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Research Paper

Determinants of Financial Literacy of Adolescents in India and its Impact on their Decision-Making

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ABSTRACT: *Financial literacy is an essential causational factor in the decision-making abilities among adolescents in India. The relationship between financial literacy and effectual decision-making is growing substantially, particularly in a developing country with a noticeable disparity of financial and economic knowledge access. With the liberalisation of the global economy and the contribution from India, the dissections of the factors affecting financial literacy become necessary. Income inequality, access to education and the rise of financial technological companies are such dominant determinants. This research paper investigates these determinants, emphasising the requirement of targeted initiatives to amplify the knowledge and skills about financial tools and services amongst youth and foster informed decision-making.*

KEYWORDS: *Financial Literacy, Indian Adolescents, Decision-Making, Digital Finance*

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I. INTRODUCTION

The decision-making abilities of students in India are highly influenced by the level of information and knowledge they hold regarding essential concepts of financial literacy. As investigated in the OECD International Network on Financial Education study by Atkinson and Messy (2012), financial knowledge, financial behaviour and financial attitudes are the pillars of the holistic concept of financial literacy. According to the study, an urgent call to action regarding the absence of financial knowledge transnationally, specifically in areas of knowledge of compound interest and diversification. The situation remains identically alarming; a significant disparity in the financial literacy of India was highlighted in comparison to international standards as the country ranked 23rd globally by the 2012 Visa Global Financial Literacy Barometer.

In a survey conducted on 3,000 Indian participants, it was established that less than 25% exuded substantial levels of financial knowledge, especially women who demonstrated a much lower level than men (Dharamsi, K. 2012). In addition, a positive correlation was observed between socio-demographic factors such as income and level of education with financial literacy levels, amplifying the observations made by the Australian Securities and

Investments Commission (2011) that suggested that age, socioeconomic factors, and gender have a monumental impact on financial understanding.

Furthermore, the MasterCard Financial Literacy Survey (2014) depicted, across the Asia Pacific region, a downfall in financial planning knowledge, which contrasts with popular belief and proposes that in developed markets, financial literacy remains an area much needed for advancement. Given this, it is prominent that in India, to not only empower individuals but also to nurture informed decisions which can push forth economic growth, improving financial literacy among adolescents is critical.

II. Analysis of Financial Literacy in Low-Income and Middle-Income Populations in India

Researchers have exemplified the interventions of various models devised to analyse the differentiating factors that lead to limited financial literacy in India among both low-income and middle-income populations. Intrinsically, researchers have noted that there is a staggering difference in possession of financial literacy with middle-income populations exhibiting a higher possession. Many attribute the reason behind this disparity to a lack of access to education and awareness. Taking an example, many low-income individuals do not hold a checking account (Hilgert, Hogarth, and Beverly, 2003) or even with cheaper forms of credit in the market, have large outstanding credit card balances (Gartner and Todd, 2005). Meanwhile, it is found that middle-income individuals are inclined more toward financial planning and other activities as they possess higher levels of financial knowledge (Ben-David et al., 2010).

Only 27% of adults in India are financially literate, found a National Centre for Financial Education (NCFE) in 2019—a figure much lower among low-income populations (NCFE, 2019). With middle-income individuals having better access to financial services and education, a stark disparity is created as highlighted by the statistics. Moreover, in 2018 the Reserve Bank of India reported that over 190 million (including a substantial amount from low-income households) Indian adults do not have a bank account (RBI, 2018).

With India being home to a fifth of the world's youth population[1], the financial literacy of Indian adolescents becomes a critical area requiring attention. Due to the aforementioned reasons,

[1]IndBiz. (n.d.). One of the youngest populations in the world: India's most valuable asset. Retrieved November 4, 2024, from
https://indbiz.gov.in/one-of-the-youngest-populations-in-the-world-indias-most-valuable-asset/

adolescents from low-income backgrounds have scant exposure to financial education. In 2018, a study by the National Centre for Financial Education (NCFE) proclaimed the staggering statistic that only 27% of Indian Adolescents carry basic financial knowledge (NCFE, 2018).

Low-income populations in India lack an understanding of integral and basic concepts such as interest rates, inflation, risk diversification, etc. This restricts them from making fit financial decisions (Bernheim, Garrett, and Maki, 2001). Additionally, it further causes them to lean into informal sources of finance such as lending, giving rise to insecurity to high-interest debt (Banerjee and Duflo, 2007). Thus, the predominant population of India often faces obstacles such as reduced access to financial services, cultural stigmas about financial planning and lack of access to quality education (Lusardi and Mitchell, 2007).

