

A Conceptual Investigation: Exploration of the Relationship between Financial Behavior on Perception of Financial Risk in Investment Decision

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ABSTRACT

An increasing body of studies is aimed at seeking a solution to enhance the perception of financial risk (FRP) in decisions regarding investments. Financial institutions mainly undertake this research and have demonstrated that several aspects contribute to this dimension. The study has shown that financial risk perception is a significant component that fosters investors' investment decisions. Prior research on FRP has mainly concentrated on pinpointing the parameters that influence FRP levels in financial activities with the aim of enhancing FRP. However, financial studies need a more comprehensive conceptual and theoretical understanding of the impact of financial behavior on FRP in investment decision-making. Hence, this research constitutes a theoretical framework that elucidates the impact of financial behavior on FRP in investment decision-making within the Indian market. Prior worldwide research indicates that the FRP may be enhanced by adopting good financial conduct. Therefore, it is crucial to investigate financial behavior and the impact of financial risk perception in investment decisions in the Indian environment. This extensive discourse will be advantageous for financial professionals and organisations in financial practices by emphasizing the criteria used to assess FRP and spending patterns in the past.

Keywords: *Financial Behavior, Investment Decisions, Financial Risk Perception*

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INTRODUCTION

Financial behavior is determined by a person's capacity for financial understanding and self-assurance (Ramalho & Forte, 2019). Tang and Baker (2016) conceptualized that those psychological attributes, such as self-esteem, have a significant role in elucidating variations in financial behaviors. Financial behavior, influenced by psychological, cognitive, and emotional factors, significantly affects individuals' perceptions of financial risk and investment decisions. According to Ritter (2003), one's investment choice is influenced not just by plausible factors but also by irrational features relating to one's psychology, commonly referred to as financial behavior.

However, as individuals' wealth in the upper- and middle-income mounts continues to rise, there is a growing need for novice investors to make wise investment choices. In the words of Nur Aini and Lutfi (2019) when contemplating an investment choice, each investor encounters a trade-off between the anticipated return and the level of risk involved. Hence, an investor's viewpoint towards risk might impact their investing choices. Given that most investments include some degree of risk, investments must align with risk profiles (Nguyen et al. 2019). Because of the intricate and laborious nature of risk profiling, a growing number of investors are seeking the help of financial advisors.

This research is based on a foundational theory elucidating the connection between financial behavior and FRP in investing variants. The theory of planned behavior (TPB) posits that behavioral choices result from a cognitive process in which norms, attitudes, and perceived control over conduct play influential roles (Sommer, 2011). This theory has been used in several behavioral domains to enhance comprehension of the underlying factors influencing people's conduct (Bunyamin & Abdul Wahab, 2022). Sommer (2011) additionally stated that this theory is regarded as one of the most well-substantiated social psychology models for forecasting behavior among individuals. This suggested conceptual research aims to analyze the relationship between financial conduct and individuals' FRP in the context of investment decision-making.

The perception of financial risks is significantly influenced by investors' risk preferences, past experiences, behavioral biases, cognitive processing processes, emotive reactions, and financial expertise, among other factors. Hence, it is vital to grasp the complex correlation between financial behavior and risk perception in order to make well-informed investment choices and successfully mitigate risk in financial markets.

LITERATURE REVIEW

This study undertook a comprehensive evaluation of past research on the topics of financial behavior and financial risk perception, with a specific focus on investment instruments. The results are as follows:

Financial Behavior

Various indicators may be used to identify the features of financial behavior. For example, Arianti (2018) indicated that financial behavior and income significantly affected investment decisions. Paisarn et al. (2021) have shown that demographic parameters, such as gender, trading experience, age, and income, influence the trading behavior of stock market participants. A study was conducted by (Hala et al. 2020) between real and financial assets sectors. The study found that the decision-making process for investors in real and financial assets differs somewhat. Investment decision-making in the financial assets sector is less complex than investments in actual assets. Meanwhile, Kaiser and Menkhoff (2016) contended that financial awareness is a key determinant of financial conduct in people. Nevertheless, it was discovered that this variable had little efficacy in economically underprivileged countries. According to Asandimitra et al. (2019) working women have a strong aptitude for financial literacy. This is evident in their disciplined approach to investing their surplus funds, which allows them to maintain control over their finances. Additionally, they recognize the need for financial planning in order to achieve investment returns. Hence, it is essential to include Bunyamin and Abdul Wahab (2022) fundamental financial literacy and rudimentary mathematics proficiency in the curriculum of upper elementary or lower secondary school. During this period, individuals often fall between 10 to 15 years old.

