

# Impact of Financial Literacy and Risk Perception on Investment Decisions among Gen Z and Millennial Investors in Urban Areas, Karnataka: An Empirical Study

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## ABSTRACT

Financial decisions are critical when it comes to ensuring one's economic security and prosperity through wealth creation. In today's financial setting, people have numerous options to invest their money in. However, finding a good investment that is suitable for the investor is determined by several issues including level of financial literacy, risk perception, and investment behavior. Financial literacy helps the investor to understand financial theories and investment choices.

The current research explores the relationship between financial literacy and investment decisions of Gen Z and Millennials living in urban areas. It further analyzes the extent to which financial literacy and risk perception affect the investment behavior of Gen Z and Millennial investors. Quantitative research methodology has been used in the current research work, and primary data were collected via the use of a structured questionnaire from 364 respondents, Gen Z and Millennial investors included.

From the analysis results, it can be seen that financial literacy is a significant variable in terms of investment decisions since it enables investors to comprehend their investments better, analyze risks and returns, and choose appropriate investments. Financial literacy and perceived risk have been shown to be significant variables in shaping investment behavior. This research indicates that the enhancement of financial literacy, along with the development of risk awareness among investors, can contribute to responsible behavior in the sphere of investments among young people from Generation Z and Millennials. This information can be helpful for the establishment of effective financial awareness programs.

**Keywords:** Financial Literacy, Risk Perception, Investment Decisions, Investment Behavior, Gen Z, Millennials, Urban Investors.

## Introduction

Investment decision plays an important role in achieving financial securities, wealth creation, and long-term financial well-being. Individual investment their savings in various including bank deposits mutual funds, shares, bonds, insurance products, gold, real estate, and other investment options. The selection of suitable investment alternatives depends on several factors including an individual's financial knowledge, understanding of investment risks, income level financial goals, investment experience and personal preference. (Markowitz & Mitchell, 2014) In recent times the arrival of digital technology and online investment platforms has made it easy and more convenient for everyone. The use of digital payment methods, financial information available on internet, online trading platforms and applications, have made it possible for people to engage themselves in financial markets. And there has been increase in the participation rate of young generation such as Gen-Z and millennials in the area of investments. The young generation has many options related to finance information and investment opportunities through digital and other internet sources to understand more about investment. (OECD & Bapat, 2020)

Financial literacy means understanding of various financial ideas like savings, inflation, interest, diversification, risk return trade off, and various types of investments. People who are financially educated will be in better position to evaluate the available investments, compare the different financial products and understand financial risks, and make an informed investment decision. On the other hand, having little financial knowledge may lead to poor investment decision and less participation in financial markets or depending on informal sources of financial information. (Lusardi & Mitchell & Huston, 2010) Risk perception is another important factor that affects investment behavior. It refers to how people think about and respond to the risks involved in investing. Different individuals may have different views about the risks of a particular investment, based on their financial knowledge, experience, goals, preferences, and confidence. Some people prefer safer investments because they have lower risk and provide steady earnings, while others are willing to take more risks to earn higher returns. Because of this, a person's perception of risk can influence the type of investment they choose, how much they invest, and the strategy they use. (Kahneman & Tversky & Weber, 2002)

GenZ and Millennials are two important groups of investors in the financial markets. The generation Z investors are usually young and more familiar with digital technology and online financial tools. On the other hand, Millennials have more experience and may have different financial responsibilities, income, risk levels, investment goals. Even though both generations can invest in digitally, they may differ in financial knowledge, views in risks, decision taking, experience in investment. Studying this difference can provide a better understanding of the investment behavior of Gen-Z and Millennials. (Dimock & OECD, 2020). The Urban areas are good choice for this study because people live in urban areas have better access to schools, work places, banking services, technologies, and wider range of investments alternatives.

This research paper examines the role of financial literacy and risk perception in the investment decision on Gen-Z and millennials investors residence in urban area.

