



Financial Literacy and Investment Decisions in the Digital Era: The Mediating Effect of Peer Influence and the Moderating Effect of Financial Status

¹Sachin Vishwakarma

¹sachinvishwakarma1002@gmail.com

ABSTRACT

Financial literacy has become a critical determinant of investment decision-making in the rapidly evolving digital financial environment. While traditional financial literacy focuses on knowledge of budgeting, saving, and investing, emerging perspectives emphasize the importance of digital financial literacy and behavioural financial literacy in enabling individuals to make informed investment choices. This study proposes a comprehensive framework to examine the influence of digital financial literacy and behavioural financial literacy on investment decisions, considering peer influence as a mediating variable and financial status as a moderating variable. Grounded in the Theory of Planned Behaviour, the framework explains how financial knowledge, behavioural tendencies, social interactions, and economic conditions collectively shape investment behaviour. The study addresses existing research gaps by distinguishing between digital and behavioural dimensions of financial literacy and integrating both social and structural factors into a unified model. The proposed framework is expected to provide valuable theoretical and practical insights for policymakers, financial educators, digital financial service providers, and investors by promoting informed investment behaviour, financial inclusion, and long-term financial well-being in the digital economy.

Keywords: Financial Literacy, Digital Financial Literacy, Behavioural Financial Literacy, Investment Decision, Peer Influence, Financial Status

INTRODUCTION

In today's dynamic and increasingly digitised financial landscape, the decision of where to invest one's money has become a complex and multifaceted process. It is no longer limited to simply choosing between savings accounts or fixed deposits. Instead, individuals are faced with a wide array of sophisticated financial instruments, ranging from mutual funds, exchange-traded funds, cryptocurrencies, digital wallets, and algorithm-based advisory services to international investment platforms offering automated portfolio management. These developments have transformed investment decisions from a relatively straightforward process into one requiring a nuanced understanding of multiple dimensions of financial literacy. The combination of technological advancement, economic volatility, and democratised access to financial markets has made investment decision-making both more accessible and more challenging. In this context, having deep financial knowledge has become not just a useful asset, but an essential foundation for securing long-term financial well-being. Financial literacy, defined as the ability to understand and use various financial



skills, including budgeting, saving, investing, and managing personal finances (Lusardi and Mitchell, 2014; Sadashiv, 2023), is a primary determinant of how individuals navigate the complexities of financial decision-making. Research over the past two decades has consistently affirmed the strong relationship between financial literacy and improved financial behaviours, such as retirement planning, investment diversification, and avoidance of high-interest debt (Van Rooij et al., 2011; Banyen, 2022). However, in recent years, the construct of financial literacy has evolved in recognition of changing economic and technological conditions. It is now increasingly viewed as a multidimensional construct, encompassing not only basic financial knowledge but also digital and behavioural dimensions that address how people interact with financial technologies and manage emotional and psychological influences on financial behaviour.

The digital transformation of financial services has given rise to the concept of digital financial literacy, which refers to the ability to use digital tools for financial transactions securely and effectively (Park and Lee, 2020; Nasir, 2022; Audi et al., 2024). This includes familiarity with online banking systems, mobile financial applications, trading platforms, and budgeting software. It is particularly crucial in today's environment, where digital financial services are rapidly becoming the norm. Individuals are now expected to make investment decisions through platforms that require not only financial acumen but also technological fluency. As digital finance continues to evolve, so too does the risk of misinformation, fraud, and poor decision-making, thereby increasing the relevance of digital financial literacy as a protective factor (Akram et al., 2023). Alongside digital capabilities, behavioural financial literacy has emerged as another essential dimension in the financial decision-making process. Behavioural financial literacy focuses on the psychological and behavioural patterns that influence how individuals manage money, such as habits of saving, spending, delayed gratification, and emotional control (Xiao and Porto, 2017; Adjasi & Yu, 2021). Unlike traditional definitions that emphasise financial knowledge alone, behavioural financial literacy bridges the gap between what individuals know and how they act, accounting for constraints such as emotional biases, peer pressure, and impulsive behaviour (Maurya, 2018; Karhan, 2019; Chowdhury et al., 2024). This broader conceptualisation indicates that financial literacy is not a static attribute but an evolving competence responsive to behavioural tendencies, digital environments, and social contexts. The intersection of digital and behavioural financial literacy offers a more complete understanding of an individual's preparedness for informed investing. For instance, someone who understands investment diversification may still succumb to impulsive trading or herd behaviour because of emotional factors. Recognising these dimensions is essential for advancing both theoretical and practical approaches to investment behaviour (Siddiqi, 2018; Rahim et al., 2024). Moreover, investment decisions are often shaped by peer influence, which has gained increased attention in recent financial behaviour literature. Decisions related to investing, like many other behaviours, are socially embedded, with individuals frequently modelling their financial actions on the behaviours and attitudes of their peers. This pattern is grounded in the Theory of Planned Behaviour, which holds that behavioural intentions are influenced not only