Effects of Financial Behavior

At the same time, several studies have looked at the impacts of the financial sector worldwide. Financial conduct is thought to influence economic well-being and involvement in the financial market (Bunyamin & Abdul Wahab, 2022). Meanwhile, Lajuni et al. (2018) stated that among the millennial generation, behavioral qualities have a more significant influence on personal economic challenges compared to religion and financial expertise. Financial behavior significantly impacts

both people and the economy since it directly affects several aspects, such as investments, saving, risk perception, spending patterns, and overall economic development. Exhibiting responsible behavior, such as practicing disciplined saving and exercising sensible debt management, fosters financial stability and security. Indulging in imprudent actions such as excessive spending and careless investment may result in financial hardship and impede economic progress. Encouraging the development of financial knowledge and the ability to make well-informed choices may provide people with the tools to handle financial difficulties successfully.

Financial Risk Perception

Perception is a cognitive process that involves the interpretation of sensory information received via the senses, including vision, hearing, and touch. This interpretation is impacted by external information and in turn, affects the creation of judgments. An individual who acquires knowledge can use it to construct a comprehensive understanding of the outcomes derived from that information (Rogers, 2018). Risk perception refers to an individual's interpretation of perils that may deviate from objective estimations or factual reality. Risk perception is a component of cognitive bias. As the bias in a person's behavior increases, their perception of risk decreases (Simon et al., 2000).

Preliminary research has identified decision-theory attributes, including probabilities (such as loss possibilities), outcomes (such as gain outputs and loss consequences), and volatilities (such as the volatility of yields), as the primary elements that influence financial risk perception (Koonce et al., 2004). Nevertheless, as research progressed, studies uncovered testimony to behavioral factors and contended that these decision-theory components alone are insufficient to adequately explain how people perceive financial risk (MacGregor et al., 1999; Sachse et al., 2012).

Factors Affecting Financial Risk Perception

Furthermore, several prior studies have been undertaken to investigate the elements influencing FRP. Deb and Singh (2018) analyzed bank workers' risk perception of mutual fund investments and identified three factors influencing their perception: fear psychosis, lack of information, and lack of confidence, which significantly impact their investment decisions about mutual fund investments. Meanwhile, Bhuyan et al. (2021) investigated

the potential impact of investor knowledge, risk perception, and past investing experience on equities investment. The research found that both awareness and previous experience had an impact on equity investing. However, studies have also shown that risk perception does not have any influence on stock investing.

According to Vlaev et al. (2009), determinants impact consumers' comprehension of financial risk, particularly in retirement investing. The process entails soliciting respondents to enumerate possible risk factors and evaluating their perceived expertise in investing, which might influence their perception of financial risks and choices on retirement investments. On the other side, Palash Bairagi and Chakraborty (2018) explored the impact of risk perception on retail investors' decision-making, revealing that their financial prudence is significantly influenced by their unique perspective, influenced by factors like gender, age, income, and investment portfolio, thereby affecting their equities investing decisions.

Weber and Milliman (1997) conducted research to investigate the correlation between investors' risk perception and their decision-making attitudes, which provide insights into their preferences for perceived risk in various decision-making scenarios. The researchers also attempted to identify the variables that influence decision-making, thereby impacting risk perception. Similarly, Rundmo (1996) posits that the perception of risk influences behavior in relation to potentially dangerous sources of risk and their outcomes. Additionally, it discovered that the connection between risk perception and behavior arises from the fact that the same factors that predict one also impact the other.

Wahlberg and Sjoberg, (2000) carried out research on how media influences risk perception, specifically how investors perceive risk based on the first piece of information they get. In addition, the author declared that media has an impact on investors' perception of risk in the short term. This refers to the uncertain communication among investors, which is distinct from the accidental risk information provided to them via news and entertainment. Olsen and Cox (2001) investigated gender perception's impact on investment risk, considering social and technological hazards and analyzing factors like age, education, wealth, and experience to determine differences in responses.