## LITERATURE REVIEW

According to **Pokharel and Maharjan (2024)**, financial literacy, digital literacy, risk tolerance, ethical considerations, and financial attitude determine the financial behavior of Gen Z and Millennials. It is observed that these factors have a differential effect on the two generations, where financial literacy is more significant among Gen Z, whereas ethical considerations are more significant for Millennials. (Pokharel, 2024)

**Ningtyas et al. (2024)** discovered that financial literacy increases the level of knowledge among Generation Z investors, which makes their decision-making process better regarding investment because they can evaluate opportunities and risks more effectively. In addition, the existence of cognitive biases like hindsight bias and illusion of control affects investment decisions (Ningtyas, 2024).

According to **Nurrohim et al. (2024)**, financial literacy and financial capability greatly impact the intention of Generation Z in Yogyakarta toward stock investment. The research indicates that people who have higher levels of financial literacy and capability have intentions toward stock investment. (Nurrohim, 2024)

**Wijaya and Asyik (2025)** discovered that financial literacy has a positive effect on the financial behavior of Generation Z. Moreover, it was revealed that financial literacy is beneficial for the effective utilization of financial technologies in order to make financial processes more convenient. (Wijaya, 2025)

The results of **Indrawati et al. (2025)** indicate that financial literacy has a significant effect on the financing decisions of MSMEs by direct and indirect means through the mediation of risk perception and risk tolerance. The results further revealed that risk perception is a more powerful mediator because of financial literacy. (Indrawati, 2025)

**Setiyawan and Putikadea (2026)** reported that financial literacy helps to make rational investment decisions for Millennial and Generation Z employees in Surabaya. Behavioral issues such as herding and overconfidence are other variables that affect investment decisions. Nevertheless, this study is restricted by the limited number of participants from only one city. (Setiyawan, 2026)

According to **Parla (2026)**, financial literacy is helpful for effective investment decisions because of the ability to diversify investment, seek professional advice, and use long-term strategies. Risk literacy and investment skills are also important elements that help make rational investment decisions. (Parla, 2026)

## RESEARCH METHODOLOGY

This research focus on the impact of financial literacy and risk perception in investment decision making in GenZ and millennial investors in urban areas. Therefore, the sampling design was designed in a way that will allow collecting data on financial literacy, risk perception and investment behavior of both the generations. Gen Z and Millennial are used as the targeted populations due to the fact that they are part of the new generation of investors. Investment decisions of this group are determined by various aspects like ease of access to digital platforms for investments, changes in financial environment, financial literacy level and perception of investment risks.

The research was carried out using a sample size of 364 people made up of both GenZ and millennial. There were an equal number of people from both the generations in Order to provide for comparison on

the basis of financial literacy and risk perception. Data has been collected from an individual investor with respect to their financial literacy, risk perception, and investment behavior using a structured questionnaire. Individual investors were chosen as the unit of analysis as the variables of this study pertain to the individual level of analysis. 182 participants from the Gen Z while 182 are Millennials. The questionnaire is composed of two parts: demographics and statements about financial literacy, risk perception, and investments. The variables were measured using the Likert scale which ranges from 1 to 5.

The collected data will code and analyzed using Microsoft Excel. Descriptive statistics were used to provide a demographic overview as well as to give insights about the responses of the respondents. Reliability of the measurement scale was tested using Cronbach's Alpha reliability test. The association between financial literacy, risk perception, and investments was explored using Pearson correlation. In addition, regression analysis was also performed to identify the impact of financial literacy and risk perception on investments. One-Way ANOVA where it sought to test for any significant differences in investment behavior among different age groups. The statistical test was done at the 5% level of significance.

Therefore, the research methodology combines descriptive analysis, relational analysis, predictive analysis, and comparative analysis to assess the impact of financial literacy and risk perception on the decision-making process for investing by the GenZ and Millennial generation investors. With the help of the results obtained, it is possible to analyze how the improvement of financial literacy and risk awareness could influence investment behavior.

### **Based on the objectives of the study, the following hypothesis are proposed:**

To assess the association between financial literacy and investment decision-making among Gen Z and Millennial investors in urban areas.

