



**Original Article**

**FINANCIAL LITERACY AS A MEDIATOR BETWEEN ARTIFICIAL INTELLIGENCE AND INVESTMENT BEHAVIOUR**

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**Abstract:**

*Individuals can obtain financial information and make their investment decisions with the help of personalised financial applications, predictive analytics platform, robo-advisers etc. These AI driven platforms significantly influenced investors decision making. The level of individual's financial literacy also influenced by the effectiveness of these technologies. So this theoretical paper explain the relationship between artificial intelligence and investment behaviour, with financial literacy acting as a mediation role. With the help of existing literature, this paper develops a conceptual context of how financial literacy empower investors to understand, belief and apply AI generated information about investment. The study analyses that financial literacy is a critical mechanism for transforming technological development into rational investment behaviour.*

**Keywords:** Artificial Intelligence (AI), Financial Literacy, Investment Behaviour, Conceptual context, mediating role.

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**Introduction:**

With rapid technological advancement, a significant transformation driven in financial sector. Artificial intelligence has a developing mechanism influencing financial services and investment decision making. AI technologies are increasingly set in trading platforms, investment review,

portfolio management, risk assessment tools. Automated technologies have changed the individual's traditional approach.

Investment behaviour refers to individual's actions and decision making process of allocating financial funds into various investment avenues.



Financial Literacy is one of the most critical factor influencing the effectiveness of AI based investment tools. For making conversant investment decisions financial literacy provide knowledge, skills and confidence in the mind of investor. People who have higher financial literacy are interested in knowing artificial intelligence output and align investment decisions with long term financial decisions.

This paper stated that financial literacy plays a mediating role between Artificial Intelligence and investment behaviour. AI provides technological capability, but financial literacy determines how this capability is translated into actual investment behaviour. A theory-based examination of this relationship is essential to understand the implications of AI adoption in investment decisions.

#### **Review of Literature:**

**Murugesan, R. and Manohar, V. (2019)** in their research paper ‘AI in Financial Sector- A driver to financial literacy’ state that public having financial knowledge use technology in their daily life. For enhancing financial literacy artificial intelligence formed a crystal picture for Fin-tech companies. They concluded that, in financial field fin-tech companies as part of AI-Artificial Intelligence perform a main role in making financial services easier and also getting them to public.

**Back, C., Morana, S. Spann, S. (2023)** in their research paper ‘When do robo advisors make us better investors? The Impact of social design elements on investor behaviour’ state that robo advisor provides investment decisions to improve individual’s investment decisions. The study highlights on the services provided by robo advisors in difficult investment decisions. So new technological development reduces biases in behaviour that can improve economic value.

**Deekshith, C., Lamba, R., Rai, B., Verma, S., Gupte, R. (2024)** in their research paper

‘Understanding the investment behaviour and financial literacy of youth in India’ state that the study found the significance of financial literacy and its impact on investment in the mind of youth. The study also found that carefulness, doubt towards traditional investment, budgetary control affected on investment decisions.

**Jamal, S., Zeb, A., Mustafa, N. (2025)** in their research paper ‘Artificial intelligence in Financial Decision Making: Unveiling the Mediating Role of Financial Literacy and the Moderating Influence of Risk Perception on Investment Outcomes’ state that AI is a significant tool in finance depend upon level of literacy of investors. The study found the need to have the integration pf technology and user training.

**Praveen, R. Vemuri, H. Peri, S., Sista, S. Saxena, V. Saxena, P. (2025)** in their research paper ‘Enhancing Financial Literacy and Personal Investment Decisions Through AI and Machine Learning’ explore the relationship between individual’s financial literacy and investment behaviour through artificial intelligence and machine learning. Making financial concepts relevant artificial intelligence is able to idealise personal financial content and give instant feedback to pretend financial decisions. Artificial intelligence and machine learning, the two basic pillars provide education about financial planning to promote financial behaviour and decrease variations in right to use to financial knowledge. In improving personal financial literacy and investment behaviour this research offers analytical support the effectiveness of artificial intelligence and machine learning tools. The study found that as an organizer artificial intelligence is a powerful medium of financial empowerment.

**Murali, B. Deepeka, S. Somsundaram, T. (2025)** in their research paper ‘The impact of Digitalization and Artificial Intelligence on Investment Behaviour across Generations in India, state the review of generation wise changing investment behaviour and



its impact on digital financial platform in India. This paper also analyses that due to trust and transparency issue, old generation do not trust on artificial intelligence but young generation handle it easily. To maintain the confidence of the investors artificial intelligence continues to change and develop the need for ethical functioning.

**Ghazal, I (2025)** in her research paper ‘Global Regulatory Challenges of AI in Fintech: A Comprehensive Analysis’ state that AI system recover data safety, secure communication and regular compliance. Moral AI gives importance to responsibility, addressing biases and make sure transparency in serious area like financial inclusion.

