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Impact of Financial Literacy and Risk Perception on Investment Decision: A SEM Study of the Lucknow and Kanpur Districts in Uttar Pradesh, India

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Abstract: ***The current study uses a Structural Equation Modelling (SEM) approach to analyse and develop a model, i.e., the impact of financial literacy and risk perception on investment decisions. Primary data were collected from respondents in Lucknow and Kanpur and were investigated using factor analysis and SEM. The results disclose a strong three-factor structure explaining 79.46% of the total variance, depicting strong construct validity. The structural model indicates that financially literate investors can perceive risk and make investment decisions judiciously. Moreover, risk perception is strongly influenced by financial literacy, emphasising its indirect impact on investment choices.***

Keywords: ***Financial Literacy, Risk Perception, Investment Decision, Behavioural Finance, Structural Equation Modelling.***

Nomenclature:
FL: Financial Literacy
RP: Risk Perception
ID: Investment Decision
BF: Behavioural Finance
SEM: Structural Equation Modelling
TPB: Theory of Planned Behaviour
IP: Investment Planning
PR: Perceived Risk
IA: Investor Assessment
FA: Factor Analysis
RD; Research Design
DC: Data Collection
IB: Investment Behaviour
RCM: Rotated Component Matrix
HD: Hypothesis Development
VU: Variable Used

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I. INTRODUCTION

Investment decision-making has been a subject of much interest in recent years due to the increasing complexity of financial markets and the growing availability of different investment options. Today, people are compelled to make financially literate decisions in an uncertain, erratic, fast-moving economic environment. In this respect, it has become important for researchers and practitioners to determine the factors that affect investment decisions.

Financial literacy and risk perception are two important factors among the many determinants that most strongly affect individuals' investment behaviour. Financial literacy is related to an individual's knowledge of financial concepts, ability to assess investment opportunities, and capacity to make sound financial decisions. It plays a significant role in accelerating individuals' capacity to participate in financial markets and to manage their financial resources systematically. Research has shown that individuals with greater financial literacy are more likely to engage in investment activities and exhibit enhanced financial planning behaviours.

Earlier research has shown that risk perception is one of the investment behaviours that has a big impact, alongside financial literacy. Risk perception is an investor's assessment of the uncertainty and potential losses associated with an investment. Compared to objective risk, perceived risk is affected by psychological, emotional, and cognitive factors. When making those decisions under uncertainty, people might rely on subjective risk judgments rather than on actual probabilities. As in the investment analysis literature, the behavioural finance literature indicates that heuristics and biases influence investors' behaviour when making judgment calls about interpreting and responding to risky decisions.

Financial literacy may also be related to risk perception. Financially educated people tend to have a profound understanding of financial risk, can differentiate among investment options, and are better able to judge the suitability of various financial strategies. Greater awareness would provide more insight into our decision-making mechanism. On the other hand, a broader understanding of risks can foster a more cautious and more balanced investment outlook. In accordance with the expanding literature, comparatively few studies have examined the relationship between financial literacy and risk perception in investment planning, which demands new analytical

techniques; and, particularly under-studied, is the role played by the structure of the variables in the decision-making process. In particular, few studies have used Structural Equation Modelling (SEM) to analyse the direct and indirect relationships among these variables within a unified framework.

II. REVIEW OF RELATED LITERATURE

A. Framework for the Study Rests Upon Two Major Theories

A. Behavioural Finance Theory. Behavioural finance suggests that investors do not operate at the level of rationality. It is the psychological biases, emotions, and risk perceptions that instead determine their decisions. This theory could help explain why those with similar financial knowledge act differently in investment situations. Theory of Planned Behaviour (TPB). The Theory of Planned Behaviour suggests that behaviour is a consequence of the following factors:

i. Attitude.
ii. Subjective norms.
iii. Perceived behavioural control.

In the context of this study:
Financial literacy improves perceived control.
• Attitude toward investment depends on risk perception.

