

# Chapter 10

## Determinants of Financial Literacy Among Indian Youth

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### ABSTRACT

*The purpose of this study is to examine which factors actually determine the level of personal financial literacy among the youth in India's financial capital city. A total of 650 completed and returned questionnaires have been used for the purpose of this study. The data analysis uses descriptive statistics and multivariate analysis. The explanatory variables are gender, district of residence, educational level, father's educational level, employment, marital status, and parenthood. Findings of the study depict that having children is the most positively correlated (+0.327) with financial literacy. Education (+0.245) and employment (+0.140) are positively correlated with financial literacy. It is also concluded that females are less likely to have a high level of financial literacy (-0.271) compared to males.*

### INTRODUCTION

The contribution of governments and employers in managing investments on behalf of individuals has reduced considerably in recent times. This has added to the individuals' role in managing their own finances. In the last few years researchers all over the world, have started to study and explore whether individuals are well-equipped to make financial decisions and how to bridge the knowledge gap in financial education and wellbeing. Although the focus of this research varies in terms of the concerns and the context, it is worthwhile to know that the research shows that a large percentage of the population does not have a good enough financial understanding to ensure long-term financial stability for themselves and their family. Also, the instability of the global marketplace is leading to a very high level of complexity in financial decisions. One of its main implications include rising costs of goods and services that push people to be able to make well-informed financial decisions (Lusardi & Mitchell, 2011). Given the increasing need for individuals to manage their own retirement savings and pensions, resulting mainly from the trend of switching to defined-contribution from defined-benefit pension plans, this indicates that the need for high levels of financial literacy is rising (Morgan and Trinh, 2017). Exposing

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the youth to all this is particularly important as they are at a vulnerable age. Evidence from around the world presents a frightening picture; and recognizing the importance of financial literacy, a growing number of countries have developed and implemented national strategies for financial education in order to improve the financial literacy of their populations in general, often with a particular focus on younger generations (Grifoni & Messy, 2012).

Financial literacy refers to understanding finance and the capability to utilize it to make sound personal financial decision. (Hogarth and Hilgert, 2002). More specifically, it refers to the set of skills and knowledge that allow an individual to make informed and effective decisions through their understanding of finances. (Norman 2010). According to Remund (2010), financial literacy is a person's ability to understand and use financial matters. Financial ignorance carries significant costs and it is clear that billions of people are unprepared to deal with rapid changes in the financial landscape (Klapper *et al.*, 2015). A basic knowledge of financial concepts, and the ability to apply numeracy skills in a financial context, ensures that consumers can manage their financial affairs independently and respond appropriately to news and events that may have implications for their financial well-being (Morgan and Trinh, 2017). Financial literacy is considered an important adjunct for promoting financial inclusion, financial development and ultimately financial stability (Ramakrishnan, 2011). In addition, financially savvy investors are more likely to diversify risk by spreading funds across several ventures (Abreu and Mendes, 2010). According to Mahdzan and Tabiani (2013) increasing financial literacy and capability promotes better financial decision-making, thus, enabling better planning and management of life events such as education, housing purchase, or retirement. This is particularly relevant for the India as the country has the competitive advantage of its demographic dividend which is waiting to be exploited. The study investigates the socio-demographic variables that influence the financial knowledge of the youth in India. A financially aware youth workforce would be a great asset for India. How parents handle and spend their money would have a direct bearing on the youth as the youth would by default are most likely to have expenditure patterns comparable to their family. So the extent of financial literacy of the family would have an impact on the youth from an early age. Also the youth would want to be financially literate depending on their attitude towards money and to what extent they deem it as important.

## **GREATER NEED FOR FINANCIAL LITERACY IN INDIA**

Financial literacy is of particular relevance to emerging economies. As these economies try to accelerate growth rates, improvement in financial literacy would help enhance the financial well-being of the people. Before the financial sector reforms commenced in the early 1990s, the Indian monetary system basically catered to the needs of planned development. Customers had little choice in financial investments. The underdeveloped financial markets ensured that exposure to risk was also very little. In such a situation, customers could use their basic skills to invest in simple financial products with returns that were assured and were not bothered at all about risks. The relevance of financial education was limited and not needed.

Due to the process of globalization, India has undergone a significant transformation. The economy has become more diversified with new avenues of growth. Thus the financial sector has also become more modernized and diversified. In an environment where the range and complexity of financial products are widening the scope of entire market, it is becoming crucial that individuals should develop a thorough understanding of the world of finance so as to make better choices that are most appropriate

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