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Role of Digitalization Usage and Financial Literacy in Shaping Retail Investment Behaviour among Retail Investors

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Abstract

The influence of digitization on the retail sector has been profound, resulting in a notable shift in consumer habits and shopping behaviors. The growing prevalence of digital devices and internet access has catalyzed a swift digital evolution within the Indian retail industry. Elements such as digitalization, smartphone adoption, and internet accessibility influence this transformation. To ensure the nation's technological empowerment in the digital realm, the Indian government launched Digital India. The analysis pinpoints the primary factors influencing digital trends within the online retail domain, emphasizing the necessity for a structured framework to improve the digitization process in the retail sector. This process will significantly impact suppliers, retailers, consumers, and employees alike. This study seeks to examine the connection between awareness, the utilization of digitalization, and financial literacy in relation to the financial strength of retail investors. This study chose a total of 154 respondents engaged in retail markets within the Chennai district. The samples were selected using a convenience sampling technique, and a questionnaire served as the study instrument. The statistical tools employed to validate the hypotheses in accordance with the objectives are Karl Pearson's correlation coefficient and one-way ANOVA. The data has been analyzed using SPSS v26. The Cronbach's alpha of 0.829 (82.9%) demonstrates the reliability of the study. The connection between awareness and utilization of digitalization, along with financial literacy, is recognized as significant and positive in relation to financial strength. The findings indicate a notable impact of age, education, annual income, and employment on the financial strength of retail investors.

Introduction

In the past five years, there has been remarkable growth among Indian retail investors, as evidenced by the more than threefold increase in active demat accounts. The total assets and securities held by retail investors have seen a significant increase, now estimated at Rs. 100 lakh crores in 2022. The advancement of technology has resulted in consumers embracing more intelligent shopping behaviors, including 3D virtual shopping and online payment methods. Retail investors are moving away from conventional savings options such as Fixed Deposits and embracing modern financial products like REITs, smallcases, NFTs, and digital gold market-linked instruments such as Mutual Funds. During the initial five months of FY22, there was an addition of 70 lakh investor accounts; however, fewer than 2% of Indians engage in Mutual Fund investments.

The total assets and securities possessed by retail investors have increased twofold, reaching an estimated value of INR 100 lakh crores. Retail investors are showing a growing tendency towards a low to medium risk appetite, allocating up to 30% of their monthly income for investment purposes. There are several reasons for the change, including better financial literacy, the widespread use of smartphones and the internet, and the low returns that come with traditional savings methods. As investment options and digital platforms continue to evolve, it is essential to comprehend the changes in investor behavior and patterns. This development sets the stage for Indian equity markets to assume a significant role in the forthcoming period.

Several observations regarding the digital transformation in the retail sector over time include the following:

The evolution of digital technology has created a demand for distinctive products and personalization to engage consumers. It is essential for marketers to prioritize customer satisfaction and cultivate trust to sustain loyalty. Effective distribution and information systems are crucial for retailers aiming to minimize costs and guarantee product availability. Organizations are allocating resources toward supply chain management and tracking identification numbers to enhance customer confidence.

Augmented reality enables customers to buy products as if they were physically in-store, providing the opportunity to explore new products or services without the need to download a company application. Retailers are actively striving to reduce delivery times to enhance customer satisfaction and ensure contentment with their orders. The integration of social shopping within social networking platforms enables retailers to effectively sway consumer purchasing decisions, creating a fluid and cohesive experience.

The significance of hyper-personalization is on the rise for retailers, who are gathering customer data and striving to create leads. Consumers demonstrate a readiness to invest in products and services, irrespective of cost or the nature of the offering. In summary, the evolution of digital technology has allowed retailers to adjust to the shifting market landscape and deliver an optimal experience for their customers.

Impact of Digital Transformation on the Retail Sector:

The evolution of digital technology in retail has greatly enhanced customer shopping experiences, allowing retailers to embrace innovative business models and set themselves apart in the market. This trend has resulted in the rise of online commerce and the capability to package and generate revenue from services alongside products. The advent of big data analytics, location-based services, and mobile applications has profoundly altered the landscape of retail business. Digital transformation represents a sustained journey that entails the integration of digital tools and the establishment of innovative processes aimed at comprehending customer needs and fulfilling them efficiently. Significant effects encompass integrated marketing across various channels, active participation on social media, inter-store delivery systems, applications focused on customer needs, and programs designed to enhance customer loyalty. In summary, the journey of digital transformation within the retail sector is an extensive endeavor that impacts various other components of the organization.