B. Financial Literacy and Investment Decision

Financial literacy has been widely recognized as an important determinant of investing behavior. Annamaria found that financially literate individuals are more likely to participate in retirement and invest in the stock market, according to the research. It has been found that financial literacy knowledge remarkably improves stock market participation. pointed out that the more financially literate one is, the better one will borrow or invest, highlighting the relationship between financial literacy and preferred investment strategies among salaried persons in India. Financial literacy enhances investment awareness & enhances decision-making efficiency. Understanding money fosters awareness, analysis, and confidence, enabling people to make wise investments. But literacy might also prompt caution and greater risk awareness.

C. Perceived Risks and Investment Decision

The researcher found that perceptions of risk significantly affect how different groups allocate financial resources. Risk perception is often subjective and driven by psychological factors. Prior research emphasised the importance of perceived rather than actual risk in investor choices. It was also explained that heuristics and biases influence investors' perceptions of risk. According to Nofsinger [1], investors avoid volatile investments when they perceive high risk, and portfolio allocation and investment choice are affected by individual differences in risk perception.

Risk perception is a critical psychological determinant that helps investors decide whether to prefer Safe or risky investment instruments.

D. Relationship Between Financial Literacy and Risk Perception

Other research investigations examined the effect of financial literacy on risk perception. Financial literacy and risk perception collectively influence investment choices (Aren and Zengin [2]). Financial literacy and investment decisions are regulated by risk perception, as revealed by Din and Ahmed [3]. Khan et al. [4] discovered that financial literacy improves the ability to evaluate risks and make rational decisions. Financial literacy affects people's investing decisions both directly and indirectly by improving their capacity to process and manage risk.

E. Behavioural Factors that Influence Investment Decision

There are behavioural preconceptions as well. Daniel Kahneman and Amos Tversky introduced Prospect Theory in 1979, which explains how individuals measure wins and losses asymmetrically. According to financial decisions, there is rational accounting and erratic behaviour. Overconfidence leads to high trading volume and low profitability. Behavioural finance is important because investment decisions are influenced not just by scientific information, but also by psychological biases and heuristics.

F. Research Gap

Despite an extensive repository of research examining financial literacy and risk perception autonomously, significant gaps remain:

i. Many of the previous studies emphasized on the direct impact of financial literacy on investment decisions, with restricted attention to its indirect influence through risk perception.
ii. The integration of financial literacy, risk perception, and investment decision within a single comprehensive SEM framework is relatively underexplored.
iii. Mostly present research has emphasised positive relationships, without exploring how financial literacy can lead to more cautious or risk-aware investment behaviour.
iv. There is a lack of empirical evidence that is specific to the particular situation of various countries, particularly in developing countries like India, using advanced statistical techniques.

To gain a complete understanding of investor behaviour, the above gaps need to be addressed carefully.

G. Research Objectives

Given the above research gap, the present study attempts to fulfil the following objectives:

i. To study the impact of financial literacy on investment decisions.
ii. To evaluate the influence of risk perception on investment decisions.
iii. To examine the relationship between financial literacy and risk perception.
iv. To create and test a comprehensive model using Structural Equation Modelling (SEM) to determine the combined influence of these factors.

III. HYPOTHESIS DEVELOPMENT

A. Investment Decision and Financial Literacy

Investment decisions are more

sophisticated due to cognitive and psychological factors. This literature review explores frequently employed frameworks for analysing human behaviour, including theories from finance, accounting, psychology, and risk management. This section outlines the hypotheses for the proposed research framework, which are based on the TPB and Behavioural Finance Theory. Financial literacy can be defined as an individual's capacity to perceive financial information, evaluate investment opportunities, and make informed purchasing decisions. For some people, it's a way to enhance their insight and more effectively determine the risk-return trade-off of different financial instruments. Prior studies indicate that financial literacy contributes positively towards investment outcomes. It was found that financially literate individuals are likely to participate in capital markets and engage in long-term financial planning. Similarly, it was also found that financial literacy drives participation in the stock market. Moreover, explained that those with more financial literacy make better borrowing and investment policies.