by personal attitudes and perceived control but also by the expectations of others (Ajzen, 1991). In financial contexts, peer groups serve as sources of information, motivation, and behavioural cues. Individuals often emulate the decisions of trusted friends or influencers, even without complete knowledge of the financial instruments involved (Brown et al., 2008; Shahabuddin & Ali, 2024).

Peer influence thus operates as a mediating variable between financial literacy and actual investment behaviour. Its significance is further amplified in the digital age, where financial forums, social media platforms, and content creators shape investment narratives. Individuals may be influenced by others' experiences or testimonials, even when they themselves possess sufficient financial literacy, demonstrating how social comparison can sometimes override rational evaluation. Yet, this mediating role remains underdeveloped in existing financial literacy models (Naz and Tariq, 2023; Abdul, 2023). Additionally, financial status plays a moderating role in investment behaviours. Financial standing, measured in terms of income, wealth, or perceived economic security, affects the likelihood of turning financial knowledge into action. Individuals with higher financial status are more likely to invest confidently, access diverse financial instruments, and tolerate potential losses. Conversely, those with lower economic security may avoid investing due to fear of loss or resource constraints, regardless of their financial knowledge. This risk aversion points to the structural limitations that inhibit the translation of financial literacy into effective behaviour, especially in the case of behavioural literacy (Bashir & Rashid, 2019; Farid et al., 2023). The role of financial status also introduces a broader equity dimension into the debate on financial literacy. It suggests that educational efforts alone are not sufficient unless they are accompanied by structural enablers, such as access to financial resources, fair investment opportunities, and economic stability. This argument aligns with calls for more inclusive financial policies that address barriers to participation in formal financial systems (Perveez, 2019; Iqbal and Haider, 2024).

Despite expanding interest in financial literacy, several important gaps persist in the literature. A key gap is the failure to differentiate between digital and behavioural financial literacy in empirical models. Many existing studies treat financial literacy as a singular concept, ignoring how digital competence and behavioural control function separately yet complementarily. This lack of distinction weakens the explanatory power of traditional models and neglects the complex mechanisms through which literacy influences decision-making. Similarly, while peer influence is acknowledged in behavioural finance, its mediating role between literacy and investment actions is often overlooked (Zahid, 2018; Mohammadi, 2021). Even fewer studies investigate how digital literacy, behavioural literacy, peer influence, and financial status jointly interact to shape investment behaviour. To address these gaps, this study builds upon the Theory of Planned Behaviour by proposing a comprehensive model of investment decision-making. Financial literacy is conceptualised in two components: digital and behavioural. Peer influence is incorporated as a mediating factor, and financial status is treated as a moderating factor. This integrated model provides a robust, realistic understanding of individual investment behaviour within modern financial



ecosystems. The framework is highly relevant in today's environment, where financial participation is increasingly digital, decisions are socially influenced, and economic disparities shape access. By acknowledging the interplay of knowledge, behaviour, social norms, and structural conditions, the model contributes to a more inclusive and empirically grounded approach to understanding investment decisions. This research holds significant implications for financial educators, digital platform designers, policymakers, and individuals themselves. As financial markets become more democratised, ensuring that people possess not only knowledge but also the context and resources to act on it remains an essential challenge. This study addresses that challenge by offering a multidimensional, socially aware, and practically applicable framework for investment decision-making in the digital age.

