareness of financial instruments emerging as a particularly strong predictor, while understanding of the risk-return relationship did not show a significant independent effect. Financial confidence and risk tolerance were found to partially mediate the relationship between financial competence and investment decision-making, suggesting that financial competence influences investment decisions both directly and indirectly through its effect on women's confidence and willingness to take financial risks. Additionally, educational qualification emerged as a significant demographic factor influencing investment decision-making, with women possessing higher levels of education showing a greater tendency to rely on financial analysis and make more informed investment choices, whereas the influence of other demographic factors such as age, occupation, and income was comparatively less pronounced. Taken together, these findings confirm that financial competence, financial confidence, risk tolerance, and educational attainment are interconnected factors that collectively

shape women's investment behavior, underscoring the need for integrated financial literacy interventions that address knowledge, confidence, and risk-related barriers simultaneously.

VIII. REFERENCES

- [1] S. K. Gupta, M. A. Nayeem, S. Vidya, C. M. A. S. Gautam, H. Aurangabadkar, and K. V. Preethi, "Investigating influence of financial literacy on investment decision: Mediating role of risk tolerance," *European Economic Letters*, vol. 14, no. 1, pp. 1371–1376, 2024.
- [2] B. Kanagasabai and V. Aggarwal, "The mediating role of risk tolerance in the relationship between financial literacy and investment performance," *Colombo Business Journal*, vol. 11, no. 1, pp. 83–104, 2020.
- [3] R. Kumar, "Financial literacy and financial decisions: The mediating role of financial confidence among Indian women," 2026.
- [4] T. Iram, A. R. Bilal, and Z. Ahmad, "Investigating the mediating role of financial literacy on the relationship between women entrepreneurs' behavioral biases and investment decision making," *Gadjah Mada International Journal of Business*, vol. 25, no. 1, pp. 93–118, 2023.
- [5] P. T. Putri and M. Simanjuntak, "The role of motivation, locus of control, and financial literacy on women's investment decisions across generations," *Journal of Consumer Sciences*, vol. 5, no. 2, pp. 102–123, 2020.
- [6] C. E. Bannier and M. Neubert, "Gender differences in financial risk taking: The role of financial literacy and risk tolerance," *Economics Letters*, vol. 145, pp. 130–135, 2016.

[7] G. Suresh, J. Munuswamy, and P. Malliasamy, "Financial socialisation, decision-making power and risk-taking behaviour of rural households: Moderating mediation analysis," *SAGE Open*, vol. 16, no. 1, 2026.

[8] S. Hussain and A. Rasheed, "Risk tolerance as mediating factor in individual financial investment decisions: A developing-country study," *Studies in Economics and Econometrics*, vol. 47, no. 2, pp. 185–198, 2023.

[9] B. Y. Almansour, A. Y. Almansour, S. Elkrghli, and S. A. Shojaei, "The investment puzzle: Unveiling behavioral finance, risk perception, and financial literacy," *Economics*, vol. 13, no. 1, pp. 131–151, 2025.