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Insights into NRI Investment Awareness: A Study with respect to NRI Investors in the Malabar Region of Kerala

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Abstract

Non-Resident Indians (NRIs) play a vital role in the economic development of their native country through investments and foreign remittances. This study explores NRIs' investment awareness, risk perception, and impact on investment preferences in Kerala's Malabar region. The objectives are to analyze the relationship between awareness and investment-related factors and to provide insights for policymakers to attract NRI investments. Primary data were collected from 400 NRIs across six districts using a structured questionnaire, employing the snowball sampling method. Secondary data were sourced from journals, websites, and reports. Structural equation modelling was used to evaluate the relationship between investment awareness, risk perception, and preferences. The findings reveal that greater awareness positively influences NRIs' investment perception and preferences. This study enhances financial literacy, addresses NRIs' investment concerns, and positions Kerala as a competitive investment destination.

Keywords: Financial Literacy, Investment, Non-Resident Indians, Risk Perception

1. Introduction

Non-Resident Indian (NRI) investments have historically played a significant yet underutilized role in India's economic development. During the colonial era, restrictive financial policies limited external capital inflows, constraining the participation of overseas Indians in India's economic growth. Following independence in 1947, the Indian government introduced various measures to attract foreign investments. However, the engagement of NRIs remained limited due to complex regulatory frameworks. The introduction of the Foreign Exchange Regulation Act (FERA) in 1973 further imposed stringent restrictions, creating additional barriers to NRI investments.

A paradigm shift occurred with the economic liberalization ushered in by the New Economic Policy of 1991, which opened the Indian economy and streamlined regulatory frameworks, fostering a more investment-friendly environment. Subsequent policy reforms, including the introduction of Non-Resident External (NRE) and Non-Resident Ordinary (NRO) accounts, further facilitated NRI participation in India's financial markets. In recent years, rapid advancements in financial technology, increasing financial inclusion, and a broader array of investment instruments have significantly bolstered NRI investments.

The economic impact of NRI investments has been substantial. In 2022, India recorded $107.5 billion

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in inbound remittances, contributing nearly 3% to its Gross Domestic Product (GDP) (RBI, 2022). These remittances play a crucial role in macroeconomic stability by strengthening foreign exchange reserves and supporting domestic development initiatives. Empirical studies indicate that a significant portion of remittances is allocated to essential sectors such as education, healthcare, and infrastructure (The Economic Times, 2022). However, challenges persist in effectively channelizing these funds into productive investments rather than mere consumption.

Kerala, home to a substantial NRI population, is a key recipient of remittance inflows and offers a compelling case study for analyzing the economic implications of NRI investments. Despite being the second-largest recipient of NRI funds after Maharashtra, Kerala faces critical challenges in leveraging these inflows for long-term economic growth. Issues such as fund mismanagement, lack of transparency, corruption, and limited investment awareness among NRIs hinder the state's ability to optimize the economic benefits of remittance flows. A significant proportion of NRI funds is often allocated to non-productive assets such as luxury housing and automobiles, rather than directed towards high-growth sectors that could enhance sustainable economic development.

These challenges underscore the need for a comprehensive assessment of NRI investment awareness and decision-making patterns. Financial literacy and risk perception play a crucial role in shaping investment behaviours, as highlighted by Lusardi and Mitchell (2014). Similarly, Agarwal and Horowitz (2002) emphasize the influence of risk perception and investment awareness on diaspora investment decisions. Given these insights, it is imperative to examine the investment behaviour of NRIs in Kerala, particularly in the Malabar region, to understand the factors shaping their investment preferences.

This study aims to analyze the relationship between investment awareness, risk perception, and investment preferences among NRIs in Kerala's Malabar region. By identifying key barriers to productive investments, the research seeks to provide evidence-based recommendations for policymakers to enhance financial literacy, improve regulatory transparency, and develop targeted strategies for attracting and channelizing NRI investments into sectors with high economic potential. The findings of this study will contribute to the broader discourse on diaspora investments and their role in regional economic development, offering valuable insights for policymakers and financial institutions seeking to optimize the economic contributions of NRI investors.

2. Literature Review

Investment awareness is a cornerstone of informed financial decision-making, enabling individuals to achieve their financial objectives while contributing to economic growth. Financial literacy, a critical component of investment awareness, influences behaviour such as saving, spending, and investing. The existing literature provides valuable insights into factors affecting investment awareness and behaviour, including personal interest, financial education, cultural influences, and access to information. However, a comprehensive understanding of how these factors interact in specific demographic contexts, such as Non-Resident Indians (NRIs) in the Malabar region of Kerala, remains underexplored.

