

## **An Examination of the Factors Impacting Adults' Financial Literacy and Financial Well-Being in India.**

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### **Abstract :**

Numerous national and international initiatives, funded by organizations like the World Bank, OECD, and Deutsche Bank, recognize the increasing importance of enhancing financial literacy and education. This paper examines factors influencing adults' financial literacy levels, drawing from previous studies in the field. It specifically investigates how government initiatives, digitalization, and socio-economic/demographic factors such as age, gender, marital status, and income affect financial literacy levels among adults and their long-term financial wellness. Additionally, the paper offers recommendations for improving financial literacy among Indian adults.

**Keywords:** Financial Education, Financial Literacy, Financial Attitude, Financial Behaviour, Financial products and services

### **Introduction :**

Financial literacy and financial education have become increasingly prominent in the modern landscape, propelled by technological advancements and the rapid pace of the economy. Regulatory bodies such as RBI, SEBI, IRDA, PFRDA, and numerous other apex financial oversight entities are now actively working to promote financial education and literacy among the populace. Similar initiatives have been underway at the international level for quite some time. Discussions and debates on topics like financial education, literacy, and attitudes are now widespread across different regions. According to OECD/INFE<sup>1</sup>, financial education entails the process through which financial consumers/investors enhance their comprehension of financial products, concepts, and risks. Through the dissemination of information, instruction, and/or objective advice, individuals develop the skills and confidence needed to better understand financial risks and opportunities, make informed choices, know where to seek assistance, and take effective actions to enhance their financial well-being.

According to (OECD, 2012)<sup>2</sup> financial literacy, alternatively, is characterized as "the amalgamation of financial consciousness, understanding, expertise, mind-set, and conduct essential for making prudent financial choices and attaining personal financial welfare"

We can say that it is through financial education and literacy that individuals gain the capacity to make wise, practical, and rational financial decisions, considering both present circumstances and future financial objectives, leading to financial wellness. According to a recent survey conducted by the National Centre for Financial Education (NCFE), despite significant advancements in education, overall literacy rates, economic growth, and Gross Output levels in the country, there remains a considerable deficiency in financial literacy. The survey revealed that more than 73% of the adult population struggles to comprehend basic financial concepts, hindering their ability to manage their finances wisely and effectively. Being financially literate empowers individuals to make smart decisions regarding saving, spending, and

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<sup>1</sup> <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1156#ES>

<sup>2</sup> <https://www.oecd.org/financial/education/2018-INFE-FinLit-Measurement-Toolkit.pdf>

investing. Conversely, lacking this literacy can greatly impede individuals from achieving long-term financial well-being or freedom.

Some well-known factors that influence the Financial inclusion and Literacy :

- a) **Social and Demographic Factors:** : Civil society and personal variables, including rural or urban residence, involvement in sectors such as agriculture, industry, or MSMEs, as well as factors like age, gender, education level, occupation, family background, and societal engagement (such as in schools, colleges, and workplaces), play crucial roles in determining the level of financial literacy. Government initiatives, such as the launch of the National Strategy for Financial Education (2020-2025), aim to establish institutional mechanisms for spreading financial knowledge and education.
- b) **Digitalization** : The Digital India Campaign and Digital Saksharta Abhiyan have fueled the digital revolution, leading to a significant shift in digital transactions and payment infrastructure, aiming for a less cash economy. The National Strategy for Financial Education (2020-2025) emphasizes enhancing the skills of financial service providers and intermediaries involved in disseminating financial literacy.
- c) **Efforts of Government** : Initiatives such as Financial Inclusion aim to integrate marginalized segments into the mainstream financial system, providing essential services through schemes like Pradhan Mantri Jan-Dhan Yojana (PMJDY) and social security schemes such as Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Atal Pension Yojana (APY), Pradhan Mantri Kisan Maan Dhan Yojana (PM-KMY), Pradhan Mantri Shram Yogi Maan Dhan Yojana (PM-SYM), and Pradhan Mantri Mudra Yojana (PMMY).

### Objective:

"To investigate the factors that impact Financial Literacy and Financial Wellness in India."