Researchers Cohen et al. (2008) suggest that risk perception is influenced by previous experiences of investors and conclude by observing that individuals tend to focus more on potential losses, which manifests the availability bias. Meanwhile, Imran Hunjra (2014)

showed that psychological elements significantly influence investment decision-making by acting as a mediator for risk perception. The authors further inferred that investors' conduct is contingent upon the information accessible to them and their inclination toward assuming risk when making judgments. Saivasan and Lokhande (2022) explored the psychological and demographic factors that influence investor risk perception and highlighted the significant influence of return expectation, time horizon, and loss aversion on risk propensity. It also highlights the impact of behavioral biases, familiarity, overconfidence, and anchoring on risk perception in stock investments.

Studies on Financial Behavior and Financial Risk Perception in Investment Decisions

Worldwide investigations are being undertaken on the study of financial behavior and FRP in investing decision-making. Arianti (2018) examined and quantified the importance of financial behavior, financial understanding, and income in relation to the investment choices made by Indonesian students. Consistent with other research, the study demonstrated that financial behavior and income substantially influenced investing choices. Investors with more income exhibit a greater willingness to invest due to their surplus funds after covering essential costs. However, financial literacy does not provide an explanation for their investment choice. However, a study by Mohy et al. (2020) assessed the financial literacy and understanding of individual and professional investors engaged in stock market investments. Research has shown that there is a strong correlation between financial literacy and an increase in investing choices. Risk perception plays a crucial role in connecting financial knowledge and investing choices. Meanwhile, Ratnawati et al. (2022) revealed that investment choices are influenced by both financial knowledge and attitude, with financial behavior potentially reducing the impact of financial literacy. The study also highlighted the importance of MSME owners' proficiency and self-assurance in using financial knowledge and their ability to handle future financial issues.

Moreover, studies by Imran et al. (2011) explored the difference in risk perception and attitude among employees of an organisation compared to other investors. It suggests that workers' sense of risk significantly influences their investing behavior, suggesting a correlation between these factors. Rahman and Arsyianti (2021) explored the impact of Islamic financial literacy on investment choices among university students, revealing that

Table 1: Factors That Influence Various Financial Aspects in the Involvement of Financial Products in the Market

Region and Author	Independent Variable	Dependent Variable	Investment Decision	Findings
Saudi Almansour et al. (2023)	Behavioral Finance Factors, Financial Risk Perception	Investment Decisions	Equity Investors	Found individual's risk perception in investing choices substantially impacts their willingness to accept risks and the success of their investment portfolio.
India Saivasan & Lokhande (2022)	Psychological and Demographic Factors	Risk Perception	Equity Investment	Demographic factors significantly influence risk perception and behavioral bias, with differences in return expectation, time horizon, and loss aversion affecting equity investment perception.
India Chaitanya and Nordin (2021)	Psychological Factors, Financial Risk Perception	Investment Decision	Stock Investment	Risk perception influences psychological factors like anger and stress in stock market investment decisions, but social media doesn't regulate these connections among Indian investors.
Malaysia Chin (2021)	Demographic profiles, Big-five personality traits, and investment behaviors	Trading Frequency	Stock Investment	Personality qualities, such as agreeableness and openness to experience, substantially influence the frequency at which trading occurs.

Region and Author	Independent Variable	Dependent Variable	Investment Decision	Findings
Indonesia Aeknarajindawat (2020)	Risk Tolerance, Risk Perception, financial Literacy, Trust	Asset Allocation Decision	Investment	Trading frequency is highly influenced by gender, family income level, years of investing experience, and investor type. Trust positively influences risk Perception (RP) and financial literacy (FL), while risk tolerance (FL) is positively associated with risk perception (RP), and asset allocation is positively associated with trust.
Australian Nguyen et al. (2019)	Risk Perception, Risk tolerance	Investment Decision	Asset Allocation	Joint role of both risk constructs (risk Perception and Risk Tolerance) in the investment-making decision.
Brazilian Ramalho & Forte (2019)	Financial Knowledge	Financial Behaviour	Investment	Acquiring financial knowledge has a beneficial impact on confidence, and the combination of these factors has a good effect on financial behavior.
Indonesia Nur Aini & Lutfi (2019)	Risk Perception, Risk Tolerance, Loss Aversion, Overconfidence	Investment Decision	Investment	Study found that risk perception significantly impacts investment decision-making, while risk tolerance and overconfidence positively influence it, while loss aversion has no significant impact.

