

EVALUATION OF FINANCIAL LITERACY AMONG URBAN WORKING YOUTH IN INDIA

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Abstract

This research delves into the evaluation of financial literacy among urban working youth in India, with a focus on understanding their financial behaviour and attitudes. The study aims to assess the level of financial literacy and explore the financial decision-making processes and budgeting habits prevalent among this demographic. Drawing a sample from six major cities in India, encompassing diverse socio-economic backgrounds, data was collected through a questionnaire-based survey. Attributes such as gender, age, education level, marital status, family income, and living arrangements were considered due to their potential influence. Despite aiming for a sample size of 1,000, the usable sample was reduced to 754 after preliminary analysis. The findings highlight significant gaps in financial literacy among urban working youth, emphasizing the need for targeted interventions. Addressing socio-demographic disparities and promoting tailored financial education initiatives emerge as vital strategies to enhance financial well-being and decision-making outcomes in this cohort. This research contributes to the ongoing discourse on financial literacy enhancement, providing insights for policymakers, educators, and stakeholders. The study underscores the importance of holistic approaches in fostering financial empowerment among urban working youth in India, with implications for future research and policy interventions aimed at promoting financial inclusion and resilience in this demographic.

Keywords: *Financial Literacy, Financial Knowledge, Financial Behavior, Financial Attitude, Youth, India*

Introduction

In recent years, there has been a notable decline in the involvement of governments and employers in overseeing investments for individuals due to shifts in global social support systems. Consequently, individuals are now shouldering greater responsibility for managing their finances and ensuring their long-term financial security. With an expanding array of intricate financial products available, individuals need to cultivate a sophisticated comprehension of the financial landscape. This understanding is crucial for making informed decisions aligned with their specific financial objectives and requirements. The global data on financial literacy as published by S&P, 2023 has been discussed as follows:

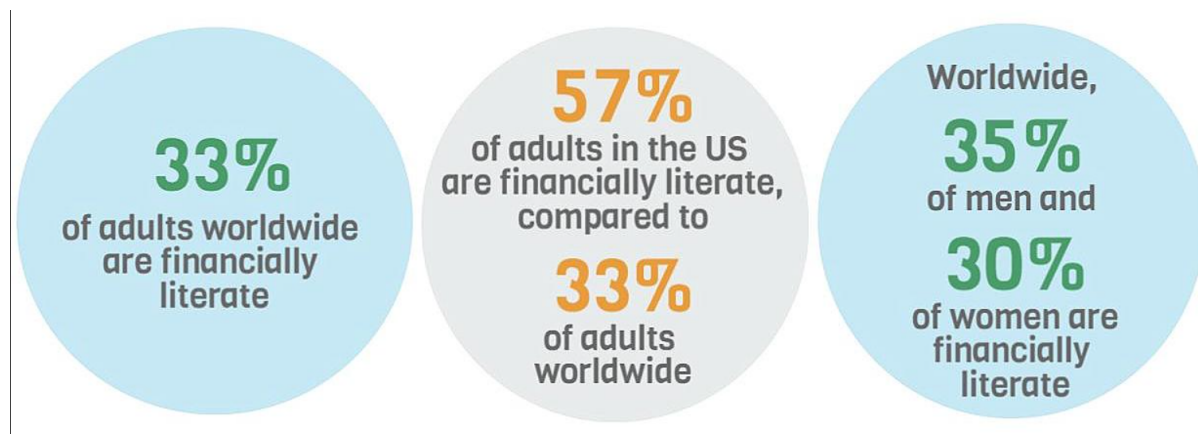


Figure 1: Financial Literacy among Youth Global Data (S&P,2023)

Research from various regions globally highlights insufficient financial literacy, posing significant concerns regarding individuals' capacity to safeguard their financial well-being. There is ample evidence indicating that many individuals struggle with undersaving, imprudent investment decisions, and frequent indebtedness (Yang et al., 2023). This trend is particularly noticeable among young people across different countries. For illustration, Reed and Cochrane, who have extensively studied student indebtedness in the United States over several years, noted in their latest report that approximately two-thirds of college graduates in 2011 faced substantial debt burdens stemming from education loans and credit card borrowings (Bottazzi & Lusardi, 2020). The persistently high unemployment rates resulting from the ongoing economic downturn have further exacerbated the delinquency rates among these young borrowers.

