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Financial Literacy of the Indian Young Adults: An Empirical Analysis

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Abstract

Financial literacy levels in India are on the lower side in spite of numerous efforts made by the Governmental and private institutions. 27% of Indians are financially literate as per the reports of National Centre for Financial Education (2019). India is at the 73rd position out of 144 countries in terms of financial literacy. Instilling the essentials of financial literacy in our youth starting from high school level is essential for the future of the nation. They begin making real world financial decisions as to prudently manage their finances and even engage in investments. With relevant financial literacy, the youth can embark on entrepreneurial activities from an early age. It is imperative that the youth learn to preserve and grow their money from an early age to ensure long term sustainable financial well-being. This paper conducts a pan India survey to determine the financial knowledge, financial attitude and financial behaviour scores of the youth in the age group of 16-25 years utilising a structured OECD International Network on Financial Education (INFE) questionnaire. The survey revealed the low level of financial knowledge among the youth on a pan India basis. This paper also establishes via regression analysis how both financial knowledge and attitude significantly affects one's financial behavior in a positive manner. It is propounded that if policy makers want to ensure sound financial behavior for the prosperous future of India, efforts should be directed towards inculcating the essentials of financial knowledge and attitude in our youth irrespective of one's choice of discipline of study at graduation and higher levels.

Keywords: Financial knowledge, literacy, behavior, attitude, young adults

1. Introduction

With the constant introduction of varied financial products which are more complex than before, deepening of financial markets, dynamic fluctuations in the macro variables, information overload, economic policy changes, financial literacy of masses is now an imperative in all developing nations including India. Decisions related to financial management can be proficiently taken only when individuals are equipped with a sound understanding of basic financial concepts. Financial literacy permits people to make informed financial choices with respect to the manner in which they want to save, invest and borrow after assessing the risk-return tradeoff. Inculcating the essentials of financial literacy in our youth starting from high school level is essential for the future of the nation.

Financial literacy for the young adults need to begin at the appropriate time, ideally during the high school years. This is when they embark upon making real-world financial decisions. From 16 onwards they need to manage their allowances, earn money through part-time jobs, or make independent purchasing decisions. These transitional years are a critical time to introduce financial concepts such as saving, budgeting, distinguishing between needs and wants, and setting personal money goals (United Way2023)

OECD defines Financial Literacy as a combination of knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well being". Xu and Zia (2012) propounded "The term [financial literacy] can encompass concepts ranging from financial awareness and knowledge, including of financial products, institutions, and concepts; financial skills, such as the ability to calculate compound interest payments; and financial capability more generally, in terms of money management and financial planning." People achieve financial literacy through a process of financial education. Various financial literacy surveys have reported that financial literacy varies according to level of income, education, gender, rural/urban domicile, caste/class in society and occupation

Efforts to improve financial literacy can lead to financial inclusion which translates into inclusive growth and sustained prosperity. With the constantly increasing range of financial products coupled with more complexity and available on digital platforms, financial knowledge and skill are extremely important for a person and specially the youth to take informed decisions. Perils of financial exploitation and overindebtedness can be avoided with financial education. Better informed saving and investing decisions by the youth can lead to higher family income and well being.. Financial literacy is an essential ingredient for boosting entrepreneurship in the country, ensuring greater participation in financial markets, bringing about behavioural changes and culminating into positive spillover effects. With relevant financial literacy, the youth can embark on entrepreneurial activities from an early age.

It is increasingly being accepted that improvement in one's financial wellbeing is to a great extent dependent on the degree of financial literacy. In India, the level of financial literacy has lot of room for improvement. A survey conducted by National Centre for Financial Education (2019) reported that only 27% of Indians are financially literate. The S&P Global Financial Literacy Survey (2015). found that around 76% Indian adults fail to sufficiently comprehend key monetary ideas. The survey found that some countries in South Asia has the lowest financial literacy scores, where only a quarter of adults—or fewer—are financially literate. Although India's financial literacy rates range below the overall worldwide rates, it was however in sync with those prevailing in the other BRICS nations.