One of the leading determinants of financial literacy is the disparity in income in India as it is an essential part of smart financial behaviour. Due to higher income, middle-income households can handle financial challenges whereas due to the uncertainty in earnings, low-income households lack savings for emergencies (Bernheim, 1998). Thus, such challenges can be overcome through the creation of financial literacy programs focusing on practical knowledge along with affordable financial services (Ben-David et al., 2010). Additionally, this gap is highly prominent in rural areas and government-run schools, indicating the result of incorporating financial literacy in their curriculum (Sriram, 2019).

Another crucial and evident determinant that shapes the financial knowledge of adolescents is parental influence. A survey from The Financial Literacy and Inclusion Survey (FLIS) indicates that adolescents with parents often engaging in financial discussions possess better financial literacy. Nevertheless, adolescents are better equipped with crucial tools for savings, investing and budgeting when their schools incorporate financial education programs (RBI, 2018). Moreover, schools also foster long-term healthy financial habits with the provision of structured financial education.

Furthermore, early financial education helps alleviate the intergeneration passing down of poor financial habits commonly observed in low-income households along with empowering adolescents (Lusardi and Mitchell, 2007). Hence, a profound impact can be made on the predominant economic and financial landscape of India's future through strategic efforts on the inclusivity of financial education in schools, particularly rural areas (Banerjee and Duflo, 2007).

III. Adoption of FinTech Models to Leverage Blockchain and Cryptocurrency Technology

The most appealing pathway to tackle financial development among Indian adolescents is FinTech models that utilise artificial intelligence (AI) and blockchain technology. They are the dominant customers for such technologies due to their increasing familiarity and comfort with the formats. Financial transactions are made more secure and transparent through blockchain technology which aids in building trust amongst the young users. Through a survey KPMG (2021) reported that 60% of Indian adolescents find traditional banking quite transparent, hence they don't tend to use it. With the rise in peer-to-peer transactions, using blockchain technologies through Fin Tech provides security especially as many adolescents lack access to conventional banking systems.

With features such as personalised financial services, AI becomes crucial to adolescents. For instance, through algorithms, individual spending patterns can be analysed which can enable chatbots and other virtual advisors can offer tailored guidance for budgeting, investing and more. In 2020, a NASSCOM study found the shocking statistic that 70% of the Indian youth population conveyed curiosity about

AI-based financial assistance to enhance financial knowledge. The statistic implies the increasing need for personalised financial education coherering with individual needs.

The world of cryptocurrency is a double-edged sword. With the risk of democratising access to financial systems, they also entail a meticulous understanding of market dynamics. As announced by Chainalysis (2024), young individuals make for a significant portion of approximately 15 million cryptocurrency investors in India as they are appealed by the offers of high returns. However, these types of investments are either unconsumed or aren't used to their fullest potential as many lack the knowledge required to tackle the technology.

To ensure the efficiency of financial development through FinTech, initiatives must focus on incorporating the subject of these into curricula. The introduction of practical financial education through the exchange of knowledge between FinTech companies and schools can allow adolescents to acquire the skills and knowledge required to navigate the digital financial landscape. Additionally, a wider acceptance and understanding of blockchain and cryptocurrency amongst young users can be achieved through government promotion and regulation.

Hence, a great way of enhancing financial literacy and empowering Indian adolescents is in embedding AI and blockchain technology in FinTech. The youth can hone their financial decision-making capabilities by addressing challenges and capitalising on the opportunities presented by these technologies.

IV. Interventions of Federal Aid and Initiatives in India to Bolster Economic Literacy

Recently, the government of India has taken into account the pressing need for enhancing financial and economic literacy among its citizens, especially adolescents. To bridge the financial literacy gap and encourage young individuals to make informed financial decisions, numerous federal initiatives are set into motion. To name a few, the National Financial Literacy Mission (NFLM) and the Financial Literacy Week (FLW) act as catalysts in these efforts.

Reserve Bank of India launched NFLM in 2013, aiming to promote financial literacy across diverse demographics of the country. The program included essential and basic financial concepts such as borrowing, saving and responsible borrowing for their target audience of school children and young adults (RBI, 2013). This program has shown tremendous progress in instilling financial awareness from an early age by integrating financial literacy into school curricula. Furthermore, Financial Literacy Week, which occurs annually, acts as a platform to circulate knowledge on several financial topics. They create particular themes each year to focus on critical areas such as investing and digital banking. For example, the 2021 edition was focused on digital financial literacy to align with India's digital transformation in the economic sector. Statistics about the initiative reveal that more than 90% of participants possess improved learning and understanding of financial tools and services (Government of India, 2021).

In addition to these initiatives, the government strives to further promote financial and economic literacy by collaborating with several stakeholders like non-governmental organizations (NGOs) and schools. This allows them to ensure that financial knowledge is accessible to all adolescents, specifically the ones from low-income backgrounds. These partnerships are aimed at gaining instrumental success in accomplishing higher rates of financial literacy in underprivileged communities.

