



FINANCIAL CAPABILITY AND THE NEED FOR FINANCIAL EDUCATION: A STUDY AMONG YOUNGSTERS IN SELECTED AREAS OF CENTRAL MUMBAI

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Abstract

To quote Acharya Chanakya – “**Wealth** is one of the most significant factors in life. It brings you the honour; it supports you and makes you capable of dealing with calamities.¹”

In these days of increased social media exposure and consumerism, saving and investing have taken a back-seat in the priorities of youngsters. The days of saving one's pocket money or salary are gone and this generation of youngsters focusses more on instant gratification for their needs.

India's household savings have hit their lowest point in 47 years. In the years 2020-21, a savings rate of 11.5 percent of the gross domestic product (GDP) was reported and the same is now at 5.1 percent in 2022–23². Low savings rate coupled with increasing debt by households is a harbinger of lower economic growth.

In the light of such changing thought, the need was felt to carry out a small study on financial literacy levels among youngsters. Saving money can be said as a cornerstone of one's life and the road to a safe, secure and happy future. Wealth management must be the focus instead of earning income. The focus must shift from earning income to managing money wisely. This research study has tried to gauge the level of financial acumen, the attitudes towards finances and resultant financial behaviours among youngsters in selected areas of Central Mumbai. The study tries to arrive at correlations between demographic variables such as gender, age, family income and ability to save income. The study attempts to highlight the wrong notions surrounding certain financially prudent actions like insurance, investing in gold and in stock markets. The study also tries to bring out the low level of awareness among youngsters for small savings. The paper concludes with a discussion about the results and its implications to researchers, and other stakeholders.

Keywords: Education System, Financial Literacy, Wealth management, Risk cover, Consumerism, Peer pressure.

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Introduction:

Financial Literacy today is as important as any other competency or skills. Managing the money earned is as important or sometimes more important than earning

money itself. Like all other habits financial discipline must start at a young age. For this, the youth of today must have basic financial knowledge and must practice financially prudent behaviour. In today's age of social

¹ <https://truechanakya.com/chanakya-quotes-on-wealth-and-money/>

² <https://www.rbi.org.in/Scripts/QuarterlyPublications.aspx>

media, credit card culture and rampant materialism, it is imperative that youngsters be careful of their spending and habits. The adage goes like this, “wealth creates wealth” or “money attracts more money”. For this to happen, youngsters who are just started their first jobs or businesses, must strive to create a good corpus of money which if prudently invested can grow over time and make wealth on its own. A financially literate youngster will spend less on impulse and unnecessary things. He or she will be capable of managing his debt and money wisely and cut unwanted expenses. He is better equipped to take sound financial decisions, take insurance and other measures, thereby leading to a happier and more sustainable lifestyle, thereby leading to a secure future.

Objectives:

1. To understand trends in savings and spendings at household level in India.
2. To study level of financial education and awareness among sample of youth selected.
3. To understand the perceptions and notions among youngsters.
4. To suggest practical measures for improving basic financial capability

Brief Review of Literature:

The Organization for Economic Co-operation and Development (OECD) defines financial literacy as not only the knowledge and understanding of financial concepts and risks but also the skills, motivation, and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life. Thus, the definition of financial literacy is not limited to financial knowledge and skills only but also include financial behavior such as motivation and confidence.

The UK Financial Services Authority (FSA) coined the term "financial capability," which is equivalent with

"financial literacy." It is defined as a person's ability to make logical, well-informed, and prudent financial decisions through a mix of financial knowledge, skills, attitude, and conduct.

Studying Financial literacy levels has come into renewed focus with many research studies being carried out in this space. A couple of them are enumerated below:

In their working paper Agarwalla, Barua, and others (2013) have summarized that working youth in urban India do not have a decent degree of financial literacy,. Financial knowledge received the lowest score among the three dimensions—behavior, attitude, and financial knowledge. The respondents' high educational attainment does not correspond to sufficient financial literacy.

We have seen firsthand how quickly the financial sector is developing and how important it is to handle money in daily life in order to ensure one's financial security. Financial literacy has developed into a vital skill for personal financial security. In addition, people are exposed to new and ever-more complex financial products, and financial instruments have grown more complex (Lusardi, A, 2008).