Financial literacy holds particular significance for emerging economies, as they strive to boost the financial well-being of their citizens amidst efforts to achieve higher economic growth rates. Improving financial literacy can lead to better financial decision-making, thereby further enhancing the financial situation of the populace. This study not only offers a comparative analysis of financial literacy among young urban workers in India and similar groups in various countries but also represents the first rigorous attempt to identify the determinants of financial literacy specifically within the Indian context. Given India's youthful demographic, with over 65% of its population under the age of 35 and undergoing rapid urbanization, the findings of this study are highly pertinent (Swiecka et al., 2020)t. The following graph depicts the Yang, 2023 study on financial literacy among youth :

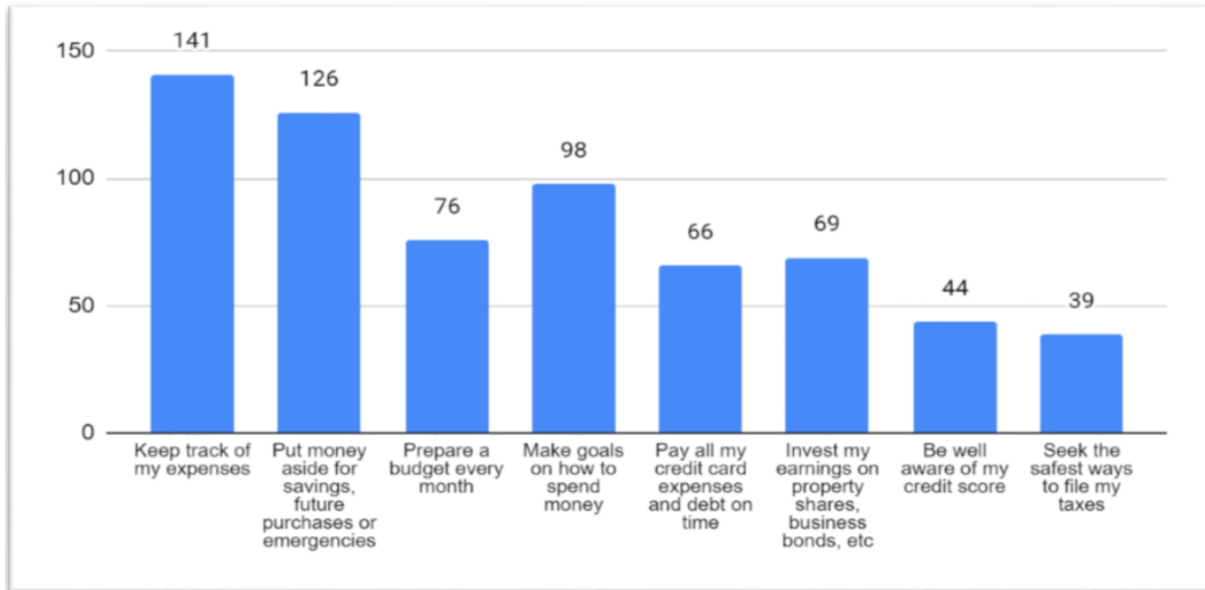


Figure 2: Financial Literacy Among Youth characteristics (Yang, 2023)

The basic behaviours depict that most of the youth keep track of their finances and put money in savings while preparing a budget for every month with an awareness of credit score. However socio-demographic factors have an impact on financial literacy.

By exploring socio-demographic factors influencing financial attitudes, behaviours, and knowledge among urban youth in India, the study sheds light on unique contextual variables impacting financial literacy and provides valuable insights for policymaking (Dewi et al., 2020).