**Tiwari, S., Saxena, A. (2025)** in their research paper ‘Digital Financial Literacy and Investment Behaviour in the Higher Education Sector: A Global review of the Emerging Trends, Tools and Gaps’ state that financial literacy is a powerful tool which provide a digital platform for conversant investment behaviour. The study also highlight that the combination of digital technology and financial literacy improves user friendliness with digital habits of modern people. Establishment of digital financial literacy is possible through higher education sector which contribute economic empowerment.

**Shaista A. (2025)** in his research paper ‘The role of Robo-advisor in enhancing investor literacy and financial decision making, state that robo advisors influencing financial literacy and investment behaviour among retail investors. Investment discipline does not enhanced by robo advisors. Robo advisory platform is a milestone tracing to convert knowledge into consistent action.

**Chuang, M., Shrestha, S. (2025)** in their researchpaper ‘ Fintech Converges with Investment and Risk: A Bibliometric review’ state that how fintech approach affect inveament behaviour with comparing findings and analysis. The study analyse

the consequences of fintech investment and risk approach through literature review.

### **Research Gap:**

The role of financial literacy in AI adoption and investment behaviour independently, limited theoretical research incorporate these concepts in a unified framework. This paper fill this gap by suggesting financial literacy as a mediating mechanism between Artificial Intelligence and investment behaviour.

### **Objectives of the Study:**

The objectives of this theoretical study are:

1. To explain the role of financial literacy in investment behaviour.
2. To analyse financial literacy as a mediating factor between AI and investment behaviour.
3. To develop a simplified theoretical understanding of AI-driven investment decisions.
4. To provide insights for future empirical research in finance and technology.

### **Research Methodology:**

This study adopts a **theoretical and conceptual research methodology**. The paper is based entirely on review and interpretation of existing literature. No primary quantitative data have been used. Theoretical analysis highlight the relationship between Artificial Intelligence, Investment Behaviour and Financial Literacy. The study proposes a conceptual explanation so that it make framework suitable for theory building.

### **Conceptual Review of the Study:**

#### **1. Artificial intelligence:**

The success of AI in financial sector is depend on the understanding and trust of users. The simulation of human intelligence in machines called



artificial intelligence that are programmed to think, learn and familiarise.

AI has been widely implemented in financial services for portfolio management, risk assessment, fraud detection, and customer advisory services. Robo-advisors use algorithms to provide automated, low-cost investment advice based on investors' risk profiles and financial goals. However, the effectiveness of Artificial intelligence depends on the user's aptitude to comprehend and interpret its outputs. Previous reviews suggest that AI improves decision efficiency, reduces human errors, and enhances access to financial information.

## **2. Investment Behaviour:**

In the digital era, Investment behaviour considered as increased access to information, frequency in trading and dependency on technology. Investment behaviour highlights the psychological factors significantly effects on investment decisions that reflects how individual notice risk, assess return and react to market information. Investor's confidence and risk approach influenced by AI tools. With the help of AI tools, some investors become more disciplined and goal oriented but some may develop self-assurance due to extreme trust on automated systems. Investors' interactive responses to AI fluctuate based on their financial knowledge and experience.

Theoretical literature suggests that technology alone cannot ensure rational investment behaviour. Behavioural biases persist unless moderated by knowledge and understanding, highlighting the importance of financial literacy.

## **3. Financial Literacy as a mediating Role:**

Financial Literacy plays an important role in individual's life. Individual's financial literacy depends on financial information, approach and performance while investing. Understanding of

basic financial concepts such as inflation, risk diversification, interest rates are include in financial literacy. Financially literate people are more likely to plan for the future, diversify investments, and make rational decisions. In the context of AI-driven finance, financial literacy enables investors to evaluate algorithmic recommendations critically rather than blindly following them. AI alone does not directly result in rational investment decisions. Instead, financial literacy enables investors to translate AI-driven information into informed and responsible investment actions. Without sufficient financial knowledge, investors may misuse or blindly follow AI tools, leading to suboptimal outcomes.

The theoretical analysis suggest that financial literacy acts as a bridge between Artificial Intelligence and investment behaviour. AI provides analytical outputs, but financial literacy determines whether investors can understand the risk- return trade-offs. Avoiding blind reliance on automation financial literacy align investment decisions with financial goals. Financial literacy also evaluate the credibility of AI recommendations.