Research Methodology:

The current paper is based on primary data as well as a review of relevant journals, articles, reports, international research papers, and other sources

Research Design:

A research design comprises the many techniques and protocols employed in gathering and evaluating data on the variables mentioned in the research challenge. The current research is descriptive and exploratory in nature.

The current study is descriptive as it is trying to characterise the features of the sample being studied.

Sampling: Purposive and snowball sampling were used to collect data from youngsters in the age group of

18 to 30 from the areas of Matunga and Sion of Mumbai Central area.

Tools: The questionnaire consisted of a confidentiality note, a disclaimer that the survey was meant for only those belonging to the age group of 18 - 30 years and residing in selected areas of Mumbai (as per above) and a subject matter section. There were generic multiple choice, checkbox, and circumstance specific scale development questions related to the study topic in the subject section.

Data Collection: An online survey was conducted for a total of 129 respondents using Google Forms. 114 of the questionnaires were deemed to be complete and eligible for study.

Analysis: The survey responses were studied using diagrammatic, graphical and statistical methods of Descriptive Statistics to draw relevant conclusions.

Hypothesis:

The Independent Variables of the Study is saving ones income or pocket money

The Dependent Variables are age, gender, and education levels

The Null Hypotheses:

H₀₁ : There is no significant association between savings and gender of persons

H₀₂ : There is no significant association between savings and age of persons

H₀₃ : There is no significant association between savings and the educational level

The Alternate Hypotheses:

H₁₁ : There is a significant association between savings and gender of persons

H₁₂ : There is a significant association between savings and age of persons

H₁₃ : There is a significant association between savings and the educational level

Financial Savings in India – Current Status:

The net financial savings of households in India has fallen to a five-decade low of just 5.1% of the GDP in FY 2023. It was 7.2% in FY 2022. This is a worrying development, because a high savings rate has traditionally correlated with a healthy growth rate³.

Data released by the RBI also shows that while household savings have fallen, financial liabilities of households have risen sharply – from 3.8% of GDP in FY 2022 to 5.8% in FY 2023. When we see these statistics together with other economic indicators like high inflation, and high interest rates currently, it is certainly not a very healthy picture.⁴

Table 1

Household Net Financial Assets (Savings) as a percentage of GDP

| As % of GDP | Net Financial Assets | Financial Assets | Financial Liabilities |
|-------------|----------------------|------------------|-----------------------|
| FY 2019 | 7.9 | 12 | 4.1 |
| FY 2020 | 8.1 | 12 | 3.9 |
| FY 2021 | 11.5 | 15.4 | 3.9 |
| FY 2022 | 7.2 | 11.1 | 3.7 |
| FY 2023 | 5.1 | 10.9 | 5.8 |

Source: www.rbi.org

3

<https://bfsi.economicstimes.indiatimes.com/news/industry/indian-household-savings-hit-half-a-century-low-as-debt-rises/103925645>

4

<https://www.rbi.org.in/Scripts/QuarterlyPublications.aspx>

As per RBI Reports, Household financial borrowings are the 2nd highest in the post-independence period. Household net financial assets have also taken a hit. Net financial assets are gross household financial assets such as bank deposits, shares, and other investments minus the household liabilities like bank loans, personal loans, credit card payables etc. These statistics are worrisome indicators as household savings help the economy to tide over fiscal imbalances.

Data and Results:

1. Descriptive Statistics:

The frequency distribution of the demographics of the sample data is as given below:

Table 2: Demographic Profile of the Respondents - Gender

| <i>Gender</i> | <i>Frequency</i> | <i>Percent</i> |
|---------------|------------------|----------------|
| Male | 57 | 50.4 |
| Females | 56 | 49.6 |
| Total | 113 | |

Source: Primary data Collection 2024

Table 3: Demographic Profile of the Respondents – Age Group

| <i>Age Group</i> | <i>Frequency</i> | <i>Percent</i> |
|------------------|------------------|----------------|
| 18-20 | 46 | 40.7 |
| 21-25 | 28 | 24.8 |
| 26-30 | 39 | 34.5 |
| Total | 113 | 100.0 |