Several studies have investigated the determinants of investment awareness, highlighting the role of financial literacy and personal motivation. Azhar *et al.* (2017) emphasized the significance of improving financial literacy, environmental influences, and personal interest in fostering diversified investment portfolios.

Focusing on NRIs, Kahali (2016) underscored their substantial contributions to foreign exchange reserves and economic development. Despite their potential, Vasanthbhai (2018) highlighted a lack of awareness among NRIs regarding diversified investment options, with many relying on informal advice from friends and family. Real estate continues to dominate as their preferred investment choice, suggesting limited penetration of contemporary financial instruments. Further, Neetu and Hanspal (2022) explored the influence of demographic factors on investment

behaviour, revealing that education plays a pivotal role in shaping awareness and the choice of financial instruments. These findings align with Sidheeq (2019), who observed that Gulf-based NRIs prioritize traditional options such as gold and savings accounts over riskier ventures, reflecting a cautious approach influenced by limited financial literacy.

Emerging trends, especially in the aftermath of the COVID-19 pandemic, have also reshaped investment behaviours. Save and Lengure (2023) found that the pandemic prompted investors to seek professional financial advice and explore new investment avenues, although the overall level of awareness remained stagnant. Similarly, Sathyanaraynan and Suhashini (2020) highlighted the increasing adoption of SIPs among NRIs, often facilitated by banker recommendations, as investors sought professionally managed and goal-oriented savings options.

While the literature provides valuable insights into investment awareness and behaviour, critical gaps remain, particularly concerning NRIs in Kerala's Malabar region. Existing studies often take a broad perspective, overlooking the nuanced interplay of cultural, economic, and demographic factors unique to this region. Furthermore, there is limited understanding of how systemic barriers, such as regulatory challenges and inadequate financial guidance, influence the investment decisions of NRIs. Another underexplored area is the relationship between investment awareness and risk perception, which could offer a deeper understanding of how NRIs navigate the complexities of modern financial markets. Addressing these gaps is crucial for designing effective interventions to enhance financial literacy and investment awareness among NRIs in this context.

3. Scope of the Study

Due to the wide-ranging ramifications, it is crucial to understand how Non-Resident Indians (NRIs) view investments. Since their financial decisions have the ability to have an impact on a variety of industries, including real estate, stock markets, and government programmes, NRIs play a significant role in determining the economic landscape of their home country. Policymakers can better respond to the demands of this particular group by tailoring their services by understanding their investment behaviour, expertise, and preferences. Increased knowledge can also enable NRIs to make wise and educated financial decisions, maximising rewards. In the end, a better knowledge of NRIs' investment awareness benefits both the financial stability and growth of the home country as a whole as well as the financial well-being of the NRIs themselves.

The study mainly concentrates on NRIs in different areas of Kerala, paying special emphasis to those in the Malabar area. The paper tries to acquire insights into NRIs' investing knowledge by analysing the demographic and socioeconomic profiles of NRIs in Kerala, taking into account elements like age, occupation, income level, and education. The study will thoroughly examine NRIs' degree of knowledge on the variety of investment opportunities offered in India, taking into account both traditional and modern channels. The study will also gauge how well-informed NRIs are about the investment options available to them in Kerala and how often they use them. In order to help policymakers, financial institutions, and NRIs themselves improve their investment awareness and make wise investment decisions in the dynamic environment of Kerala's economy, the study project's findings are intended to provide insightful information.

4. Research Methodology

The study is descriptive and intends to comprehend the degree of awareness that NRIs in Kerala's Malabar region have. The report describes all of the NRIs' accessible investment alternatives in India, including both conventional and cutting-edge possibilities including bank deposits, gold, insurance, real estate, shares, derivatives, money market securities, and more. Investment options, different forms of investment hazards, and investor perception of various possibilities are all factors taken into account in this study.

The study's sample population is enormous and dispersed over Kerala's Malabar area. NRI investors

from the studied region make up the sample population. Samples were chosen by the researcher from six Malabar area districts, including Kasaragode, Kannur, Kozhikode, Wayanad, Malappuram, and Palakkad. There are 11,40,628 NRIs in the districts of Kerala's Malabar region, according to the Kerala Emigration study. Data from a sample of these participants were collected for the current study. Samples were chosen in accordance with Yamane's recommendations, and the sample size was calculated using Yamane's equation is found to be 399, and it is rounded to 400. The snowball sampling method is applied for the selection of samples. The study's sample consists of Non-Resident Indians from the Malabar area. Both primary and secondary data are used in the investigation. Through the use of a structured questionnaire, the respondents provided the main data. Secondary sources such as websites, yearly reports, survey reports, books and journals, research articles, *etc*. were recommended for obtaining theoretical frameworks and investment data. The primary elements of research projects involve data analysis and interpretation, which are essential for drawing conclusions and making recommendations. Statistical tools are employed to analyze the data, with SPSS being a common choice for this purpose. Additionally, the Structural Equation Modelling technique is utilized to draw meaningful interpretations from the data. Hypothesis testing is employed to identify significant relationships between the variables studied in the research.