Moreover, the benefits of these initiatives have been proven to be amplified through the integration of technology. The National Centre for Financial Education (NCFE) conducted a study that proclaimed that access to financial education resources has been broadened by mobile applications and E-learning platforms. During the pandemic, the participation rates in financial literacy programs, particularly among young users by 65% (NCFE, 2021).

Overall, federal interventions and collaborative efforts are essential in bolstering financial and economic literacy in India. Such initiatives ensured informed decision-making and long-term financial well-being by aiding Indian adolescents to acquire crucial financial knowledge.

V. Effects of Income Inequality on Adolescent Females in India

The moulding of adolescents' economic opportunities, access to education, and health is significantly impacted by the income inequality in India. The effects of increased economic disparities in the country on young girls are extremely distinct. Research has revealed that low-income households often prioritise the education of male children over females, amplifying gender-biased disparities (Bhatty, 2014; Choudhury, 2019). This bias hinders girls' abilities for economic independence by restricting educational opportunities.

The income inequality also adversely affects the health of female adolescents. A study revealed that due to the lack of access to essential healthcare services, low-income households often face high cases of malnutrition and other related health issues (Siddiqui, F., et al, 2020). These challenges cause hindrances in acquiring knowledge in education and future earning potential, making way for a callous cycle of poverty and income inequality.

Adolescents' opportunities for educational pursuits are further impeded as they are more likely to perform unpaid domestic work. According to a study, girls from low-income households are often met with obstacles that hinder their ability to attend school every day as they spend up to four hours daily engaging in household chores (Bhaduri, S., 2018). Hence, both professional and personal development is stunted due to the augmentation of traditional gender roles.

On the contrary, empowerment among adolescent females can be boosted through initiatives targeted toward reducing income inequality. For instance, the government-led program *'Beti Bachao Beti Padhao'* targets the promotion of girls' education and welfare. According to a report by the Ministry of Women and Child Development (2022), such initiatives have resulted in higher enrollment rates of girls in schools, specifically in rural areas, indicating the positive implications of policy interventions to eradicate the results of income inequality.

Thus, while income inequality presents several limitations for female adolescents in India, an equitable society can be achieved through focused interventions on the promotion of economic and educational concessions.

VI. Technology's Intersection with Consumer Behaviours

Consumer behaviours have rapidly transformed as they are inclining toward the advancements in technology in India, especially among adolescents. The mannerisms of the interactions between young adults and financial tools and services have drastically changed due to the widespread use of smartphones and internet access. A significant shift to digital financial literacy was noticed when recent studies revealed that approximately 60% of Indian adolescents now use mobile applications for banking and other financial transactions (Simran, S., et al, 2022).

Such shifts not only enhance ease in financial transactions but also foster informed decision-making. The primary experiences of money management of many Indian adolescents can be easily navigated through these technology-oriented guidelines such as FinTech applications that provide personalised financial education and budgeting tools. According to a recent study in 2024, an increased understanding of savings and budgeting was observed in Indian women who use FinTech apps compared to people who use traditional banking methods (Mishra, Deepak, et al. 2024).

Furthermore, the rapid widespread use of e-commerce platforms has immensely influenced the consumer behaviours of adolescents in India. A higher competitive market environment is created due to the access to numerous online shopping platforms which enables adolescents to explore a wider range of prices and products. It is claimed that factors such as convenience, and pricing offers and benefits significantly influence adolescent's preference for online shopping regardless of the risks it poses. The ability to easily compare prices and access a wide range of products plays a crucial role in driving their inclination toward digital purchasing platforms (Arora, T, et al. 2018). Thus, these sorts of shifts affect the perceptions of brand value and loyalty along with buying patterns Unfortunately, the integration of technology puts forth issues, especially in areas related to financial security and overspending. Online shopping encourages and enables impulsivity, due to the lack of physical cash not being used, leading to overspending. Financial literacy programs are crucial to address the ever-evolving consumer behaviours, reported the Reserve Bank of India (2021). This establishes the ability for adolescents to make informed financial decisions, ultimately helping them navigate the new age digital economy.

Thus, technology is changing consumer behaviours among adolescents in India and presents both benefits and negatives. If stakeholders are effectively able to understand these dynamics, they can better create financial education initiatives to create responsible financial habits in the future generation.

VII. Conclusion

This venture spotlights the issues imposed by income disparity, restricted access to quality education as well as the developing digital financial landscape. Connecting these ideas required an effort from stakeholders - government bodies, educational institutions, and FinTech innovators- which is planned, to make an ecosystem which empowers young adults. For financial literacy to flourish, practical, inclusive, and adaptable approaches must be further implemented. Hence, India can only create a generation prepared to navigate economic complexities with only continuous collaboration, and consistent adaptation of financial literacy campaigns, leading to a financially empowered nation.

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