Source: Primary data Collection 2024

Table 4: Demographic Profile of the Respondents – Education Level

| <i>Educational Profile</i> | <i>Frequency</i> | <i>Percent</i> |
|------------------------------|------------------|----------------|
| Under-Graduate | 48 | 42.48 |
| Graduate | 18 | 15.93 |
| Post Graduate or pursuing PG | 20 | 17.70 |
| Pursuing Professional Course | 27 | 23.89 |
| Total | 113 | |

Source: Primary data Collection 2024

2. Testing of Hypothesis

(a) The 1st Hypotheses developed for this study are as follows:

H_{01} : There is no significant association between savings and gender of persons

The Alternate Hypotheses:

H_{11} : There is a significant association between savings and gender of persons

Table 5: Bi-Variate table for Gender and Savings

| Savings Done (Observed Frequencies) | | | |
|--|-----|----|-----------|
| Gender | Yes | No | Row Total |
| Male (Observed) | 27 | 30 | 57 |
| Female (Observed) | 29 | 27 | 56 |
| Column Total | 56 | 57 | 113 |

| Savings Done (Expected Frequencies) | | | |
|--|-------------|----------|-----------|
| Gender | Yes | No | Row Total |
| Male (Expected) | 28.24778761 | 28.75221 | 57 |
| Female (Expected) | 27.75221239 | 28.24779 | 56 |
| Column Total | 56 | 57 | 113 |

Performing Chi Square Test of Independence with significance level at 5%;

P Critical Value: 0.895614227

P-Value > 0.05

Hence, we are unable to reject the Null Hypothesis that Gender and Savings have an association.

(b) The 2nd Hypotheses developed for this study are as follows:

H₀₂ : There is no significant association between savings and age of persons

H₁₂ : There is a significant association between savings and age of persons

Table 6: Bi-Variate table for Age-Group and Savings

| Savings Done (Observed Frequencies) | | | |
|--|-----|----|-----------|
| Age Group | Yes | No | Row Total |
| 18-20 (Observed) | 22 | 24 | 46 |
| 21-25 (Observed) | 11 | 17 | 28 |
| 26-30 (Observed) | 23 | 16 | 39 |
| Column Total | 56 | 57 | 113 |

| Savings Done (Expected Frequencies) | | | |
|--|-------------|----------|-----------|
| Age Group | Yes | No | Row Total |
| 18-20 (Expected) | 22.79646018 | 23.20354 | 46 |
| 21-25 (Expected) | 13.87610619 | 14.12389 | 28 |
| 26-30 (Expected) | 19.32743363 | 19.67257 | 39 |
| Column Total | 36.67256637 | 37.32743 | 113 |

Performing Chi Square Test of Independence with significance level at 5%;

P Critical Value: 0.000740094

P-Value < 0.05

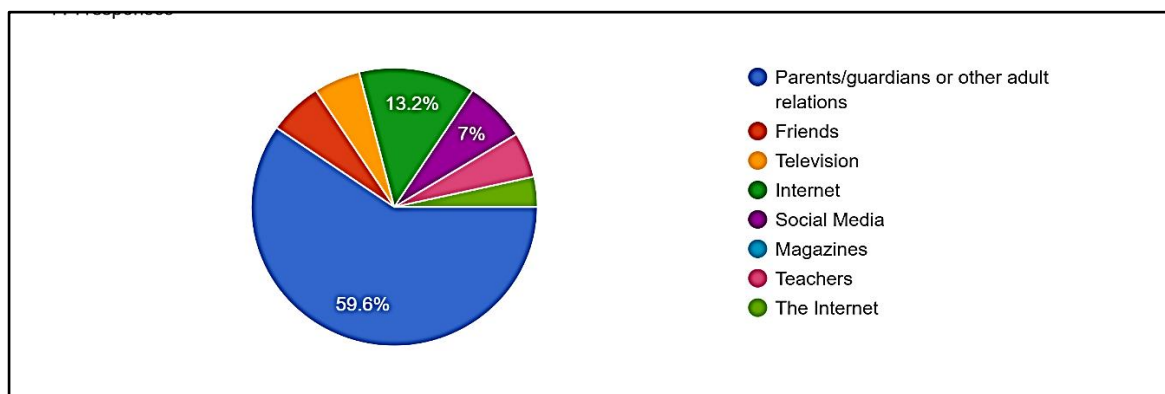
Hence, we are can reject the Null Hypothesis that Age and Savings do not have an association.