Hence, the research seeks to identify socio-demographic variables influencing financial literacy and provide valuable insights for policymakers to develop targeted interventions for improving financial education and well-being among this demographic (Lyons & Kass-Hanna, 2021). The findings of this research can serve as a foundation for future studies examining the effectiveness of financial literacy programs targeted towards urban working youth in India. Further research could delve deeper into the specific financial challenges faced by different subgroups within this demographic and evaluate the long-term impact of enhanced financial literacy on individuals' financial behaviours and outcomes.

Literature Review

Financial literacy, a concept crucial for securing individuals' financial futures, encompasses the ability to access, comprehend, and evaluate pertinent information for making informed financial decisions. Huston (2010) argues that financial literacy must extend beyond knowledge to include the practical application of financial skills. The OECD definition of financial literacy, encompassing awareness, knowledge, skills, attitudes, and behaviours, serves as a benchmark for international surveys and facilitates cross-country comparisons.

Research worldwide has revealed widespread deficiencies in financial literacy, prompting the launch of financial literacy programs aimed at improving individuals' financial attitudes, behaviours, and knowledge. Goyal and Kumar (2020) investigated financial literacy among young Americans, finding low levels of proficiency influenced by socio-demographic factors

and family financial circumstances. Similar conclusions were drawn in previous studies by Hasan et al. (2021), and others across various age groups and countries.

According to Lusardi et al. (2020), Education, particularly college education, was found to positively impact financial literacy, consistent with prior research. Additionally, the study highlighted the significant influence of mothers' education and family financial sophistication on financial literacy. These findings underscore the importance of education and family environment in shaping individuals' financial literacy levels.

In India, studies such as the Klapper and Lusardi (2019) report indicate poor financial literacy levels compared to other countries. Adopting the OECD questionnaire, this study aims to enhance understanding of financial literacy in India, exploring its dimensions: financial attitude, behaviour, and knowledge.

However, a research gap exists in the understanding of the financial literacy, behaviour, and attitudes among urban working youth in India, particularly concerning their alignment with international benchmarks and the influence of socio-demographic variables. Ouachani et al. (2020) stated that While there are studies examining financial literacy in India, few focus specifically on urban youth and their financial capabilities and practices. Existing research often lacks comprehensive assessments of financial knowledge, behaviour, and attitudes in this demographic, and there is limited comparative analysis with international standards. Addressing this research gap will provide valuable insights for designing targeted interventions to enhance financial literacy and promote sound financial decision-making among urban youth in India.

Based on the above analysis the research has the following objectives to be considered

1. To assess the level of financial literacy among urban working youth in India,
2. To examine the financial behaviour & attitude of urban working youth in India.

Research Methodology

The study focused on urban working youth in India, drawing a sample from six major cities to capture socio-economic diversity. Data was collected via a questionnaire-based survey. Attributes including gender, age, education level, marital status, family income, financial decision-making process, and budgeting were assessed. Additionally, data on living arrangements (nuclear vs. joint family) was collected due to its potential influence. The target sample size was 1,000, but after preliminary analysis, the usable sample was reduced to 754. Financial knowledge was measured using eight questions covering basic numeracy, interest computation, inflation, risk-return relationship, and diversification, scored according to OECD recommendations. Financial behaviour was assessed using eight items capturing spending habits, bill payment, budget planning, product evaluation, saving, and borrowing, scored based on desirable behaviour. Financial attitude was measured using three items assessing belief in planning, propensity to save, and consume, scored on a scale of 1-5. Ordered multinomial logistic regression was employed to analyze the influence of socio-demographic variables on financial knowledge, behaviour, and attitude.