Application of Digital Transformation to retail sector

The digital approach to marketing has transformed how consumers perceive shopping and consumption experiences, resulting in greater personalization and diversity. As the pace of consumer decision-making quickens, demand grows increasingly unpredictable, compelling companies to adjust accordingly. The application of technology in the retail sector, especially through big data, enables organizations to enhance their managerial and strategic decision-making processes. Big data plays a crucial role in precision marketing, a strategy aimed at retaining existing customers by fostering loyalty through targeted offers and deals.

The utilization of extensive data streamlines the process of identifying target customers, facilitating tailored requests, and enhancing the ability to address customer needs effectively. This approach facilitates the delivery of advertisements to customers who have previously acquired related items, simplifying their search for products they might require. This concept originates from the work of Vilfredo Pareto in 1896, who posited that 20% of causes result in 80% of effects, indicating that 80% of income comes from 20% of clients. In the realm of marketing, this indicates that a significant portion of revenue, specifically 80%, is generated by a mere 20% of clients.

The primary benefits offered by digitalization are

Accessibility

The advent of digitalization has markedly improved the accessibility of the stock market for individual investors in India. The rise of online trading platforms has enabled investors to engage in stock trading and investment from virtually any location and at any time. The result has been a notable rise in retail investors, who represented 45% of the NSE's turnover in the fiscal year 2020-21, marking the highest share in ten years.

Lower cost

The advent of digitalization has led to a decrease in fees and expenses tied to financial investments, thereby enhancing affordability for everyday investors. In contrast to conventional brokerage firms, online trading platforms provide reduced fees, enabling participation in the stock market with a smaller financial commitment.

Greater Transparency

The rise of digitalization has enhanced transparency in the stock market, offering real-time market data and enabling investors to track their holdings with greater ease. This has facilitated a more informed decision-making process for investors regarding their investments.

Challenges faced by Retailers

The idea of digital transformation within the retail sector centers on the understanding that cutting-edge technology can profoundly change the way business activities are carried out. The process of digitalization significantly influences every facet of a company, ushering in the concept of a modern enterprise. Despite the advancements, retailers face numerous challenges throughout the digitalization journey, which encompasses the following:

- Limited Budget: Financial resources are essential for the operation of any organization, and without proper funding and budgeting, no entity can function effectively.
- Insufficiently Trained Workforce: The execution of digitalization initiatives necessitates the education of the workforce, as inadequate training may result in subpar job performance.
- Low skill level of Retailing Management: Retail management is vital for businesses, and inventory management is a human talent that needs to be strengthened and present.
- Intrinsic difficulty of retailing: Retailing is a complex issue that requires modern technology and innovations, making it challenging to incorporate it into an organized fashion.

The absence of sophisticated supply chain management and cohesive IT management poses significant challenges in the realm of retail digitalization. This evolution demands the adoption of advanced IT solutions to ensure seamless services for customers and retailers alike.