So we can say that there exists an association between age level and ability to save. It can be reasoned that higher the age of the person, his or her willingness and ability to save increases due to increase in income perhaps and also more his or her nature becoming more responsible.

Level of Financial Awareness:

Respondents were asked various questions to assess their level of financial awareness and basic competence.

Table 7: Source of Information regarding money matters like savings. Banking and investments

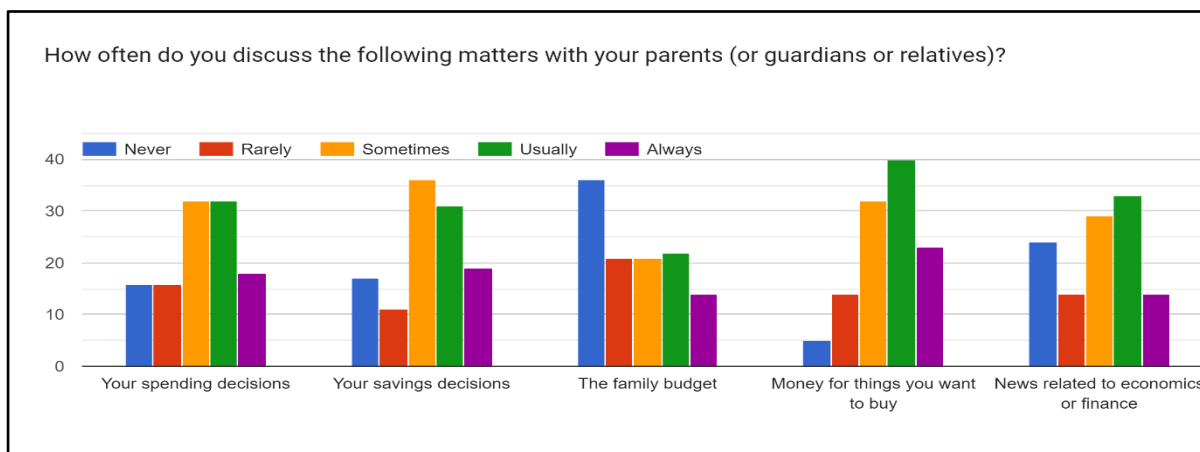


Source: Primary data Collection 2024

As we can see, the predominant source of information remains their family members (59.6%) followed by the Internet (13.2%) and social media (7 %). The rest of the sources are negligible.

What is interesting here is that teachers are not considered as a good source of information regarding basic financial matters. Only 6 respondents (out of 113) said that teachers gave them information regarding money matters.

Table 8: Frequency of discussion with family members regarding spending, savings, family budget, money for expenses and financial news.



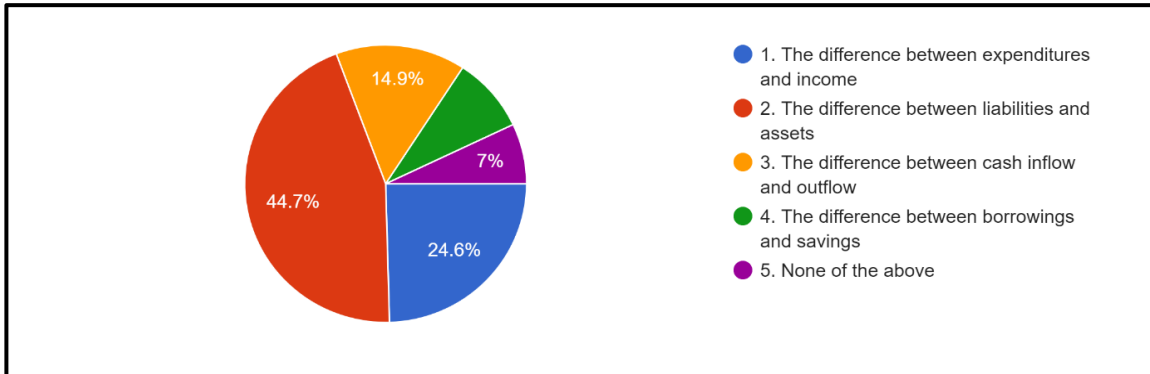
Source: Primary data Collection 2024

One interesting fact comes out of the above chart that family budgets are the least discussed and 36 of the respondents have never discussed their family budget and 21 reported to have rarely done this. This shows that level of involvement of the youngsters in family matters is very less.