Data Analysis

Data analysis revealed insights into the financial knowledge, behaviour, and attitude of urban working youth in India, shedding light on their financial capabilities and practices. This

analysis aimed to assess the level of financial literacy and behaviour among the respondents, comparing it with international benchmarks and exploring socio-demographic factors influencing financial attitudes, behaviours, and knowledge. The survey results have been analysed as follows:

Table 1: Survey result on financial knowledge of youth

Dimension	Percentage of Respondents	Key Findings
Financial Knowledge	24%	24% demonstrated high financial knowledge, lower than OECD averages. - Gaps identified in understanding basic financial principles. - Struggles with simple numerical tasks and lacks understanding of inflation's impact on returns.
Financial Behavior	68%	The majority (68%) exhibited desirable financial behaviour. - Comparable to OECD results. - Strong inclination towards assessing affordability and timely bill payments. - Prevalent financial goal-setting and prudent borrowing habits.
Financial Attitude	~50%	50 %displayed a positive attitude towards financial planning. Women exhibited superior financial attitudes. - Higher family income is associated with a positive attitude. - Decision-making autonomy linked to a decreased likelihood of a positive attitude.

5.1 Financial Knowledge

Approximately 24% demonstrated high financial knowledge, a lower proportion compared to OECD survey averages. The performance on various dimensions of financial knowledge highlighted gaps in understanding basic financial principles. For instance, a significant portion of respondents struggled with simple numerical tasks and lacked a meaningful understanding of inflation's impact on returns. Overall, the scores suggested a need for improvement in financial literacy among urban working youth in India.

5.2 Financial Behavior

Approximately 68% of respondents demonstrated favorable financial behavior, indicating a majority with excellent financial habits. This ratio was similar to the OECD survey findings for multiple nations. Notably, respondents in India demonstrated a strong inclination towards assessing the affordability of items and timely bill payments, aligning with practices observed in other countries. Additionally, the practice of financial goal-setting and prudent borrowing habits were prevalent among the respondents, indicating a relatively disciplined approach to managing personal finances.

5.3 Financial Attitude

Approximately 50% of the participants exhibited a favorable outlook on financial planning, along with a well-rounded inclination towards spending. While this level was comparable to certain OECD countries, it lagged behind others, particularly those in the Eurozone. Gender, family income, and decision-making autonomy emerged as significant influencers of financial attitudes. Approximately 50% of the participants exhibited a favorable outlook on financial planning, along with a well-rounded inclination towards spending. However, decision-making autonomy was associated with a decreased likelihood of a positive financial attitude.

Multinomial logistic regression analysis further elucidated the influence of explanatory variables on financial knowledge, behaviour, and attitude. Gender, family income, decision-making autonomy, and living arrangements were among the variables demonstrating statistically significant impacts on financial attitudes and behaviours. Notably, living in a joint family and the absence of budgeting were associated with decreased chances of a positive financial attitude.

Overall, the analysis underscores the need for targeted interventions to enhance financial literacy and behaviour among urban working youth in India. Addressing socio-demographic disparities and promoting financial education initiatives tailored to their needs can contribute to improved financial well-being and decision-making outcomes among this demographic.

Conclusion

In conclusion, the study findings indicate that the level of financial literacy among urban working youth in India is comparable to that of similar groups in other countries. Socio-demographic variables such as family income and gender exert similar influences on financial literacy in the Indian context as observed in studies elsewhere. Despite the high education levels of the respondents, their financial literacy remains inadequate, underscoring the need for integrating financial literacy education into the general education curriculum. This could be a feasible and effective means to rapidly enhance financial literacy among young individuals given the emphasis on education in India.

Moreover, the study highlights the significance of contextual variables, such as living in a joint family and involving consultative financial decision-making processes, in shaping financial literacy. These contextual factors underscore the importance of considering sociological and behavioural aspects specific to the Indian context when designing intervention strategies aimed at improving financial well-being. Therefore, any strategy targeting the enhancement of financial literacy among Indian youth should adopt a holistic approach that considers not only individual characteristics but also broader societal influences. Overall, the study emphasizes the need for tailored interventions that address the unique socio-cultural context of India to effectively promote financial literacy among its youth population.

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