Review of literature

Sharma and Mehta (2025) investigated how digital investment platforms and AI-driven advisory services affect retail investor decision-making in emerging economies, highlighting the importance of platform usability and digital trust. The investigation utilized a quantitative survey-based approach, employing structured questionnaires distributed to 420 retail investors chosen via stratified random sampling. The analysis of data involved the application of descriptive statistics, regression analysis, and structural equation modeling (SEM), utilizing SPSS and AMOS for support. The results indicate a robust positive correlation among AI-driven personalization, platform transparency, and investor confidence, with all suggested hypotheses being validated. The findings indicate that digital trust and usability play a crucial role in boosting long-term participation among retail investors. The findings suggest that investment platforms ought to focus on user-centered design, real-time analytics, and reliable advisory systems to enhance investor engagement and retention. **Kumar and Nair (2025)** explored the connection between financial literacy, behavioral biases, and investment diversification in the context of Indian retail investors, emphasizing the influence of digital financial education as a moderating factor. The investigation utilized a descriptive-causal research framework and gathered data from 350 retail investors through convenience sampling. The analysis involved the application of descriptive statistics, correlation analysis, and multiple regression analysis utilizing SPSS. The findings demonstrate that enhanced financial literacy markedly decreases irrational trading behavior and has a favorable impact on portfolio diversification, thus validating all proposed hypotheses. The results indicate that digital learning platforms and mobile-based financial education initiatives are essential in enhancing financial resilience. From a managerial viewpoint, it is advisable for financial institutions to incorporate financial literacy tools into digital investment platforms to foster disciplined investment practices. **Patel and Joshi (2024)** examined the influence of fintech adoption on retail investment behavior, focusing on mobile trading applications and the integration of digital payments. The study utilized an exploratory research design to collect primary data from 280 retail investors via an online structured survey, employing purposive sampling techniques. The analysis of the data involved factor analysis, regression analysis, and t-tests conducted through SPSS. The results indicate that the adoption of fintech notably enhances the frequency of investments and participation in the market, especially among younger and novice investors, thereby reinforcing the suggested hypotheses. Nonetheless, the analysis also reveals a propensity for overtrading as a result of gamification elements. The findings suggest that fintech companies need to strike a balance between maintaining a straightforward platform and providing investor education to promote sustainable investment behaviors. **Chaudhary, Gupta and Malhotra (2024)** explored how digital financial inclusion impacts household investment behavior, with an emphasis on access, usage, and trust in digital financial services. The investigation utilized a mixed-method research strategy and gathered data from 500 households in both urban and rural areas through multistage sampling. Analytical tools including ANOVA, logistic regression, and inclusion indices were utilized through SPSS. The results indicate a notable positive effect of digital financial inclusion on the mobilization of savings and engagement in market-linked investments, with all hypotheses being validated. The investigation emphasizes the significance of regulatory safeguards and mechanisms for protecting investors. The findings indicate that it is essential for policymakers and financial institutions to enhance digital infrastructure and cybersecurity frameworks in order to maintain investor confidence. **Verma and Singh (2023)** examined how digital literacy and online financial information impact retail investors' risk perception and asset allocation choices. The investigation utilized a quantitative research framework and gathered data from 310 retail investors through convenience sampling methods. Utilizing SPSS, we performed descriptive statistics, correlation analysis, and multiple regression analysis. The findings suggest that investors with digital literacy exhibit enhanced risk assessment skills and display a greater inclination towards equity and mutual fund investments, thereby reinforcing the study's hypotheses. The results highlight the importance of ongoing digital investor education to reduce misinformation. The study suggests the incorporation of validated financial content and educational resources into online trading platforms from a managerial perspective. **Rao and Kulkarni (2023)** examined the shifts in behavior among retail investors in response to the rise of online trading platforms, focusing on aspects such as trading frequency and behavioral biases. The investigation employed a survey-based methodology, gathering data from 290 retail investors via convenience sampling. The analysis of the data involved employing factor analysis, regression analysis, and techniques for measuring behavioral bias, all conducted through SPSS. The results indicate a rise in market engagement and portfolio experimentation, while also underscoring an increase in herd behavior and short-term speculative trading. Although the hypotheses concerning participation received support, the hypotheses regarding behavioral bias were only partially validated. The findings indicate that organized digital advisory systems play a crucial role in directing retail investors towards sustainable investment approaches. **Iyer and Mohan (2022)** explored how financial literacy and technological awareness influence the investment performance of retail investors. The investigation utilized a descriptive research design and gathered data from 260 retail investors through simple random sampling. Statistical methods, including correlation analysis and regression analysis, were utilized through SPSS. The results indicate a significant positive correlation between financial literacy and the accumulation of wealth over the long term, with technology serving as a facilitating element when bolstered by sufficient financial understanding. The findings validate all proposed hypotheses and suggest that initiatives aimed at educating investors should be implemented alongside the expansion of digital platforms to enhance investment results. **Das and Banerjee (2022)** examined the digital transformation of retail financial services and its impact on investor confidence and transparency. The investigation utilized a conceptual-empirical framework and gathered primary data from 240 retail investors through purposive sampling. The analysis of data was conducted employing descriptive statistics and regression analysis utilizing SPSS. The results indicate that digital platforms greatly improve transparency, lower transaction costs, and facilitate access to real-time market information, which in turn bolsters investor confidence. The findings indicate that ongoing digital innovation, along with robust investor protection measures, is essential for fostering inclusive growth in retail investment markets.