A Financial literacy

The ability to make informed judgements about money is a result of the possession of the skills, knowledge, and behaviours that are referred to as financial literacy. The terms financial literacy, financial education, and financial knowledge are frequently used interchangeably (I. Vitaitytė, 2021). People who lack financial sophistication are unable to make financial plans due to their inadequate financial literacy. For instance, individuals who are financially sophisticated are adept at financial calculations, such as compound interest, which enables them to participate in low-credit borrowing. In the majority of cases, individuals who lack sophistication incur substantial expenses associated with their debt financing [9].

B. Investment Decision

In order to achieve all of your financial goals, you must first evaluate and choose the best opportunities for investing your money. This process is known as an investment decision. Many factors are considered in this process, including market conditions, inflation and interest rates, objectives, investment horizon, risk tolerance, financial status, and the risks and rewards associated with various investment opportunities. The way you manage and allocate your money is determined by your investment choices (M. Uddin, 2024).

C. Financial Literacy and Investment Behaviour

A thorough understanding of a range of financial concepts, instruments, and systems is necessary for individuals to make wise and efficient choices regarding their financial resources. This is where financial literacy comes in. It involves the ability to employ financial skills to effectively manage one's financial resources, such as budgeting, saving, investing, and understanding financial risks (A. Bayakhmetova, 2023).

Financial literacy enables individuals to make informed financial decisions, plan for the future, and effectively navigate the intricacies of the financial sector. Investment behaviour, in contrast, refers to the decisions and actions that individuals undertake when investing their funds (A. Johri & M. U., 2023). This comprises judgements regarding portfolio diversification, asset allocation, risk tolerance, and the selection of particular investment instruments, including equities, bonds, mutual funds, real estate, and others. Financial objectives, risk tolerance, market conditions, individual preferences, and time horizons are all factors that influence investment behaviour (K.D, 2020).

D Benefits of financial literacy

By empowering people to make more informed financial choices, financial literacy generally has benefits.

Prevent devastating financial mistakes: Contributions to a conventional "individual retirement account (IRA)" cannot be taken out until retirement, but interest rates on variable rate loans may change from month to month. Financial decisions that appear to be benign may have long- term consequences that result in financial losses or affect life plans for an individual who is oblivious of these and other financial facts. In order to prevent individuals from making financial errors with their personal finances, financial literacy is essential.

Prepares people for financial emergencies: People are better prepared for unpredictable times by learning about topics such as emergency preparedness and saving. Despite the financial repercussions of losing employment or incurring a significant unanticipated expense, an individual can mitigate the impact by consistently saving.

Individuals reach their goals: By developing a more comprehensive understanding of budgeting and saving money, individuals can establish plans that set expectations, hold them accountable for their finances, and provide a path to achieving significant financial goals. A person may create a strategy that will help them achieve their goals even if they cannot afford them at present.

Increase to confidence: Please consider the repercussions of being compelled to make a financial decision that could have a profound impact on your life without all the requisite information. Financial literacy empowers individuals to make significant life decisions with increased assurance. With less room for surprise or unfavourable consequences, they have a better chance of getting the conclusion they want.