Region and Author	Independent Variable	Dependent Variable	Investment Decision	Findings
Indonesia Arianti (2018)	Income and Financial Behavior	Investment Decisions	Investment	Financial behavior and income have substantial influence on investing choices.
Pakistan Gill et al. (2018)	Overconfidence, Economic Expectations	Investment Decision-Making Behavior	Stock Investment	Found a positive relationship between economic expectations and investment decision-making behavior, but a negative relationship with information search.
Pakistan Commer et al. (2015)	Psychological Factors, Financial Risk Perception	Investment Decision	Investment	Investor's investment style is significantly influenced by the presentation of available information and their risk aversion.

Source: Author Compilation.

financial literacy significantly influences investment choices and financial behavior, with wealth having a significant influence on investing choices, despite gender not having a significant impact. Individuals' investment in shares is influenced by their degree of risk perception. Risk perception hinders Chance's decision-making conduct (Riaz & Imran Hunjra, 2012). The projected return for investors is influenced by their degree of risk perception (Yang & Qiu, 2005). Meanwhile, Hoffmann et al. (2013) Investors' views undergo significant changes throughout a catastrophe, with a less consistent estimate of risk relative to the potential returns. Investors' risk preferences have a significant role in determining the choice to switch funds across various investment avenues. Furthermore, Rathnamani (2013) stated that small investors prioritize security, liquidity, and the potential for significant profits when considering mutual fund investments. Mohy et al. (2020) investing in mutual funds is often considered a complicated concept. Even seasoned investors might make errors when assessing mutual funds and common stocks. The influence of investors' perceptions on their investing choices is prominent. Investors often encounter challenges when making investment decisions due to their risk perceptions. Table 1 presents a comprehensive analysis of studies examining the relationship between financial behavior, factors, and their impact on financial attributes, including investment goods participation in global markets.

According to the aforementioned research, the measurements of FRP, financial behavior, and specific dependent and independent components are explained.

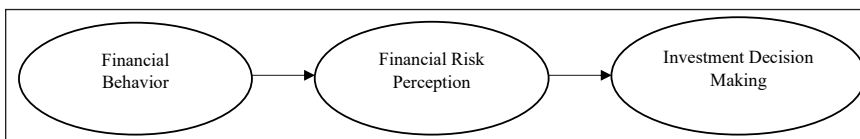
METHODOLOGY

This study employs a comprehensive method that entails extensive search and analysis of documents obtained from financial behavior, financial risk perception, and financial products available in the financial market. The primary focus is on investment decisions. This research included 52 references from previous years that were also relevant to the underlying hypothesis of this investigation. The library search included online content sourced from academic publications. References were sourced from online sources, including Science Direct, Google Scholar, Sage Journals, Emerald, and Conference papers. The systematic search used the following keywords: financial behavior, financial risk perception, financial market participation, economy, financial product, and investment.

Previous scholars used these keywords to identify the correlations between variables in economic and financial domains. This was done to conduct analytical and critical examination, with the ultimate goal of developing a recommended conceptual framework. While recognizing that there may be more relevant terms, this research deemed the selected keywords sufficient for its purpose.

THEORETICAL FRAMEWORK

Based on the literature and the information provided in Table 1, there is a limited amount of accessible data on the influence of financial behavior on the perception of financial risk in the consumption of securities in the Indian market. Nevertheless, within the worldwide market Nguyen et al. (2019) and Nur Aini and Lutfi (2019) demonstrated that financial conduct significantly influences FRP in the use of investment products. Hence, this research aims to provide the conceptual framework of financial behavior as the determinant that influences FRP in an investment product. In order to accomplish this goal, this document introduces the theoretical framework for the variables involved, as seen in Fig. 1. The independent variable in this research is financial behavior. In this investment choice research, FRP is considered the dependent variable.



Source: Author Compilation.

Fig. 1: Theoretical Framework Evaluating the Impact of Financial Behavior on (FRP) in Investment Decisions

DISCUSSION

Financial Risk Perception

Risk perception refers to an individual's interpretation of risks that may deviate from objective estimations or factual reality. Risk perception is a component of cognitive bias. As the bias in a person's behavior increases, their perception of risk decreases (Simon et al., 2000). Nur Aini and Lutfi

(2019) stated that risk perception is often associated with a situation where an individual suffers a financial loss as a result of making a wrong decision. It is the subjective evaluation of a risky condition, heavily influenced by the psychological traits and circumstances of the person.