**H0:** There is no significant association between financial literacy and investment decision- making among GenZ and Millennial investors in urban areas.

**H1:** There is a significant association between financial literacy and investment decision- making among GenZ and Millennial investors in urban areas.

To examine the extent to which financial literacy and risk perception influence the investment behavior of Gen Z and Millennial investors.

**H0:** Financial literacy and risk perception do not significantly influence the investment behavior of GenZ and Millennial investors.

**H1:** Financial literacy and risk perception significantly influence the investment behavior of GenZ and Millennial investors.

To examine whether investment preferences differ significantly across different age groups of Gen Z and Millennial investors.

**H0:** Investment preferences do not differ significantly across different age groups of GenZ and Millennial investors.

**H1:** Investment preferences differ significantly across different age groups of GenZ and millennial investors.

## RESULTS AND DISCUSSION

The research explores the effects of financial literacy and risk perception on investment decisions of Generation Z and Millennials investors living in urban areas. It concentrates on the relationship between financial literacy and perception of risk and decision making in investment process. impact of financial literacy and investment decision-making and variation in the investment preferences of different age groups.

This research is anticipated to show that there is a relationship between financial literacy and investment decision-making among Generation Z and Millennials investors. Financially knowledgeable investors are expected to be well informed about financial instruments, risk-return relationships, inflation, and investment options. Financial literacy could facilitate investors in making effective choices by evaluating opportunities. Pearson correlation analysis is applied in finding out if there is a significant relationship between financial literacy and investment decision-making. This finding is going to form the basis on which the hypothesis will be accepted or rejected.

Financial literacy was found to be positively correlated with investment decision making according to Pearson's correlation analysis with correlation coefficient being equal to  $r = 0.297$ . It means that those investors who possess higher levels of financial literacy are likely to make better decisions when investing their money.

From the regression analysis, it was evident that the two variables had an effect on the investors' behavior. The model accounted for 25.4% of the variability in the investment's behavior ( $R^2 = 0.254$ ) and was statistically significant ( $F = 61.325$ ,  $p < 0.001$ ). Financial literacy had a statistically significant effect on the behavior of the investor ( $B = 0.306$ ,  $p < 0.001$ ) as did the perception of risk ( $B = 0.336$ ,  $p < 0.001$ ). As the p-values were less than the critical value of 0.05, the null hypothesis was rejected.

One-way ANOVA revealed the statistical significance of the differences in investment preferences ( $F = 97.400$ ,  $p < 0.001$ ). The above output reveals the presence of statistical significance of the differences between the investment preferences analyzed. Since the p-value was less than 0.05, we reject the null hypothesis.

In general, it can be seen that the study outcomes support the hypothesis that there exists a positive relationship between financial literacy and investment decision making. It has also been seen that financial literacy and risk perception have a bearing on investment behavior. The one-way ANOVA results also confirm that there are differences in investment preferences amongst the different groups studied.

## CONCLUSION

Financial literacy and risk perception have an important part to play in the decision-making process of Generation Z and millennial investors residing in cities. According to the results of the study, financial literacy has a positive correlation with decision-making regarding investments, which means that the higher financial literacy of an individual enables him or her to comprehend financial notions and make

wise decisions. Additional regression analysis results indicate that the level of financial literacy and risk perception play a crucial role in influencing investment behavior. (Lusardi, 2014)

It is also found from the study that there are significant differences in investment preferences amongst the groups under investigation. In general, the results highlight the need to enhance financial literacy and build a better awareness of the risks associated with investments on the part of the younger generation. The results may be employed by both financial institutions, teachers, and policy makers to foster the financial literacy of Gen Z and Millennial investors. (Kahnema, 1979)

This paper also sheds light on the need for practical financial education as far as the financial behavior of young investors is concerned. Helping investors become more knowledgeable about finance and assessing risks appropriately will help them make more responsible and confident decisions when it comes to investments. The results of the research could also prove to be very helpful for the future generation of researchers interested in investigating other variables like financial attitude, investment experience, risk tolerance, and online investing habits of people belonging to different generations.

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