Financial literacy is significant in light of the fact that it induces restraint in individuals and ensures some degree of certainty. This in turn facilitates investments in the formal financial framework. In India, social security system is inadequate, insurance is still lacking in penetration, the government is withdrawing from pension schemes and interest on fixed deposits are on a constant decrease. In such a scenario India needs to aggressively gear up on implementing financial education schemes, starting from school level, so as to improve the general level of financial literacy which can increase the preparedness of the youth to judiously deal with financial matters in a VUCA world. With India having the largest young population in the world, effective financial literacy schemes are an imperative.

As discussed by Verma (2017), the "Project Financial literacy" undertaken by Reserve Bank of India (RBI) is multi dimensional approach in this direction targeting school and university students, women and senior citizens defense personnel and rural and urban poor. Banks in India have started Financial Literacy Centres (FLCs) all around the country. In addition to banks, SHGs, Micro Finance Institutions are also involved in promotion of financial literacy through their learning material and websites. SEBI too has been undertaking nationwide campaigns on financial education through their SEBI Certified Resource Persons and has introduced certification courses on basics of Indian Financial Markets for the Citizens. Financial awareness programs have also been launched by Insurance Regulatory and Development Authority IRDA and Pension Fund Regulatory and Development Authority PFRDA for insurance policy holders and pensioners.

Considering that Financial literacy encompasses Financial Knowledge, Financial Behaviour and Financial Attitude, it is imperative to throw light on each of the components. Financial Knowledge involves understanding of key financial concepts and ability to evaluate benefit in real life financial situations. The concept of simple interest, compound interest, time value of money, inflation, diversification, division, risk-return and interest paid on loan are tested to determine the financial knowledge of an individual. Financial Behaviour involves study of day-to-day money management, financial planning, spending, savings, investment, reliance on credit to meet daily requirement and building a safety net for future well-being. Financial Attitude aims at studying people's response towards savings, prioritization of short-term wants over long-term security, inclination towards risk, et al. for future well-being.

Objectives

1. To find out the level of Financial knowledge among the age group of 16 to 30 years.
2. To determine the extent to which level of financial knowledge and financial attitude affects a person's financial behavior in the youth

2. Literature review

In 2006 a financial literacy test was designed by Lusardi and Mitchell aimed for Health and Retirement Survey (HRS). This test assessed the respondents' basic comprehension on financial concepts like compound interest, inflation and diversification of risk. This test has been widely used by researchers like Cole et al. (2008) Almenberg and Soderberg (2011) and Klapper and Panos (2011) in various countries like India, Indonesia, Sweden and Russia. All such studies reported variations in financial literacy levels across demographic and socio-economic groups.

PWC (2016) in a financial literacy survey found that a large majority of teachers believed that financial education should be imparted both at school and home, with parents/guardians playing a vital role in this regard. Findings also stated that financial education helped students in budgeting, understanding debt and think critically. National Strategy of Financial Education (2020) outlines how the government is planning to adopt a 5C's approach namely involving Content, Capacity, Community, Communication, and Collaboration for financial education of the youths. This stresses on including various subjects in the curriculum that will lead to financial literacy. Anshika & Singla, (2017) reaffirmed that the low levels of financial literacy was the key obstacle towards ensuring financial inclusion in India and it will further restrict economic growth In their opinion, awareness building exercises in schools, colleges, workplaces and residential to increase knowledge of the finance for daily use. Kumari & Viz (recorded different financial literacy programmes being conducted in India to enhance literacy levels. They suggested that policymakers should focus on identifying the increasing requirement for financial awareness and develop suitable programmes

Bhatia et al (2021) studied the determinants of financial literacy of young adults with special focus on parental influence and socio demographic factors. Singhal and Singh (2020) reviewed available literature on the area of financial literacy to find that factors such as age, gender, educational attainment, income, marital status have an impact on the individual's fin literacy levels. Gangwar & Singh (2018) added wealth occupation and social interaction to the above mentioned list of determinants individual's fin literacy levels. Similarly, Taylor (2010) used panel data models to find that demographics like age, health, family size and structure, housing occupancy, and employment status of the individual and family members were determinants of financial literacy.

Singh, & Sharma (2016) in their research concluded that the financial literacy level of a person plays a critical role in the investment decision and proved a moderately high correlation between the level of financial knowledge and the efficacy of personal investment decisions. Atkinson and Messy (2012) propounded that financial behavior was the most important element of financial literacy because behavioral changes could enhance or reduce financial well-being. Hasanuh and Putra (2020) surveyed street vendors in Karawang, Indonesia to find that both financial literacy and financial attitude affects the investment decision of the individuals. However, Susdiani (2017) confirmed that financial knowledge has no effect on a person's behavior to invest.

