



# REVIEW OF RESEARCH

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## A STUDY ON FINANCIAL LITERACY AND RISK TOLERANCE AMONG SHG MEMBERS IN THE NAGPUR DISTRICT

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### ABSTRACT

*A lot of research is done on the variables that influence a person's financial decisions. Information indicated very clearly that risk tolerance and financial literacy were important factors in steering financial decisions. However, the majority of studies used pre-made scales to assess financial decision-making, risk tolerance, and financial literacy. In the past, only a few research studies have attempted to refine it into more minute elements including risk tolerance, informational sources, potential investment routes, and financial choices. As a result, an effort has been undertaken in this study to identify more precise characteristics and establish a relationship between them in the context of SHG members, with a particular emphasis on SHG members in the Nagpur District.*



**KEYWORDS** - financial decisions, financial literacy.

### INTRODUCTION:

The financial decision-making of an individual is heavily influenced by various factors such as household income, family size, education, economic activities, financial history, and team decisions. While various studies suggest that education level impacts the ability to make financial decisions, this influence is not pervasive. It is observed that although SHG members, particularly those in India, have no good educational credentials, they lack awareness of financial planning and decision-making. Although numerous research on financial education and financial literacy have been conducted, there hasn't been a comprehensive study on financial literacy and risk tolerance among SHG members in the Nagpur District, the financial capital of the Vidarbha Region. The low-middle economy community now has no significantly more disposable surplus money. Apart from income, other factors such as gender, age, etc. also affect the financial literacy and risk tolerance of SHG members. Along these lines, the study considered the financial literacy of SHG members about varying socioeconomic and demographic factors that affect investment decisions.

The ability to take financial risks is very important in decision-making and achieving financial goals. Therefore, financial risk tolerance can be considered an important investment decision-making component about retirement plans, asset allocation, insurance, and wealth building. It is a complex

psychological concept to understand and mostly ignored. Everyone, the investor will have his or her risk tolerance level and his or her perception of risk. What one investor considers to be a 'high-risk' investment may be regarded as 'low-risk' by another. Thus, this study would investigate whether these factors- age, gender, employment status, marital status, income, self-employment, education, and race- would individually or jointly establish the level of investor risk tolerance and classify an individual accordingly.

This study can prove to be useful for financial planners, portfolio managers, mutual fund managers, insurance companies and banks to design and promote financial products for SHG members. It also helps financial planners to select investment avenues for SHG members that helps them to maximize the wealth. SHG members can use this study to check their financial literacy and risk tolerance level and understand how to increase their wealth with proper investment decisions.

The enquiry here revolves and has made a comparison with economic aspects among other arenas that are to be investigated about financial inclusion and empowerment. It has broadened the horizon by understanding the idiosyncrasies of financial decision-making in SHGs in Nagpur District. With the analysis of how financial literacy and risk tolerance drive the financial decisions of SHG members, this study holds meaningful insights for the stakeholders in formulating targeted interventions and strategies towards improving the financial well-being of people and likely promoting inclusive growth in the region.

Self-Help Groups (SHGs) have remarkably provisioned as the most important medium for financial inclusion and economic empowerment of underserved communities throughout the country. Such groups mostly comprise people from the same socio-economic backgrounds pooling resources, acquiring financial services, and deciding on savings, credits, and investments as one unit. In Nagpur District, Maharashtra, SHGs have a significant part to play in augmenting financial resilience and creating avenues for economic independence.

Financial literacy and risk tolerance are the main characteristics determining how much an SHG will realize its goals, and thus it becomes a very significant part of the whole process of decision-making within SHGs. In simple words the ability to understand and apply numerous financial skills in matters of money is called financial literacy; otherwise, when it comes to risk taking a financial risk by an individual, it determines whether or not he/she will want to get into any cash transactions or will take chances in putting his or her money into investments.

There seems, indeed, to be mounting interest in understanding how financial literacy and risk tolerance shape the way individuals make financial decisions. However, the extent to which such variables influence the diverse financial choices made by SHG members in Nagpur District is still not very well understood. This research seeks to fill this gap by ascertaining the effect of financial literacy and risk tolerance on the financial decision-making process among SHG members in Nagpur District, Maharashtra.

By investigating the intervening relationship between financial literacy, risk tolerance with the financial conditions of the SHG members, the study will also highlight those factors that contribute toward financial resilience and empowerment of the disinherited people in Nagpur District. The results will provide stakeholders, policymakers, and institutions involved with SHG much clearer directions regarding the benefits of improving financial literacy combined with a risk tolerance attitude towards realizing inclusive financial growth and sustainable development within the region.

### **The Factors Influencing the Financial Decision-Making Process of SHG Members in the Nagpur District:**

The influence and interplay of financial literacy and risk tolerance exhibit a profound and complex relationship with the financial decision-making of the SHG members of Nagpur District. Financial literacy means the capability to comprehend all aspects of financial tools and principles. Ideally, this knowledge empowers SHG members to make sagacious decisions regarding finance allocation. Also, the more educated members get training for effective and prudent management of money, assessment of risk factors concerning finance, and quality investments.

Members with greater financial literacy are more likely to take initiatives in the proactive activities of financial planning, budgeting, saving, and investing. Besides being able to know how financial decisions affect their lives, they tend to make fair resolutions that refer to their expectations and hopes financially. Greatly increases confidence in them as well for dealing with financial markets as well as products and services regarding their needs.