Objectives of the study

1. To analyze the relationship of awareness, usage of digitalization and Financial literacy with Financial strength.
2. To assess the influence of demographic variables on investment behavior of mutual fund investors.

Hypotheses of the study

$H_0$1: There is no significant relationship between (a) awareness about digitalization (b) Usage of digitalization (c) Financial literacy and Financial strength of retail investors.
$H_0$2: There is no significant influence of demographic variables on Financial strength of retail investors

Methodology

This study seeks to examine the connection between awareness, the utilization of digitalization, and financial literacy in relation to the financial strength of retail investors. The study selected 154 participants from retail markets in the Chennai district. The convenience sampling technique, which is a non-probability sampling method, was utilized to select the samples. The questionnaire serves as a tool for the study. The questionnaire is divided into five sections: The initial section includes demographic information about the respondents, while the second and third sections focus on awareness and usage of digitalization, respectively. The fourth and fifth sections contain scales pertaining to financial literacy and financial strength, respectively. Utilizing Karl Pearson's correlation coefficient enables the analysis of the relationship among awareness and usage of digitalization, financial literacy, and financial strength. One-way ANOVA is utilized to examine the impact of demographic variables on the financial strength of retail investors. The data has been analyzed using SPSS v26.

Results and Discussion

The Cronbach's alpha of 0.829 indicates that the study's reliability is 82.9%. It has been observed that 56.9% of the subjects are male, with 41.8% of this group falling within the age range of 31 to 40 years. Only 1% hold graduate degrees, while 56.8% are married. Furthermore, 37.2% of the respondents work in the private sector, and 30.9% report earning between 10 and 20 lakhs. This section outlines the recognition and application of digitalization and financial literacy in relation to the financial strength of retail investors. The analysis of bivariate correlation is employed to examine the relationship, with the findings presented in Table A.
$H_0$1(a): There is no significant relationship between awareness about digitalization and Financial strength of retail investors.
$H_0$1(b): There is no significant relationship between Usage of digitalization and Financial strength of retail investors.
$H_0$1(c): There is no significant relationship between Financial literacy and Financial strength of retail investors.

Table A: Relationship of awareness and usage of digitalization and Financial literacy with Financial strength

Financial literacy	**Financial strength**	
	r	**p**
Awareness about digitalization	0.426**	.001
Usage of digitalization	0.617**	.000
Financial knowledge	0.613**	.000
Financial attitude	0.543**	.000
Financial behaviour	0.511**	.000

** $p < .01$

A notable positive correlation exists between awareness of digitization and the financial strength of retail investors (r=0.426, p=.001), leading to the rejection of the null hypothesis $H_0$1(a) at the 1% significance level. This conclusion indicates that understanding of digitalization has moderately enhanced the financial strength of retail investors.
A notable correlation has been identified between the use of digitalization and the financial strength of retail investors (r=0.617, p=.000), leading to the rejection of the null hypothesis $H_0$1(b) at the 1% significance level. This indicates that the adoption of digitalization has significantly enhanced the financial strength of retail investors.
Significant correlations have been identified between the financial knowledge and financial strength of retail investors (r=0.613, p=.000), the financial attitude and financial strength of retail investors (r=0.543, p=.000), and the financial behaviour and financial strength of retail

investors (r=0.511, p=.000). The null hypothesis $H_01(c)$ has been rejected at the 1% significance level. This study indicates a positive relationship between the components of financial literacy and the financial strength of retail investors. We infer that the strong financial knowledge of retail investors contributes to their enhanced level of financial strength. The financial attitudes and behaviors of the respondents contribute significantly to their overall financial strength. However, understanding finance is crucial for enhancing financial strength in retail investment. This section helps examine the impact of demographic variables on the financial strength of retail investors. One-way ANOVA is utilized to examine the impact. The findings are displayed in Table B.