It was found that there was a positive relationship between financial literacy and investment preference among salaried individuals in the Indian context. Though financial literacy tends to support informed decision-making, it can also promote more cautious, strategic investing. A financially literate person takes risks more critically, leading to more balanced, conservative investing and less speculation. Conceptually, the Theory of Planned Behaviour posits that greater knowledge leads to greater perceived behavioural control, which influences decision-making. Behavioural finance also elucidates that knowledge must be on a par with psychological factors; that is, it affects financial behaviour (Alotaibi [5]). Hence, financial literacy has a significant and meaningful impact on investment decisions, indicating informed and rational investor behaviour.

H1: Financial Literacy has a Significant Impact on Investment Decisions.

B. Investment Decision and Risk Perception

Risk perception is a person's subjective assessment of the uncertainty and potential loss associated with an investment. It is influential in developing investor attitudes and behaviour. Risk perception is explained by psychological factors (and, by implication, emotion), not by objective probabilities. Investors widely use perceived risk to make investment decisions, but it may differ from market risk. There is empirical evidence demonstrating the relevance of risk perception to investment choices. Previous studies have found that risk preferences differ across types of individuals in different financial realms, thus making financial decisions affect what they will put into an investment plan. Nofsinger [1] also observed that a high perception of risk is associated with investors' preference for safer investments and avoidance of highly volatile assets. It was pointed out that heuristics and biases shape investor behaviour, which in turn drives risk perception and, hence, investment decisions. This study implies that risk perception is a strong behavioural determinant influencing the type and scale of investment, as well as the type and amount of investment (as a firm). In conclusion, risk perception is expected to play an important, positive role in shaping investors' decision-making. It is crucial to determine their behaviour, as it influences their preferred course of action.

H2: Risk Perception has a Significant Impact on Investment Decisions

C. Financial Literacy and Risk Perception

It is one of the most essential measures of risk-related attitudes in finance. Financial literacy not only influences direct investment decisions but also affects how people perceive risk. People with greater expertise in finance are better able to analyse financial markets and assess uncertainty and risk-related information. The empirical results of Aren and Zengin [2] indicate that financial literacy positively affects investment choices by influencing risk perception. Likewise, Din & Ahmed [3] showed that risk perception mediates the association between financial literacy and investment decisions. Financial literacy stimulates people's ability to:

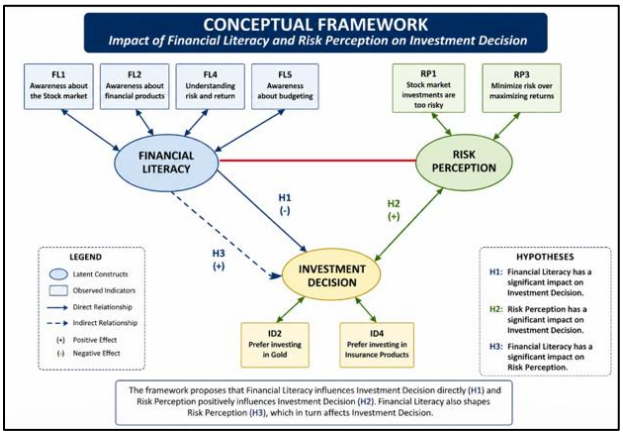
i. Assess risk more precisely.
ii. Differentiate real and perceived risk
iii. Make sensible decisions under uncertainty.

Simultaneously, this thorough review may cause investors to be more cautious about risk, thereby elevating the quality of investment decision-making. At last, this point requires attention to how data from our own lives directly impacts behaviour - from an educational viewpoint, behavioural finance says that knowledge can reduce cognitive biases in risk evaluation, as also explained by many researchers. The Theory of Planned Behaviour further posits that knowledge strongly influences attitudes toward risk perception. Hence, financial literacy is expected to have a sizable impact on risk perception, thereby helping investors develop more rational and disciplined investment behaviour.