Gala (2022) studied the awareness and misconceptions about financial literacy among the youth to find though majority have theoretical knowledge, they are majorly lacking in the practical usage of financial literacy. Vij (2020) compared the knowledge of money management among the young adults aged between 18-22 in India (New Delhi) and USA (Massachusetts). He recommended ways in which these students could enhance their management of funds. Aggarwal & Gupta, (2014) surveyed 148 students to determine if a degree in commerce initiates better financial awareness among college students. They concluded that the education and discipline of study had positive impact on financial literacy. Aggarwala et al. (2015) studied the working young population in urban India and reported that their financial knowledge and financial attitude are inferior than their counterparts in other nations, yet their financial behavior was superior. Garg & Singh (2018) focused on how financial literacy of youth is affected by socio economic and demographic factors and looked into the relationships between financial knowledge, attitude and behaviour.

Hypothesis

1. Financial knowledge of the average Indian youth is low.
2. Financial knowledge and financial attitude affects person's financial behavior

3. Methodology

The study is conducted amongst the students enrolled in high school, colleges and universities in the age group of 16-25 years on a Pan India basis. The design of the study is explanatory and descriptive. The research instrument was a well-structured questionnaire circulated online amongst the sample through Survey Monkey. The research instrument comprised of 2 sections. The first section was designed to capture the demographic profile of the respondents. The second section captured their responses regarding the three constructs of financial literacy i.e financial knowledge, financial behavior and financial attitude as identified by OECD (2018). With respect to financial knowledge, it was considered that a person who is financially literate person is expected to have basic knowledge of important financial concepts. The questionnaire includes 8 questions to test levels of financial knowledge and they covered topics such as division, time value of money, interest paid on loan, calculation of interest plus principle, compound interest, risk and return, definition of inflation and diversification of investment. These questions give an insight into a person's basic knowledge and also throw light on his/her willingness to absorb financial information and an ability to apply knowledge to particular problems Each respondent's knowledge score was calculated by giving one mark for each correct answer and no marks for incorrect answers. The queries on financial behavior revolve around issues such as carefully evaluating purchases, on-time payment of bills, being vigilant of personal financial affairs, setting goals on a long term basis and striving to achieve them, being responsible and preparing a household budget, being actively saving or buying investments in the past year, meeting ends without any loan and choosing financial products after either gathering some information or shopping around by using independent information/advice. The responses on financial attitude, which aimed at capturing a person's disposition, were solicited on 3 queries. These revolve around preference towards saving for the future, prioritizing short-term wants and considering money as means for expenditure only. All the responses on financial behavior and attitude were solicited using a 5-point Likert Scale (1-Strongly Disagree; 5-Strongly Agree). A non probability convenience sampling technique was employed amongst students aged between 16 and 25 years and residing in urban and semi-urban areas, pan India. The sample size was computed to be 384 with a 95% confidence level. SPSS 22.0 was the statistical package used to analyze the data.

4. Analysis of data

The Demographic profile of the respondents of a Sample (n) = 384 are given in Table 1 below. 384 responses were collected via the survey. 64% of the respondents are male and 36% are female. Majority of the respondents are undergraduates, post graduates or pursuing professional degree in terms of education. 57% of the respondents have an annual family income ranging between 5 lacs to 10 lacs. 54.4% are employed/self-employed while 45.6% are only students. Majority of responses have been received from the youth in urban areas.