Table 1. Components of Financial Literacy

Dimension	Description	Importance in Investment Decisions
Financial Knowledge	Understanding financial concepts, products, and markets	Enables informed investment choices
Digital Financial Literacy	Ability to use digital financial platforms and online investment tools	Facilitates secure and efficient digital investing
Behavioral Financial Literacy	Financial attitudes, self-control, budgeting, and emotional management	Reduces impulsive investment behavior
Financial Skills	Practical ability to manage savings, investments, and financial planning	Supports long-term wealth creation

Table 1 presents the major components of financial literacy that influence an individual's ability to make effective investment decisions. Financial knowledge provides a fundamental understanding of financial concepts, products, and market operations, enabling individuals to evaluate investment alternatives. Digital financial literacy focuses on the capability to use digital financial services, online banking, and investment platforms securely and efficiently in the digital economy. Behavioural financial literacy emphasizes financial attitudes, self-

control, budgeting practices, and emotional regulation, which help investors avoid irrational or impulsive investment decisions. Financial skills represent the practical application of financial knowledge in planning, saving, budgeting, and portfolio management, thereby supporting long-term financial stability and wealth creation. Together, these components provide a comprehensive foundation for informed investment decision-making.

Table 2. Types of Investment Decisions

Investment Type	Risk Level	Expected Return	Digital Platform Availability
Savings Account	Low	Low	Yes
Fixed Deposit	Low	Low–Moderate	Yes
Mutual Funds	Moderate	Moderate–High	Yes
Stocks	High	High	Yes
Bonds	Low–Moderate	Moderate	Yes
Exchange Traded Funds (ETFs)	Moderate	Moderate	Yes
Cryptocurrency	Very High	Very High	Yes
Real Estate	Moderate	Moderate–High	Limited

Table 2 categorizes common investment alternatives based on their associated risk level, expected return, and accessibility through digital investment platforms. Traditional investment options such as savings accounts and fixed deposits offer relatively low risk with stable returns, making them suitable for conservative investors. Mutual funds, exchange-traded funds (ETFs), and bonds provide moderate levels of risk and return while promoting portfolio diversification. Stocks and cryptocurrencies are characterized by higher volatility and greater return potential but require stronger financial knowledge and risk management capabilities. Real estate remains an important long-term investment option, although its digital accessibility is comparatively limited. This classification illustrates the wide range of investment opportunities available in today's digital financial environment.

Table 3 Digital Financial Literacy Competencies

Competency	Description
Online Banking	Ability to perform secure banking transactions
Mobile Payment Systems	Use of UPI, digital wallets, and payment applications
Digital Investment Platforms	Ability to invest through online trading applications
Cybersecurity Awareness	Knowledge of online fraud prevention
Financial Information Evaluation	Ability to identify reliable investment information

Table 3 outlines the essential competencies required for effective digital financial literacy. These competencies include the ability to perform secure online banking transactions, utilize mobile payment systems such as digital wallets and UPI services, access and manage



investments through online trading platforms, recognize cybersecurity threats, and evaluate the reliability of financial information available through digital media. As financial services increasingly migrate to digital platforms, these competencies have become essential for reducing financial risk, preventing fraud, and enabling informed investment decisions. Developing these digital capabilities strengthens investor confidence and promotes greater participation in digital financial markets.

Table 4. Factors Influencing Investment Decisions

Category	Factors
Personal Factors	Age, education, financial literacy, experience
Psychological Factors	Risk tolerance, confidence, emotions
Social Factors	Peer influence, family influence, social media
Economic Factors	Income, financial status, inflation
Technological Factors	Digital literacy, fintech adoption

Table 4 summarizes the major categories of factors influencing individual investment decisions. Personal factors, including age, education, financial literacy, and investment experience, determine an individual's financial capability and decision-making competence. Psychological factors such as risk tolerance, confidence, and emotional behavior significantly influence investment preferences and responses to market uncertainty. Social factors, including peer influence, family members, and social media interactions, shape investment behavior through information sharing and social learning. Economic factors, particularly income level, financial status, and inflation, determine the financial capacity and willingness to invest. Technological factors, including digital literacy and fintech adoption, facilitate access to digital investment platforms and financial information. Collectively, these factors demonstrate that investment decisions result from the interaction of individual, social, economic, psychological, and technological influences rather than financial knowledge alone.