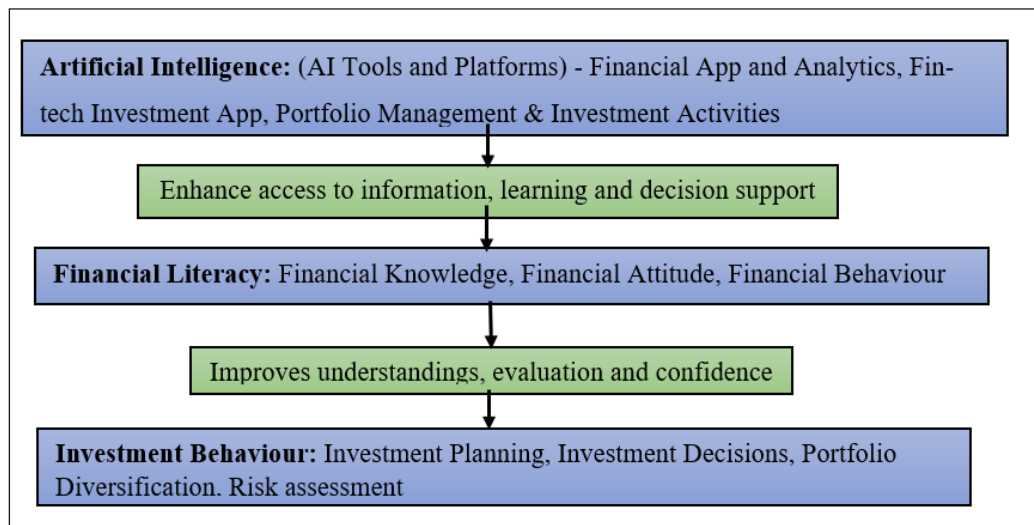
The mediating role of financial literacy can be explained theoretically as follows:

- AI improves access to financial information.
- Financial literacy facilitates clarification of this information.

Prior research state that diversifying investment portfolios financial literate individuals take well-versed investment decisions

## **4. Conceptual Framework:**

The conceptual framework of the study explains how Artificial Intelligence influences investment behaviour through the mediating role of financial literacy of individuals.



**Figure 1: Financial Literacy as a mediating role between Artificial Intelligence and Investment Behaviour**

**Sources:**

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- <https://www.ijriss.com/index.php/ijriss/article/view/8552>
- OECD/INFE 2023 INTERNATIONAL SURVEY OF ADULT FINANCIAL LITERACY © OECD 2023

Figure 1 explains the conceptual framework of the study, depicting a mediated relationship between Artificial Intelligence and investment behaviour through financial literacy. Artificial Intelligence represents the use of AI-based financial tools that provide analytical support and personalized financial information. Financial literacy comprises financial knowledge, attitude, and behaviour that enable investors to interpret and evaluate AI-generated insights. Investment behaviour reflects informed and rational investment actions, including risk assessment, diversification, and long-term planning. The arrows indicate the direction of influence among the constructs, suggesting that Artificial Intelligence affects investment behaviour indirectly by enhancing financial literacy among professionals and investors. Enhancing financial literacy through AI-driven tools can improve individual investment outcomes and promote financial inclusion. The model also

provides a foundation for empirical validation in future research.

**Findings & Suggestions:**

The study found that:

1. Artificial intelligence platform significantly influence investors’ decision making process and confidence.
2. AI adoption improved investor’s portfolio diversification and risk calculation.
3. Investors who have higher financial literacy were more rational, diversified and long term investment behaviour. Despite access to AI, Investors who have low financial literacy showed hesitation and dependency on others.
4. Financial literacy mediate the relationship between AI and Investment behaviour by transforming technological inputs into informed decisions. This relationship



indicates that AI alone is not sufficient without adequate financial knowledge.

5. The absence of financial literacy limits the benefits of AI in investment decision-making.

Based on the above findings, this study anticipated the following suggestions:

1. Financial institutions provide AI based investment tools to enhance investment behaviour of investors.
2. Financial institutions encouraged investors to enhance financial literacy before using AI driven investment tools.
3. Financial education should be promoted with technological innovation in financial market.
4. AI based investment platform should include in educational features to enhance user understanding.
5. Academic institutions should incorporate AI and financial literacy concepts into finance and management curricula.

### **Conclusion:**

This theoretical paper denotes the mediating role of financial literacy in linking between Artificial Intelligence and Investment Behaviour. Effectiveness of AI advanced tools and information depends on investors' financial understanding. The study contributes a novel conceptual perspective to literature and encourage future empirical investigation.

This theory-based study concludes that Artificial Intelligence has become a prominent factor in shaping modern investment behaviour. AI-driven tools enhance efficiency, accessibility, and analytical depth in financial decision-making. Financial literacy plays a vital mediating role by enabling investors to understand, evaluate, and responsibly apply AI-generated insights. It

emphasizes that the true value of AI in finance lies not merely in technological sophistication but in its alignment with investor knowledge and understanding.

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