This, therefore, also creates conditions where financial literacy acts as the subject of risk management because the higher the individual's capability in financial understanding, the greater the chances of accurate risk assessment and control against different investments. It minimizes the chances of fraud schemes and hasty decisions, which probably endanger an individual's financial stability.

Financial literacy makes the SHGs disciplined brims savers and guide their expenditures. They recognized the need to save money for future needs for emergencies, and long-term purposes. Thus, they are better prepared to face financial emergencies to seize wealth-creation opportunities.

Higher financial literacy encouraged SHGs to participate more in formal financial markets. The financially literate are more likely to visit the banks' portals, be involved in mutual funds or other types of fund investment, or participate in entrepreneurship or small business endeavors. Such increased participation helps propel financial inclusion and economic empowerment among the community.

Yet risk tolerance, more so than financial literacy, determines SHG members' choices regarding finance. High-risk tolerance individuals think of investing in opportunities that promise relatively high returns but also carry high-risk weights, while low-risk tolerant individuals will prefer safe low-risk investments with only slightly lower returns.

The balancing act between financial literacy and risk tolerance will therefore improve the outcome quality of financial decision-making. Financial literacy gives an individual information and skill sets necessary for making a particular choice, while risk tolerance gives the willingness to sacrifice those assets. Programs on financial education designed around the needs of Nagpur District SHG members will improve financial literacy and risk management skills, thus enabling members to make informed decisions on finance suited to their risk preferences and financial goals.

The extent of influence that financial literacy and risk tolerance have in the financial decision-making of SHG members in the Nagpur District cannot be overstated. When stakeholders promote financial literacy and risk tolerance, they empower SHG members with tools for making informed financial decisions and effectively managing financial risks toward greater financial stability and resilience.

### **Relationship between Financial Literacy and Financial Decision Making:**

Used, unused, or slightly used cars that are still in a good and useable condition can be sold or traded at reasonable prices. Such topics include interest rates, inflation, risk, portfolio diversification, and many other financial instruments. The more fire-fighting options individuals can consider regarding financial alternatives, the better they can assess the risks and returns associated with choosing appropriate financial strategies or products. Decision-making will, therefore, improve through financial literacy. The other importance is that financial literacy is significant in aiding one to manage risks through safer financial behaviors.

Financially literate people are much more likely to have long-term planning and goal-setting, including retirement preparation, education funding, and emergency savings. They have more skills and knowledge to avoid the so-called common financial pitfalls, such as being caught up in high-interest debts, using predatory financial products, and investment scams. Therefore, financial literacy is the level of independence given to individuals over their financial affairs, letting them navigate complicated financial systems, advocate themselves for their financial well-being, and make choices not dictated by but reflecting their values and purposed lives. To summarize, financial literacy is positively related to making good financial decisions. Thus, improving access to education, guidance, knowledge, and information resources on financial literacy should help people make the choices that lead to not only improving their financial security but also their whole quality of life.

### Relationship between Risk Tolerance and Financial Decision Making

Risk tolerance significantly affects the financial decision-making process and, therefore, the choices regarding investments, asset allocations, financial goals, risk management strategies, and the financial well-being of the client. It extends to the willingness to accept some fluctuation in the value of the investments held or a chance of incurring some financial loss to attain higher returns. High-risk tolerance persons tend to invest in highly volatile assets with greater potential returns, stocks or real estate-while low-risk tolerance persons typically invest in safer investments yielding lower returns, like bonds or savings accounts.

Risk tolerance also influences definitions of financial goals, with high-risk tolerance generally leading investors toward more aggressive financial objectives, while low-risk tolerance leads investors to preserve capital and focus on stability. Risk tolerance is a factor that helps shape an investor's risk management strategies since an investor with high risk tolerance assumes that market fluctuations are a normal part of investing and is relatively calm about reacting to his portfolio during down markets.

Decision-making is influenced through a psychological prism in terms of personality traits, past experiences, and emotional reactions to uncertainty about finance when shaping such factors as the perception of risk, acceptance of financial risk, and so on. The synergy of risk tolerance, combined with financial decision-making, delivers enhanced financial confidence, satisfaction, and overall well-being. In all, the interplay between risk tolerance and financial decision-making is an extraordinarily complex one- rather multidimensional and interdependent- where risk tolerance factors largely into people's finances and well-being.

### CONCLUSION:

It explicates how financial literacy and risk tolerance play a critical role in the financial decision-making behavior of the members Self-help group (SHG) in the Nagpur District. It also puts the focus on improving financial literacy and understanding that risk tolerance plays a very important role in the inclusion and empowerment of the marginalized community. Financial literacy is the source of knowledge and skills given to SHG members to make better financial decisions as they navigate through complex financial worlds and decisions around meeting their goals. Also, financial literacy makes them reckon and utilize financial services, products that meet their very needs and, hence, improve overall financial wellness. Risk aversion will balance between high potential returns and their attendant risks, which will result in improved financial wellbeing. The study findings have much more than academic implications for the future; they are solid bases for policymakers, financial institutions, and practitioners of SHGs. Much can be drawn from the insight, which gives way to focused initiatives in improving the financial education marketing and designing financial products and services for this category of individuals in Nagpur District concerning their needs.

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