### Literature Review:

**Firli, A. (2017, March).** Financial management theory has grown quickly over time, starting with basic ideas like how companies are valued and how they manage their money. It has expanded to include how people make investment choices. A newer area called Behavioral Finance looks at how people's behavior and psychology affect their financial decisions. This paper aims to create a plan showing what factors affect how well people understand and handle money. By looking into what shapes financial literacy, we can learn new things about how people see money. This study uses a simple approach to understand financial literacy. It also gives ideas for future research on this topic.<sup>3</sup>

**Arya, P. (2018).** Financial literacy isn't something you learn once and then you're done. Instead, it's about continuously learning throughout your life. The main goal isn't to turn everyone into financial experts; it's more about giving people enough knowledge to understand financial matters, find the right information, and make sense of it. Studies in India, led by Ajay Tankha, a Development Consultant at Sa-dhan, a self-help group, show that almost 96% of the population feel they wouldn't last a year if they lost their income. More than half prefer keeping their extra money in banks, while over a third keep it at home, and only 5% use post office schemes. Wealthier people save up to 44% of their income, but the poorest 20% borrow up to 33%. About 40% of rural households borrow from local moneylenders to cover essential expenses. These findings reveal that Indian households do save some money, but often their incomes aren't enough to cover all their needs. This highlights the importance of self-help groups in promoting financial literacy. Access to financial services for the poor depends on their level of financial knowledge. To reduce poverty and foster social cohesion, it's crucial to educate these groups about finances and integrate them into mainstream financial systems.<sup>4</sup>

<sup>3</sup> Firli, A. (2017, March). Factors that influence financial literacy: A conceptual framework. In *IOP Conference Series: Materials Science and Engineering* (Vol. 180, No. 1, p. 012254). IOP Publishing

<sup>4</sup> Arya, P. (2018). Financial literacy and financial education in India: An assessment. *International Research Journal of Commerce Arts and Science*, 9(3), 72-80.

**Nash, D. R. (2012).** Financial literacy refers to having knowledge about finance. The significance of financial education has grown in recent years due to advancements in financial markets, as well as changes in demographics, economics, and policies. India is ranked second in the world for financial literacy. Additionally, the thriving economy and promising future prospects make this study highly relevant. The Reserve Bank of India, as the central bank, has been actively involved in improving financial literacy in the country. A project called "Project Financial Literacy" has already been implemented in this regard. Financial literacy in India is currently on a positive trajectory. According to a survey conducted by The Financial Express, India has shown rapid progress in financial education compared to the top ten leading nations globally.<sup>5</sup>

**Verma, T. L. (2017).** The concept of financial literacy has garnered global attention from researchers and policymakers due to the proliferation of financial products, economic shifts, market complexities, and information overload. For India to achieve its vision of becoming a cashless and digital economy, ensuring financial education for all citizens is crucial. A survey by Standard & Poor's found that 76% of Indian adults lack financial literacy, highlighting the need for intervention to educate them about financial matters, especially in overcoming online transaction apprehensions. This paper aims to assess India's current financial education level, evaluate government initiatives, and propose policy measures for effective implementation. While regulatory bodies like RBI, SEBI, and IRDA have made efforts to enhance financial literacy, its low level remains a significant obstacle to achieving a cashless economy and financial inclusion. Integrating financial education into school curricula is suggested, alongside establishing dedicated departments within regulatory authorities for designing and monitoring financial literacy programs. These programs should be tailored to reach diverse segments of society and regularly monitored for effectiveness.<sup>6</sup>

**Rani, M., & Siwach, M. (2023).** This paper analyzes various aspects of financial literacy using existing literature. It looks at how different groups, like youth, employees, women, and college students, understand finances and how this impacts their well-being and investment choices. The research draws on sources such as publications, websites, and research papers. In India, there's a need to improve financial literacy, as studies show it varies among different groups, from low to moderate levels. Defining and measuring financial literacy remains challenging, with ongoing research addressing these issues. Policy changes are necessary to enhance financial literacy at all levels, helping people make better savings and investment decisions. The paper reviews studies on how financial literacy affects inclusion and well-being, finding that levels are generally moderate. These studies cover financial knowledge, attitudes, and behaviors, as well as factors like demographics and socio-economics. They highlight the importance of financial literacy for making smart investment decisions. As financial markets grow, those with good financial literacy can navigate them better. Understanding government financial policies is also crucial. By improving financial literacy, we can include more people in the financial system and improve the well-being of those already financially secure.<sup>7</sup>