Table 1: Demographic profile of the respondents

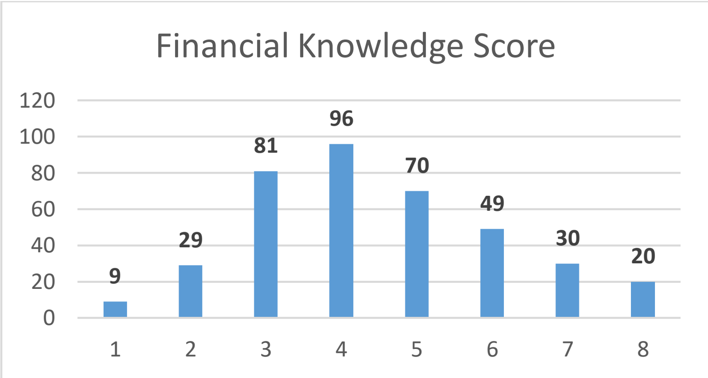
VARIABLE	CATEGORY	n	%
GENDER	Male	247	64.3
	Female	137	35.7
EDUCATIONAL QUALIFICATION	Intermediate	57	14.8
	Bachelor's Degree	112	29.2
	Master's Degree	106	27.6
	Professional Degree	99	25.7
	Doctorate Degree	14	3.7
FAMILY INCOME	Below 5 Lakhs	40	14.8
	5 to 7.5Lakhs	88	22.9
	7.5 to 10 Lakhs	131	34.2
	10 to 15 Lakhs	83	21.6
	Above 15 Lakhs	42	6.5
OCCUPATION	Self Employed	48	12.5
	Employed	161	41.9
	Student	175	45.6
DOMICILE	Urban	274	71.4
	Semi – Urban	110	28.6

Response to the question on whether the financial knowledge received at home/school/college/university is enough to manage one's own finances received variety of responses, the distribution of which is given in Table 2 below:

Table2: Responses on adequateness of financial knowledge at home/school/college/university

Strongly Disagree	84
Disagree	144
I have no opinion	50
Agree	79
Strongly Agree	27

Fig 1: Distribution of respondents wrt Financial knowledge scores



The Financial knowledge scores of the respondents are shown in Fig 1. Majority of respondents (56%) have a financial knowledge score of 4 or less out of a maximum score of 8.

The analysis model is to analyze the effect of Financial Knowledge and Financial Attitude on Financial Behaviour with a multiple regression model.

$Y = a + b_1X_1 + b_2X_2 + e$

Information :

Y = Financial behaviour

a = Constants

b_1 = Regression coefficient of Financial Knowledge

b_2 = Regression coefficient of Financial Attitude

X_1 = Financial Knowledge

X_2 = Financial Attitude

e = Error

Table3: Model Summary on the Robustness of Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.76	0.577	0.559	0.54204

Table4: Significance of the Partial Regression CoefficientsCoefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		

1	(Constant)	1.986	.166		11.969	.000
	Fin Kno	. 349	.389	.076	1.428	.004
	Fin Att	. 222	.042	.281	5.246	.000

a. Dependent Variable: Financial Behaviour

From the model summary of the results given in Table 3, it is seen that the value of R is 0.76R = 0.76 This denotes the high correlation between the observed financial behavior score and the values predicted by the model and The coefficient of determination R^2 equals to 0.577. This means that 58% of the change in financial behaviour is due to variation in an individual's financial knowledge and financial attitude. The Adjusted R^2 is 0.559 which reflects that the model fits the population well. Since the Significance is less than 0.05 that means our hypothesis is accepted i.e. there is significant relationship between the financial behavior, financial attitude and financial knowledge. The significance of each of the predictor variables is displayed in Table 4.

5. Findings and Interpretations

As can be seen from Fig. 1, majority of the respondents i.e 56% could not score correctly in more than 4 questions out of 8, testing financial knowledge. This is an indication of the low levels of financial literacy which still persists in our nation. Table 2 reveals majority of respondents feel that the knowledge about financial matters they get at school or home is not enough for them to manage their own finances. 50 respondents however have no opinion on this. From this it is evident that the curriculum at school/high school and the open atmosphere at home are essential to nurture the growth of financial literacy which has long term ramifications in one's life. The regression analysis shows that both financial knowledge and financial attitude are significant variables in positively affecting one's financial behavior.

6. Conclusion

Majority of Indian schools do not focus on teaching personal finances to students and there is a major lack of financial knowledge that significantly contributes to bad financial behavior later in life. Every School in India should have a personal finance class weekly in high school irrespective of whether the student is studying in Arts, Commerce and Science stream. Government and Policymakers should try to design, introduce and develop efficient financial education program for high school/ college curriculum. New innovative methods and techniques should be use for assessing the financial education programs. Use of social media for conducting financial education can be explored too. While both men and women in this ag group require intervention to enhance their financial knowledge, focused intervention will generate better results.

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