5. Results and Discussions

The findings of the study provide valuable insights into the relationship between the awareness levels of NRIs regarding various investment aspects and their perceptions of investments. The study identifies that awareness of investment avenues and awareness of risk significantly influence the perception of NRIs towards investment.

Analysis reveals a strong positive relationship between awareness and perception of investments among NRIs. NRIs with higher awareness of various investment opportunities (*e.g.*, bank deposits, securities, post office savings) and associated risks (*e.g.*, business risk, interest rate risk, political risk) are found to have a more favourable perception of investments.

5.1 Measurement Model

The study made use of three constructs to meet its objectives. The first construct is awareness of investment avenues, the second one is awareness of risk and the third is perception of investment. The construct awareness of investment avenues (AI) is measured using 11 items such as AI1, AI2, AI3, AI4, AI5, AI6, AI7, AI8, AI9, AI10 and AI11. The items such as AR1, AR2, AR3, AR4, AR5, AR6, AR7 and AR8 are used to measure awareness of risk and the construct perception of investment is measured using 6 items such as PI1, PI2, PI3, PI4, PI5 and PI6.

Figure 1 represents the measurement model of the constructs used in the study. It aims to assess the validity and reliability of the constructs used in the study. The construct awareness on investment avenues depicts the awareness of NRIs on various investment alternatives such as deposits, securities, post office savings, *etc*. whereas the construct awareness on risk measures the NRI's understanding of the risk element in investment and the construct perception of investment indicates the opinion of NRIs regarding investment.

Table 1 deals with the validity statistics of the constructs used in the study. The constructs are checked for

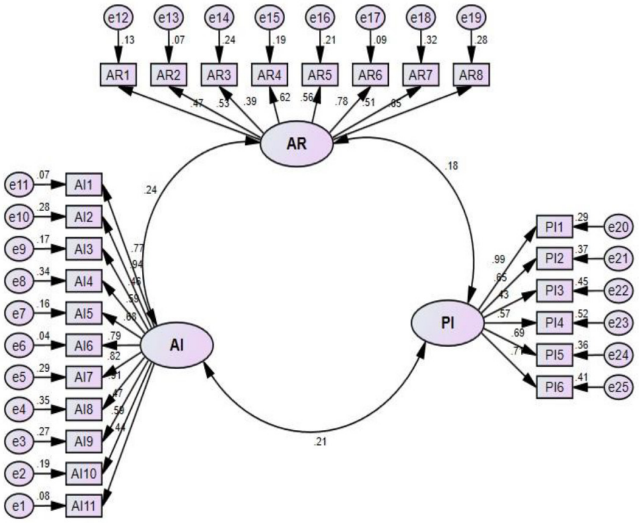


Figure 1. Measurement model.
Source: Extracted from AMOS output

Table 1. Validity indices

Variable	AVE	CR	MSV
AI	0.587	0.759	0.194
AR	0.562	0.936	0.227
PI	0.631	0.817	0.231

Source: Extracted from AMOS output

Table 2. Measurement model fit indices

Indices	Value	Criterion Value
CMIN/DF	4.127	<5
RMR	0.043	<0.050
GFI	0.931	> 0.9
AGFI	0.928	>0.9
NFI	0.944	>0.9
CFI	0.965	>0.95
RMSEA	0.071	<0.080

Source: Extracted from AMOS output

construct, convergent and discriminant validity criteria. The construct validity assures the adequacy of the constructs employed in the study to meet its objective and it is satisfied with a Composite Reliability (CR) value greater than 0.7. in the study all the constructs AI, AR and PI have CR values greater than 0.7 and satisfies construct validity. The convergent validity confirms that the variance accounted by the factors in the study is more than error and it is verified with an Average Variance Extracted value of more than 0.5 and on the other hand the discriminant validity shows the distinctness of one construct than another which is confirmed with Maximum Shared Variance (MSV) value less than AVE. In the for all the constructs AVE value is greater than 0.5 and MSV values are less than their AVE and hence confirm the convergent and Discriminant validity.