H3: Financial Literacy has a Significant Impact on Risk Perception

Summary of Hypotheses: From the previously mentioned discussion, the present study hypothesises that:

H1: Financial literacy → Investment decision.
H2: Risk perception → Investment decision.
H3: Financial literacy → Risk perception.



Source: *Authors' compilation based on literature review and adapted from previous studies, including Khan (2016)- Impact of financial literacy, Financial Knowledge, Moderating Role of Risk Perception on investment decision and related behavioral finance literature[6].*

Conceptual Connection: According to the framework,

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people's risk aversion and financial literacy are closely linked. Risk perception is one of the primary behavioural antecedents, and financial literacy has a significant influence both directly and indirectly (via risk perception). This all-encompassing approach to investor decision-making combines psychological and knowledge-based methods.

IV. RESEARCH METHODOLOGY

A. Research Design

A descriptive and analytical research design is opted for this study

B. Data Collection

i. Sample size: 108 respondents (From Kanpur district of Uttar Pradesh, India)
ii. Data type: Primary data (structured questionnaire)
iii. Secondary data: From previous studies of this field

C. Variables Used

i. Financial Literacy (FL1, FL2, FL4, FL5) Where, FL1 means Awareness about the Stock market FL2 I am aware of the different financial products for investing FL3 I can understand the Risk and return related financial products FL4 I am well aware of budgeting
ii. Risk Perception (RP1, RP3) RP1 and RP3 mean I believe stock market investments are too risky, and I prioritize minimizing risk over maximizing returns
iii. Investment Decision (ID2, ID4) Where ID2 and ID4 mean I prefer investing in Gold, and I prefer investing in an insurance product. Note: FL3, RP2 and ID1 and ID3 are eliminated due to multicollinearity

D. Tools & Techniques

i. Factor Analysis (PCA with Varimax Rotation)
ii. Structural Equation Modelling (SEM)

V. DATA ANALYSIS AND INTERPRETATION

A. Introduction

This chapter analyses and interprets the collected data and examines the effects of financial literacy and risk perception on investor decisions. To ensure reliable and robust results, sophisticated statistical methods (Factor Analysis and Structural Equation Modelling (SEM)) were used. You receive insights into the structural data and interrelationships of the construct.

B. Factor Analysis

Table II: Communalities

	Initial	Extraction
I am aware of the Stock market	1.000	.850
I am aware of the different financial products for investing	1.000	.868
I can understand the Risk and return related financial products	1.000	.799
I am well aware of budgeting	1.000	.906
I believe stock market investments are too risky.	1.000	.602
I prioritize minimizing risk over maximizing returns	1.000	.848
I prefer Investing In Gold	1.000	.624
I prefer investing in an insurance product	1.000	.859

Extraction Method: Principal Component Analysis.

i. Suitability of Data

The dataset was also described as well-suited for factor analysis. All variables were closely related, enabling effective dimension reduction and construct identification.

ii. Communalities

The communalities of all variables ranged from 0.602 to 0.906, indicating that the extracted factors explain a large portion of the variance in each variable. High communalities confirm that the selected variables are well represented within the factor structure, supporting the adequacy of the measurement model.

Table III: Total Variance Explained

Component_	Initial_ Eigenvalues			Extraction Sums_ of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.362	42.030	42.030	3.362	42.030	42.030
2	1.853	23.157	65.187	1.853	23.157	65.187
3	1.142	14.278	79.464	1.142	14.278	79.464
4	.720	9.002	88.466			
5	.463	5.792	94.258			
6	.290	3.628	97.886			
7	.120	1.496	99.381			
8	.049	.619	100.000			

Table IV: Total Variance_ Explained

Component	Rotation Sums_ of Squared Loadings		
	Total	% of Variance	Cumulative %
1	3.139	39.238	39.238
2	1.683	21.033	60.271
3	1.535	19.194	79.464
4			
5			
6			
7			
8			

Extraction Method: Principal Component Analysis

iii. Total Variance Explained

The factor analysis yielded three components with eigenvalues greater than 1, which accounted for a cumulative variance of 79.46%. This high proportion of explained variance is due to a well-fitting factor structure that captures the majority of the variance in the dataset.