RELATED STUDY

The study examined the relationship between financial literacy, risk tolerance, and investment performance among 288 individual investors in India. Financial literacy positively influenced investment decisions and investment performance. Risk tolerance partially mediated this relationship, indicating that knowledgeable investors are more willing to take calculated risks. Higher financial literacy resulted in better portfolio management and improved financial outcomes. The study emphasized the importance of financial education in encouraging informed investment behaviour. It recommended promoting financial literacy programs to improve investor confidence and financial inclusion.

Asri et al. (2024) conducted a bibliometric analysis of 518 publications on retirement financial sustainability. The study identified financial literacy, behavioural finance, financial risk, and socioeconomic factors as major themes affecting retirement preparedness. The findings showed that financial literacy significantly improves long-term financial sustainability and retirement planning. Psychological and demographic factors also influence



retirement readiness. The study recommended targeted financial education and policy interventions to strengthen retirement security across different population groups.

Baloch et al. (2025) investigated the influence of financial literacy on investment decisions among 180 respondents in Saudi Arabia. Using PLS-SEM analysis, the study found that financial literacy positively and significantly improves investment decisions. Overconfidence also positively moderated this relationship, encouraging greater investment participation. The findings suggested that financial knowledge combined with appropriate confidence leads to better investment outcomes. The study emphasized the importance of financial education in improving investment behaviour.

Basingi (2026) examined the effects of behavioural and digital financial literacy on investment decisions among 400 professionals. The study found that both behavioural and digital financial literacy positively influence investment decisions. Financial status and social influence strengthened the relationship between behavioural literacy and investment behaviour. The findings highlighted that digitally literate individuals make better financial decisions using online platforms. The study recommended enhancing digital and behavioural financial education to improve investment practices, especially among disadvantaged groups.

Gupta et al. (2024) explored the impact of financial literacy on investment decisions. The study found that financially literate individuals are more likely to make informed investment choices and take calculated financial risks. Education and age significantly influence investment behaviour. Financial literacy improves personal financial management and encourages active financial planning. The study concluded that promoting financial literacy can enhance investment performance and overall economic well-being.

Jaya et al. (2024) examined the relationship between financial inclusion, financial literacy, social capital, and sustainable development in Pakistani educational institutions. Using PLS-SEM, the study found positive relationships among all variables. Financial literacy and social capital mediated the relationship between financial inclusion and sustainable development. The findings suggested that improving financial knowledge contributes to sustainable development outcomes. The study recommended collaborative efforts by educators and policymakers to strengthen financial inclusion initiatives.

Kumar et al. (2024) investigated the influence of financial literacy on investment decisions using descriptive and analytical methods. The study found that financially literate investors make informed, diversified, and long-term investment decisions. They better understand risk-return trade-offs and prefer investments such as mutual funds and stocks. Investors with low financial literacy tend to avoid risk and rely on emotional decisions. The study emphasized financial education as a key factor in improving investment performance and economic security.

Mediaty Habbe et al. (2025) highlighted the importance of financial literacy in managing savings, budgeting, investing, and personal finance. The study found that financially literate individuals make better investment decisions and effectively evaluate investment risks. Financial literacy encourages diversification and long-term financial planning while reducing poor financial decisions. The authors recommended expanding financial education through



government programs and training initiatives to improve investment behaviour and financial security.

Narwariya et al. (2025) investigated the relationship between financial literacy and investment decisions among Saudi Arabian investors. Using SEM, the study found that financial literacy, financial knowledge, and financial behaviour positively influence investment decisions. Investors with higher financial literacy demonstrated better investment decision-making abilities. The findings support the importance of financial education in reducing financial losses and improving investment outcomes. The study recommended strengthening financial awareness initiatives among investors.

Parsai et al. (2025) examined the impact of financial literacy on investment decisions among university students during the pandemic. Using simple linear regression, the study found that financial literacy significantly influenced investment decisions. Students with greater financial knowledge showed stronger interest in saving and investing for the future. The study concluded that improving financial literacy enhances financial management and investment behaviour, particularly during uncertain economic conditions.