H_02: There is no significant influence of demographic variables on Financial strength of retail investors

Table B: Influence of demographic variables on Financial strength

	Classification	Mean	S D	F-value
Age (in years)	21-30	3.83	0.752	7.725** (p=.000)
	31-40	3.67	0.903	
	41-50	3.52	1.451	
	50 and above	2.64	0.948	
Gender	Male	3.32	0.658	1.108 (p=.217)
	Female	3.27	0.758	
Education	Higher secondary	2.45	1.995	8.014** (p=.000)
	Bachelor degree	3.3	1.025	
	Master's Degree	3.57	1.031	
	Professional Degree	4.06	0.543	
Marital status	Single	3.87	0.742	0.836 (p=.218)
	Married	3.57	1.044	
Annual income (in Lakhs)	< 2	2.79	1.795	8.654** (p=.000)
	2 to 5	3.42	1.019	
	5 to 10	3.7	0.754	
	10 to 20	3.84	0.901	
	> 20	4.16	1.063	
Employment	Government employee	3.98	0.554	6.258** (p=.000)
	Private sector employee	3.8	0.746	
	Business	3.79	0.648	
	Professional	4.03	1.171	
	Others	2.6	1.185	

** $p < .01$

The analysis reveals a significant impact of age (F=7.725, p=.000), education (F=8.014, p=.000), annual income (F=8.654, p=.000), and employment (F=6.258, p=.000) on the financial strength of retail investors. Consequently, the null hypothesis H02 is rejected at the 1% significance level. The analysis reveals that there is no significant influence of gender (F=1.108, p=.217) or marital status (F=0.721, p=.213) on the financial strength of retail investors. Consequently, the null hypothesis H02 is accepted at the 5% level.

The mean value for people aged 21 to 30 is 3.83, which is the highest. The mean value for people over 50 is 2.64, which is the lowest. Observations indicate that individuals aged 21–30 exhibit stronger financial capabilities in retail investments, while those over 50 demonstrate a reduced tendency to invest in mutual funds.

Individuals with a professional degree achieved the highest mean value of 4.06, while those with higher secondary education recorded the lowest mean value of 2.45. It has been observed that retail investors with a professional degree demonstrate a higher level of financial strength in their investment activities, whereas those with only a higher secondary school education exhibit a lower level of financial strength in retail investment.

Individuals with an annual income exceeding 20 lakhs have achieved the highest mean value of 4.16, while those earning less than 2 lakhs per year have recorded the lowest mean value of 2.79. The analysis suggests that retail investors with annual earnings exceeding 20 lakhs

demonstrate a higher level of financial strength in their investment activities, while those earning below 2 lakhs exhibit a comparatively lower level of financial strength in retail investment.
The highest mean value of 4.03 was recorded by respondents employed in professional roles, while those working in other organizations scored the lowest mean value of 2.60. Professionals seem to have a stronger financial position when it comes to retail investment, while retail investors who work for other companies seem to have a weaker financial position in this area.

Conclusion
The retailing sector has undergone substantial transformation due to digitalization, resulting in a transition from conventional shopping methods to e-commerce platforms. The emergence of technology has significantly impacted consumer behavior, leading to transformations in the food, apparel, and beverage sectors within the Indian economy. Digitalization streamlines the fundamental enterprise ecosystem by enhancing business operations, facilitating automation, and accelerating processes. Retailers are making significant investments in infrastructure and technologies, including chatbots, cloud artificial intelligence, digital marketing, and the Internet of Things, to enhance the luxury of their offerings. This study empirically examined the connection between awareness and utilization of digitalization and financial literacy with the financial strength of retail investors in the Chennai district.
The study indicates a positive relationship between awareness and usage of digitalization, as well as financial literacy components, and the financial strength of retail investors. Retail investors possess strong financial knowledge, which enhances their financial strength. The financial attitudes and behaviors of the respondents contribute significantly to their overall financial strength. However, understanding financial concepts is crucial for enhancing the financial capabilities of retail investors in the realm of retail investment. We have observed a notable impact of age, education, annual income, and employment on the financial strength of retail investment. An individual's understanding of financial concepts significantly influences their investment decisions in today's world. Simultaneously, embracing digitalization will enable the retailer to realize cost savings and enhance operational efficiency. Throughout the entire digitalization process, the business will progress positively, beginning with the procurement of raw materials, extending to inventory management, employee training, and ultimately customer engagement. This study clearly demonstrates that the utilization of digital tools and the financial literacy of retail investors significantly bolster their financial capabilities in retail investment.

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