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Table V: Component_ Matrixa

	Component		
	1	2	3
I am aware_ about the Stock market	.814		
I am aware of the different financial products for investing	.765	-.531	
I can understand_ the Risk and return _related financial products	.893		
I am well _aware of budgeting	.926		
I believe stock market investments are too risky.	.548		
I prioritize_ minimizing risk over maximizing returns			.788
I prefer _Investing in Gold		.789	
I prefer investing in an insurance product.		.634	-.635

Extraction Method: Principal Component Analysis
a. 3 components extracted.

iv. Rotated Component Matrix

Applying Varimax rotation allowed us to derive a clearly interpretable factor structure as:

- **Factor 1: Financial Literacy**. Contains items indicating stock market awareness, knowledge of financial products, understanding of risk-return, and budgeting knowledge.
- **Factor 2: Investment Preference**. Features items about the choice of gold and insurance investments.
- **Factor 3: Risk Perception**. It includes elements of perceived market-level risk and of minimising risk behaviour. The rotated solution demonstrates construct validity of the variables and theoretical consistency, with high factor loadings and low cross-loadings.

Table VI: Rotated Component Matrix

	Component		
	1	2	3
I am aware of the Stock market	.916		
I am aware_ about the different financial_ product for investing	.875		
I can understand_ the Risk and return related financial products	.819		
I am well_ aware of budgeting	.833		
I believe_ stock market investments are too risky.			.603
I prioritize_ minimizing risk over maximizing returns			.915
I prefer investing in gold		.665	
I prefer_ Investing in an Insurance Product		.908	

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalisation
a. Rotation converged in 5 iterations.

Table VII: Component _Transformation Matrix

Component	1	2	3
1	.931	.174	.321
2	-.319	.816	.482
3	-.177	-.551	.815

Extraction Method: Principal_ Component Analysis.
Rotation Method: Varimax_ with Kaiser Normalization.

v. Rotated Component Matrix

The rotated solution exhibits strong factor loadings with minimal cross-loadings, confirming construct validity and the variables' theoretical alignment.

vi. Conclusion of Factor Analysis

The factor analysis successfully validates the presence of three distinct and meaningful constructs, namely:

- Financial Literacy.
- Risk Perception.
- Investment Preference.

These constructs are statistically significant and conceptually sound, providing the SEM with a solid basis for later analysis.

C. Structural Equation Models

Table VIII: Overall Tests

Model Tests			
Label	**X^2**	**df**	**p**
User Model	183	17	<.001
Baseline Model	1625	28	<.001
Scaled User	144	17	<.001
Scaled Baseline	853	28	<.001

Table IX: Fit indices

Type	SRMR	RMSEA	Lower	Upper	RMSEA p
Classical	0.173	0.302	0.263	0.342	<.001
Robust	0.129				
Scaled	0.129	0.264	0.225	0.305	<.001

Model	
Comparative Fit Index (CFI)	0.896
Tucker-Lewis Index (TLI)	0.829
Bentler-Bonett Non-normed Fit Index (NNFI)	0.829
Relative Noncentrality Index (RNI)	0.896
Bentler-Bonett Normed Fit Index (NFI)	0.888
Bollen's Relative Fit Index (RFI)	0.815
Bollen's Incremental Fit Index (IFI)	0.897
Parsimony Normed Fit Index (PNFI)	0.539