Table 2 discloses the model fit indices in the study in accordance with the Confirmatory Factor Analysis (CFA). The fit indices figures show that the model is fit. Here the Goodness of Fit Index, Adjusted Goodness of Fit Index, and Normed Fit Index values of the model are greater than 0.9 as required and the Comparative Fit Index is greater than 0.95. On the other hand, the Root Mean Square Residual and Root Mean Square Error Approximation are less than 0.05 and 0.08 respectively as required for the model fit and also the Chi-square statistics value is less than 5 and hence confirms the model fit.

5.2 Structural Model

The structural model confirms the relationship between awareness and perception. The path coefficients indicate significant positive relationships:

- **H1**: Awareness of investment avenues → Perception of investment (**Path Coefficient = 0.83, p<0.001**)
- **H2**: Awareness of risk → Perception of investment (**Path Coefficient = 0.79, p<0.001**)

These results highlight that awareness of investment avenues has a slightly stronger influence on perception compared to awareness of risk.

6. Discussion

The findings of this study underscore the critical role of financial awareness in shaping NRIs' perceptions toward investments. The significant positive relationships identified between awareness of investment avenues and risk and investment perception suggest that NRIs with greater financial knowledge exhibit higher confidence in making informed investment decisions. This aligns with Behavioural Finance Theory, which posits that financial literacy mitigates cognitive biases, leading to more rational investment choices (Lusardi & Mitchell, 2014). Additionally, the Theory of Planned Behaviour (Ajzen, 1991) suggests that greater knowledge enhances perceived behavioural control, reinforcing positive investment perceptions.

The higher path coefficient for awareness of investment avenues (0.83) compared to awareness of risk (0.79) suggests that while understanding risk is vital, the ability to evaluate diverse investment opportunities plays a more decisive role in shaping investment perception. This is consistent with studies by Guiso and Jappelli (2008) and Van Rooij *et al.* (2011), which highlight that investors with greater knowledge of financial products exhibit higher participation in investment markets. Prospect Theory (Kahneman & Tversky, 1979) further supports this finding, indicating that investors tend to avoid losses rather than seek

gains, making risk awareness a crucial but slightly less dominant factor in decision-making.

The robustness of the measurement and structural models, as confirmed through CFA fit indices and validity checks, strengthens the reliability of these findings. The high AVE and CR values indicate that the constructs effectively capture the dimensions of awareness and perception. The excellent model fit indices further suggest that this framework could be applied to other regions with significant NRI populations, extending its practical relevance.

These findings call for proactive financial education strategies such as targeted financial literacy programs, regional investment seminars, and digital tools tailored to NRIs. As per Lusardi and Tufano (2015), such initiatives have been shown to enhance investment participation and decision-making capabilities. Future studies could investigate how demographic variables—such as age, income levels, or employment sectors—moderate the awareness-perception relationship, offering a more nuanced understanding of NRI investment behaviour.

7. Conclusion

This study provides valuable insights into the factors influencing Non-Resident Indians' (NRIs) investment decisions, particularly focusing on the role of awareness regarding investment opportunities and risks. The findings reveal that NRIs' awareness of various investment avenues plays a significantly greater role in shaping their investment perceptions compared to awareness of associated risks. This underscores the critical importance of enhancing NRIs' knowledge of available financial products and the risks they entail, which directly influences their decision-making and overall investment behaviour.

For policymakers and financial institutions, these findings emphasize the need for targeted educational campaigns and resources to improve NRIs' awareness of diverse investment options such as bank deposits, insurance, real estate, and securities. Financial institutions should adapt their communication strategies to meet the specific needs of NRIs, who may rely more on family and friends for investment guidance. Tailored advisory services can help bridge the knowledge gap and build confidence among NRIs in making informed decisions. Furthermore, regulatory bodies could consider implementing initiatives that provide clear and accessible information about the risk factors associated with different investment choices, ensuring that NRIs have a well-rounded understanding.

This research contributes to the limited body of literature focused specifically on NRIs and their investment behaviour. While previous studies have explored investment preferences or financial literacy in general, this paper distinguishes itself by systematically examining the dual aspects of awareness—investment avenues and risk awareness—and their direct impact on investment perceptions and decisions among NRIs. It presents a comprehensive framework that links awareness to perception, offering new perspectives for financial institutions aiming to serve this growing demographic. The conceptual model and structural equations developed in this study provide valuable tools for understanding and improving NRI investment decision-making processes.

While this study offers critical insights, future research could expand the scope by examining the role of cultural influences, the impact of digital financial tools, and regional differences in investment behaviour among NRIs. Furthermore, longitudinal studies could explore how these factors evolve over time, particularly in response to changes in global economic conditions or shifts in investment trends.

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