**Jana, D., Sinha, A., & Gupta, A. (2024).** The primary objective of this study is to investigate how demographic and socio-economic factors influence financial literacy and its subsequent impact on the utilization of financial services. To achieve this, data was collected from 400 informal sector workers in the Paschim Medinipur district, an economically disadvantaged region in West Bengal, India. The results of the logit regression analysis indicate that occupation, income, and educational attainment are the key determinants of financial literacy. Similarly, factors such as financial literacy, income, and place of residence significantly influence the utilization of financial services. These findings have important implications for policymakers, offering insights into strategies to enhance financial literacy and promote financial inclusion.<sup>8</sup>

**Kumar, J., Rani, V., Rani, G., & Sarker, T. (2023).** The study aims to explore the factors influencing individual financial well-being in India's National Capital Region (NCR), including financial literacy, risk tolerance, socialization, stress, socio-

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<sup>5</sup> Nash, D. R. (2012). Financial literacy: an Indian scenario. *Asian Journal of Research in Banking and Finance*, 2(4), 79-84.

<sup>6</sup> Verma, T. L. (2017). An overview of current financial literacy efforts in India. *Open Access International Journal of Science and Engineering*, 2(12).

<sup>7</sup> Rani, M., & Siwach, M. (2023). Financial literacy in India: a review of literature. *Economic and Regional Studies/Studia Ekonomiczne i Regionalne*, 16(3), 446-458.

<sup>8</sup> Jana, D., Sinha, A., & Gupta, A. (2024). Determinants of financial literacy and use of financial services: an empirical study amongst the Unorganized sector workers in Indian scenario. *Interdisciplinary Journal of Management Studies (Formerly known as Iranian Journal of Management Studies)*, 12(4), 657-675.

demographic factors, and behavior. Understanding financial well-being is crucial for individuals to manage personal finances effectively and foster a positive financial attitude, especially in emerging economies. Data was collected from 420 respondents via self-administered surveys between May and July 2022. The study employs partial least squares structural equation modeling (PLS-SEM) to analyze the data. Results indicate that financial literacy, risk tolerance, socialization, stress, and socio-demographic factors significantly affect financial behavior, which, in turn, impacts financial well-being. However, financial stress and socio-demographic factors do not have significant effects on financial well-being. This study offers insights for policymakers and financial service providers to develop innovative economic schemes and policies to enhance individuals' financial well-being. Additionally, it lays the groundwork for future research in this area.<sup>9</sup>

**Prakash, N., Alagarsamy, S., & Hawaldar, A. (2022).** The study looks into what affects the financial well-being of IT workers in India, using confirmatory factor analysis (CFA) to understand how financial literacy, behavior, and stress impact their finances. It also considers how demographic factors like age, gender, income, job type, and experience play a role. With data from 237 IT employees, the study finds that good financial knowledge and behavior boost financial well-being, while stress hurts it. It also shows that behavior and stress play a part in how financial knowledge affects well-being. Demographic factors also affect how these factors link to financial well-being. This suggests that financial programs should focus on improving financial knowledge and planning, taking into account workers' individual characteristics rather than using a one-size-fits-all approach.<sup>10</sup>

### **Discussion & Conclusion :**

After reviewing various empirical and conceptual research works aimed at understanding the factors influencing financial literacy, it appears that government initiatives and socio-demographic factors play a significant role. Financial literacy levels in India are notably low, particularly within certain sectors. This deficiency often leads to poor financial decision-making characterized by low risk tolerance, ineffective saving habits, and inadequate investment choices, reflecting a lack of financial attitude, behavior, and skills.

To enhance the financial well-being of citizens, several recommendations are proposed:

1. Governments at both central and state levels should rigorously implement national and state-level strategies to promote financial education. This could include mandating financial education in school curriculums, developing age-specific educational materials, and creating online resources for practical financial knowledge dissemination.
2. Organizing street plays, workshops, and open days involving civil society, NGOs, financial institutions, and academic institutions can help raise financial awareness among the public.
3. Initiatives like the Financial Literacy Week conducted by the RBI, which promotes digital transactions and security measures, should be expanded and conducted in multiple regional languages to reach a wider audience.
4. Tailored educational materials, coupled with practical demonstrations, can be particularly beneficial for groups like farmers, small entrepreneurs, school children, self-help groups, senior citizens, and women to improve their financial literacy.

Overall, it's essential for people to grasp basic financial concepts and make informed decisions about saving, borrowing, and investing. With increased financial literacy, there's potential for a positive shift in economic behaviors and attitudes. Ultimately, the government and financial regulatory bodies play a crucial role in advancing financial literacy initiatives.

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