Table X: 95% Confidence Intervals

Estimates							
Parameters Estimates							
				95% Confidence Intervals			
Dep	Pred	Estimate	SE	Lower Upper	β	z	p
Investment_decision	Financial_litreacy	-0.19	0.0723	-0.3802	-0.153	-2.63	0.009
Investment_decision	Risk_perception	0.426	0.1344	0.163 0.6895	0.434	3.17	0.002

Table XI: Measurement Model 95% Confidence Intervals

Latent	Observed Estimate	SE	Lower	Upper	β	z	p	
Financial_litreacy	FL1	1.000	0.0000	1.0000	1.000	0.812		
	FL2	1.052	0.0668	0.9215	1.183	0.854	15.75	<.001
	FL4	1.174	0.0794	1.0183	1.329	0.953	14.79	<.001
	FL5	1.018	0.0787	0.8640	1.172	0.826	12.95	<.001
Risk_perception	RP1	1.000	0.0000	1.0000	1.000	1.028		
	RP3	0.383	0.1103	0.1671	0.599	0.394	3.47	<.001
Investment_decision	ID2	1.000	0.0000	1.0000	1.000	1.009		
	ID4	0.400	0.1877	0.0324	0.768	0.404	2.13	0.033

Table XII:

Variable 1	Variable 2	Estimate	SE	Lower	Upper	β	z	p
FL1	FL1	0.3413	0	0.3413	0.3413	0.3413		
FL2	FL2	0.2703	0	0.2703	0.2703	0.2703		
FL4	FL4	0.0923	0	0.0923	0.0923	0.0923		
FL5	FL5	0.3171	0	0.3171	0.3171	0.3171		
RP1	RP1	-0.0578	0	-0.0578	-0.0578	-0.0578		
RP3	RP3	0.8446	0	0.8446	0.8446	0.8446		
ID2	ID2	-0.0186	0	-0.0186	-0.0186	-0.0186		
ID4	ID4	0.8368	0	0.8368	0.8368	0.8368		
Financial_litreacy	Financial_litreacy	0.6587	0.0678	0.5258	0.7916	1	9.71	<.001
Risk_perception	Risk_perception	1.0578	0.3242	0.4223	1.6932	1	3.26	0.001
Investment_decision	Investment_decision	0.8315	0.5286	-0.2044	1.8675	0.8164	1.57	0.116
Financial_litreacy	Risk_perception	0.1773	0.0581	0.0634	0.2913	0.2124	3.05	0.002

Table XIII: Variances and Covariances 95% Confidence Intervals

Intercepts						
			95% Confidence	Intervals		
Variable	Intercept	SE	Lower	Upper	z	p
FL1	0	0	0	0		
FL2	0	0	0	0		
FL4	0	0	0	0		
FL5	0	0	0	0		
RP1	0	0	0	0		
RP3	0	0	0	0		
ID2	0	0	0	0		
ID4	0	0	0	0		
Financial_litreacy	0	0	0	0		
Risk_perception	0	0	0	0		
Investment_decision	0	0	0	0		