Investment and Financial Behavior

Financial management often manifests as distinct actions, such as promptly settling debts, accumulating funds for future contingencies and retirement, and refraining from excessive debt (Lajuni et al., 2018). Shefrin (2002) demonstrated that financial behavior is the study of how psychological factors influence individuals' financial decisions and actions. Other studies delineate the financial conduct of individuals by examining their real behavior within a financial context. Specifically, acquire knowledge on how psychology impacts choices made in the financial, business, and financial market domains.

Investment Decisions

The influence of financial behavior is crucial in determining investment choices. Decision-making is the act of choosing the most optimal option from several options in the presence of intricate circumstances (Asandimitra et al., 2019). In the words of Jahanzeb and Muneer (2012), investment decision-making process is significantly impacted by the acquired information and the investor's understanding of the investment, considering that each investor has a distinct degree of competence and expertise. Investment decision-making is impacted by two factors: (1) the ability of investment choices to maximise wealth, and (2) the behavioural motive behind investment decisions, which are driven by psychological elements of investors. Investment decision makers often deviate from the assumptions based on their views and comprehension of the information they receive (Asandimitra et al., 2019).

Financial Risk Tolerance

Financial risk tolerance is a crucial individual trait that aids financial experts in conceptualizing, creating, and executing financial product and service suggestions for customers (Rabbani et al., 2021). Researchers,

Kuzniak et al. (2015) stated that risk tolerance is often characterized as an individual's readiness to engage in a behavior when the results are unknown and possibly unfavorable. From the past years, academics have tried to get a deeper understanding of the factors that influence people's attitudes and actions toward taking risks.

Financial Literacy

Financial science is a constantly evolving field that is closely connected to daily activities. As a result, having a thorough understanding of financial concepts is essential, particularly when faced with various financial products. To make the correct choice, one must possess sufficient knowledge, information, and comprehension of financial matters and related aspects (Hala et al., 2020). Previous research demonstrates that the degree of financial knowledge in underdeveloped nations is comparatively lower than in developed ones (Beckmann, 2013; Klapper et al., 2011). Despite several studies (Asaad, 2015; Parker et al., 2012) indicating that those with a high degree of financial education may not always possess a favorable self-perception of their knowledge level or excel in managing their finances. Past studies have demonstrated that possessing financial knowledge can promote favorable financial behaviors, including timely bill payment, savings, and investment, prudent management of credit cards, the establishment of a suitable retirement plan, increased involvement in financial markets, greater reliance on formal obtaining sources, independent savings, and improved diversification.

Psychological and Behavioral Finance Factors

Psychological factors significantly influence the process of making investment decisions, shaping the way investors perceive, behave, and achieve financial outcomes. Suboptimal decisions may arise from risk perception, overconfidence, herd behavior, anchoring, confirmation bias, and regret aversion. Investors may be deterred from pursuing profitable possibilities due to their fear of potential losses, while an excessive level of confidence might result in taking on too much risk. Collective behavior may exacerbate market bubbles and collapses, while confirmation bias can impede the objective evaluation of information. Acknowledging and reducing these biases is essential to navigating financial markets effectively and achieving long-term investing objectives.

CONCLUSIONS

This article introduces a conceptual framework for analyzing the impact of financial behavior on FRP (Financial Risk Perception) on investment choices. It provides a basis for researchers and policymakers to delve further into these elements and adapt to current trends. Financial behavior is a tool used by financial professionals to assess investor interest in investment schemes and promote business growth, but scientific proof is needed to support this claim. Similar to previous research, this conceptual article is also susceptible to its own limitations. Since this study is based on concepts, no data was collected for the final conclusion. Nevertheless, the authors are confident that we have put out a pertinent suggestion regarding research in investing. Therefore, for future research, this study proposes that data collection be conducted to establish the correlation between financial behavior and FRP in investment decision-making. The benefit of using financial behavior and FRP characteristics as metrics is that these metrics can be statistically produced. The accuracy of the data obtained by quantitative analysis is well recognized. However, there are also drawbacks associated with these instruments. Regarding psychological metrics such as financial conduct and FRP, respondents often exhibit emotional inconsistency.

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