Putri et al. (2021) studied the effects of financial literacy and financial self-efficacy on investment decisions among accounting students in Indonesia. The findings showed that financial literacy had a significant positive effect on investment decisions, whereas financial self-efficacy had no significant influence. The study suggested that knowledge-based financial competence is more important than confidence alone. It recommended integrating financial education into university curricula to improve investment decision-making.

Rustan et al. (2021) examined the importance of financial literacy in influencing investment behaviour. The study found that financially literate individuals demonstrate higher risk tolerance, better portfolio diversification, and stronger long-term financial planning. Improved financial knowledge enables investors to make informed investment decisions and accumulate wealth over time. The study emphasized the role of financial education in promoting responsible investment behaviour and supporting long-term financial security.

Sundarasan et al. (2024) examined the relationship between financial literacy and investment decisions among Saudi Arabian investors. Using SEM and SmartPLS, the study found that financial literacy, financial knowledge, and financial behaviour positively influence investment decisions. The findings highlighted the importance of financial education in helping investors make informed financial choices and avoid financial losses. The study recommended expanding financial awareness programs to improve investment decision-making.

Uddin et al. (2024) investigated the effects of financial literacy, financial attitude, and financial behaviour on investment decisions and MSME insolvency. Using SEM-PLS, the study found that financial literacy significantly improves investment decisions and business sustainability. Financial attitudes and behaviours also positively influenced investment outcomes. However, investment decisions did not mediate the relationship between financial literacy and MSME insolvency. The study emphasized strengthening financial education among MSME owners to support better financial management.



Ullah et al. (2026) examined the impact of financial literacy and investor behaviour on capital market investment decisions. Multiple regression analysis revealed that both financial literacy and investor behaviour significantly influence investment decisions. Financial literacy improved investors' ability to evaluate investment opportunities, while positive investor behaviour encouraged market participation. The study concluded that enhancing financial education and promoting responsible investor behaviour can improve investment decision-making and financial market participation.

Table 2 Literature Review Summary

Author(s) & Year	Study Focus	Key Findings
Lee et al. (2015)	Industry 4.0 and Cyber-Physical Systems	Industry 4.0 enables smart manufacturing through digital integration and automation.
Frank et al. (2019)	Industry technologies 4.0	IoT, AI, cloud computing, and big data improve manufacturing efficiency and competitiveness.
Ghobakhloo (2020)	Digital transformation	Industry 4.0 supports operational excellence, innovation, and sustainable manufacturing.
Verhoef et al. (2010)	Customer engagement	Customer engagement enhances customer satisfaction, loyalty, and long-term relationships.
Vivek et al. (2012)	Customer engagement framework	Engagement is driven by meaningful interactions between firms and customers.
Porter and Heppelmann (2015)	Smart connected products	Connected products improve customer value through real-time services and data-driven interactions.
Kravariti et al. (2025)	Talent management and organizational culture	Organizational culture influences digital transformation and customer-focused practices.
Tata Motors Annual Report (Latest)	Digital transformation	Tata Motors has adopted smart manufacturing, connected technologies, AI, and digital customer platforms to improve operational and customer performance.

CONCLUSION

The increasing complexity of modern financial markets requires individuals to possess not only traditional financial knowledge but also digital competencies and sound behavioral skills to make effective investment decisions. This study presents a multidimensional framework that integrates digital financial literacy and behavioral financial literacy as key determinants of investment decision-making while recognizing the mediating role of peer influence and the moderating role of financial status. By extending the Theory of Planned Behavior, the



proposed model offers a more comprehensive understanding of how financial knowledge is translated into actual investment behavior under varying social and economic conditions. The framework contributes to the existing literature by addressing important conceptual gaps and provides practical implications for designing financial education programs, digital financial platforms, and public policies aimed at improving financial inclusion and responsible investment practices. Ultimately, strengthening financial literacy in its digital and behavioral dimensions can empower individuals to make informed investment decisions, enhance financial resilience, and achieve sustainable financial well-being in an increasingly digitalized economy.

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