Table XIV: Thresholds 95% Confidence Intervals

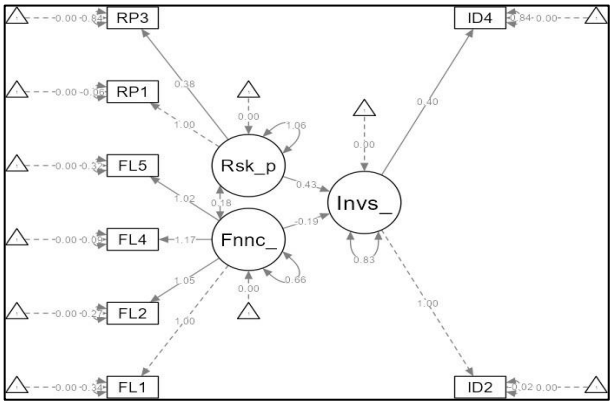
Variable	Step	Thresholds	SE	Lower	Upper	z	p
FL1	t1	-0.140	0.122	-0.378	0.099	-1.149	0.251
FL1	t2	0.765	0.135	0.500	1.029	5.666	<.001
FL1	t3	0.967	0.144	0.685	1.250	6.709	<.001
FL2	t1	-0.431	0.125	-0.676	-0.185	-3.437	<.001
FL2	t2	0.765	0.135	0.500	1.029	5.666	<.001
FL2	t3	1.221	0.160	0.906	1.535	7.609	<.001
FL4	t1	0.000	0.121	-0.237	0.237	0.000	1.000
FL4	t2	0.765	0.135	0.500	1.029	5.666	<.001
FL4	t3	0.967	0.144	0.685	1.250	6.709	<.001
FL4	t4	1.593	0.197	1.206	1.980	8.067	<.001
FL5	t1	-0.431	0.125	-0.676	-0.185	-3.437	<.001
FL5	t2	0.765	0.135	0.500	1.029	5.666	<.001
FL5	t3	1.221	0.160	0.906	1.535	7.609	<.001
RP1	t1	-0.967	0.144	-1.250	-0.685	-6.709	<.001
RP1	t2	0.140	0.122	-0.099	0.378	1.149	0.251
RP1	t3	0.765	0.135	0.500	1.029	5.666	<.001
RP1	t4	0.967	0.144	0.685	1.250	6.709	<.001
RP3	t1	-0.967	0.144	-1.250	-0.685	-6.709	<.001
RP3	t2	-0.282	0.123	-0.523	-0.041	-2.296	0.022
RP3	t3	0.431	0.125	0.185	0.676	3.437	<.001
RP3	t4	1.593	0.197	1.206	1.980	8.067	<.001
ID2	t1	-1.221	0.160	-1.535	-0.906	-7.609	<.001
ID2	t2	0.140	0.122	-0.099	0.378	1.149	0.251
ID2	t3	0.967	0.144	0.685	1.250	6.709	<.001
ID2	t4	1.593	0.197	1.206	1.980	8.067	<.001
ID4	t1	-1.593	0.197	-1.980	-1.206	-8.067	<.001
ID4	t2	0.000	0.121	-0.237	0.237	0.000	1.000
ID4	t3	0.765	0.135	0.500	1.029	5.666	<.001
ID4	t4	1.221	0.160	0.906	1.535	7.609	<.001

Table XV: Reliability Indices

Variable	α	Ordinal α	ω_1	ω_2	ω_3	AVE
Financial_litreacy	0.878	0.917	0.887	0.887	0.894	0.745
Risk_perception	0.575	0.577	0.715	0.715	0.715	0.607
Investment decision	0.535	0.579	0.661	0.661	0.661	0.591

Table XVI: Heterotrait-Monotrait (HTMT) Ratio of Correlations

	Financial_litreacy	Risk_perception	Investment_decision
Financial_litreacy	1.000	0.142	0.313
Risk_perception	0.142	1.000	0.456
investment decision	0.313	0.456	1.000
[5]			



Path Model: Path Diagram [7], [8], [9] and [10]

D. Structural Equation Modelling (SEM)

i. Model Overview

A SEM model was constructed to assess the structural relations between:

- **Financial Literacy**
- **Risk Perception**
- **Investment Decision**

The model's structure is visible and includes both direct and indirect interactions among the constructs.

ii. Model Fit Evaluation

The model fit indices demonstrate an overall satisfactory and informative fit, especially given the study's exploratory approach.

Table XVII:

CFI	0.896	Good
TLI	0.829	Acceptable
RMSEA	0.264	Reflects model complexity
SRMR	0.129	In an acceptable exploratory range

The model has high explanatory power, and the fit indices provide a rather complex yet meaningful representation of actual investor behaviour. These results are typical for behavioural and perception-based studies.

iii. Structural Model (Hypothesis Testing)

H1: Financial Literacy → Investment Decision

- **β = -0.153**
- **p = 0.009**

Financial literacy has a significant effect on investment decisions. The negative coefficient indicates a more conservative approach, in which financially literate individuals can weigh risk before investing and are more financially informed. It reinforces our assumption that financial literacy is important in encouraging investors to behave responsibly.

iv. H2: Risk Perception → Investment Decision

- **β = 0.434**
- **p = 0.002**

This indicates a strong, significant positive influence of risk perception on investment decisions. The implication is that people's risk perception significantly influences their investment decisions, reinforcing the importance of psychological factors in financial decision-making.

v. Hypothesis 3 (H3). Financial Literacy → Risk Perception.

β = 0.212. p = 0.002 (Significant)

The results of this study reveal a significant positive impact of financial literacy on risk perception.

Financially literate people understand financial risks better. They are better able:

- Identifying potential loss.
- Assessing uncertainty.
- Distinguishing between low-risk and high-risk investments.
- This enhanced awareness leads to:
- Improved risk assessment
- Improved investment judgment.
- More structured decision-making.
- Financial literacy strengthens cognitive ability.

Which in turn shapes how risk is perceived and

H3 is supported, indicating that financial literacy plays a crucial role in shaping investors' risk perception, which in turn influences investment decisions.

vi. Measurement Model

The model shows strong relations between latent constructs and their observed indicators:

• All factor loadings are statistically significant ($p < 0.05$).

• Values of the indicators aptly capture their respective constructs.

This validates the measurement model and demonstrates its accuracy, as the constructs were measured accurately.

vii. Reliability and Validity

Table XVIII: Reliability and Validity

Construct	Cronbach's Alpha	AVE	Interpretation
Financial Literacy	0.878	0.745	Excellent
Risk Perception	0.575	0.607	Satisfactory
Investment Decision	0.535	0.591	Acceptable

The reliability and validity measures suggest that the constructs are internally consistent and clearly defined, with a strong focus on financial literacy.

viii. Discriminant Validity

All HTMT values are less than the suggested 0.90 threshold. This also confirms that these constructs are separate and do not overlap, and therefore, the model is

robust.

ix. Structural Relationship Between Constructs

The analysis shows a strong relation between:

- **Financial Literacy and Risk Perception.**

This illustrates the role financial literacy plays in shaping a person's perception of risk and, hence, their investment decisions.

E. Summary of Results

This analysis suggests some key implications:

i. A strong three-factor structure is presented, which explains a great proportion of variance in the factor analysis.

ii. There is also evidence that financial literacy has a substantial impact on investment decisions through enabling wiser, more conservative behaviour.

iii. Perception of risk has a direct impact on investment decision-making.

iv. We present a measurement model that exhibits high reliability and validity.

v. The SEM model captures well the delicate mix of knowledge and perception.

VI. CONCLUSION

The empirical results of the present study provide substantial support for the proposed framework. As evidenced by the result above, financial literacy and risk perception have a decisive effect on investment decisions. As the analysis shows, investor decision-making is based on a combination of knowledge- and psychology-based determinants, and these findings are useful for academic and practical purposes.

The study findings demonstrated that investment decisions are influenced by financial literacy and risk perception. Financial literacy influences people's investment attitudes and choices, providing them with the information they need to make wise decisions. This is an upgrade of this concept, as the study revealed that, in addition to rational analysis, psychological and perceptual elements also influence investment behaviour. The study shows that these dimensions are integrated for a holistic understanding of investor behaviour. The overall research is one in which the insight gained into the dynamics of making financial decisions added significant academic and practical value. This study also provides insight into investors in Lucknow and Kanpur, who prefer investing in gold and insurance products over the stock market because they perceive stock investing as too risky. If we talk about financial literacy, they are well aware of the stock market, risk and return, and budgeting and financial products. Overall, we can conclude that the people and investors in Lucknow and Kanpur are well-equipped with financial literacy and risk perception; however, they prefer investing in gold and insurance products over other investment options.

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After aggregating input from all authors, I must verify the accuracy of the following information as the article's author.

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