Also, discussion on current financial matters does not seem to be on a regular basis with only 14 of the respondents disclosing that they always talked about the news with their family.

Among the matters which were most discussed was money for their expenditures

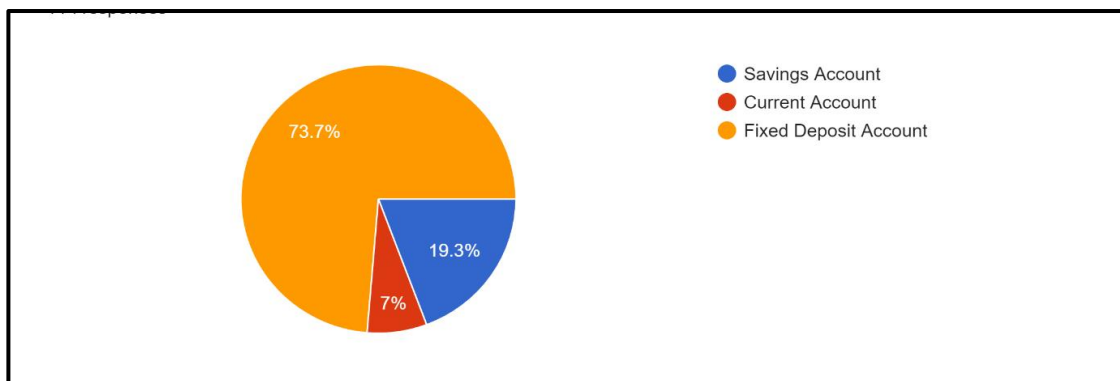
Table 9: Awareness about concept of net worth



Source: Primary data Collection 2024

Here we can see that less than half the respondents were correctly able to give the meaning of “Net Worth”.

Table 10: Awareness about which bank account gives the highest interest rate



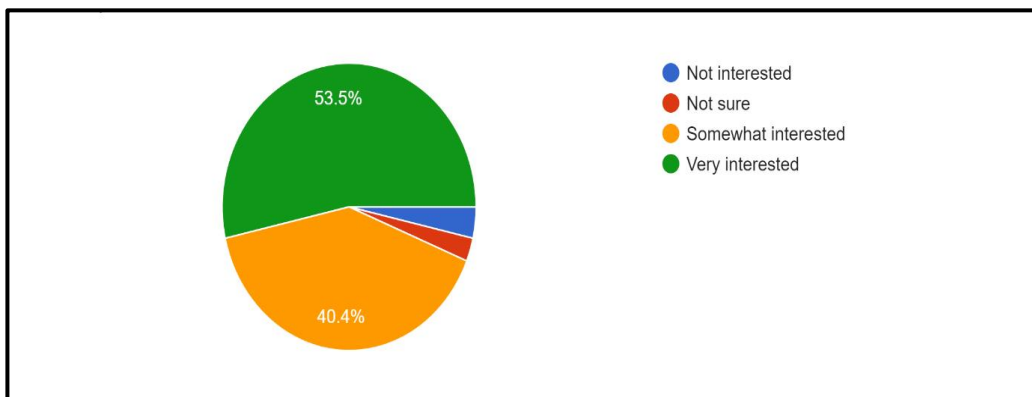
Source: Primary data Collection 2024

As per Table 10, the awareness level is better with 74% respondents being aware that fixed deposit accounts give a higher rate of interest.

Attitudes towards Personal Financial Education:

A number of questions were posed to the respondents in order to gauge their attitudes and inclination towards better financial literacy.

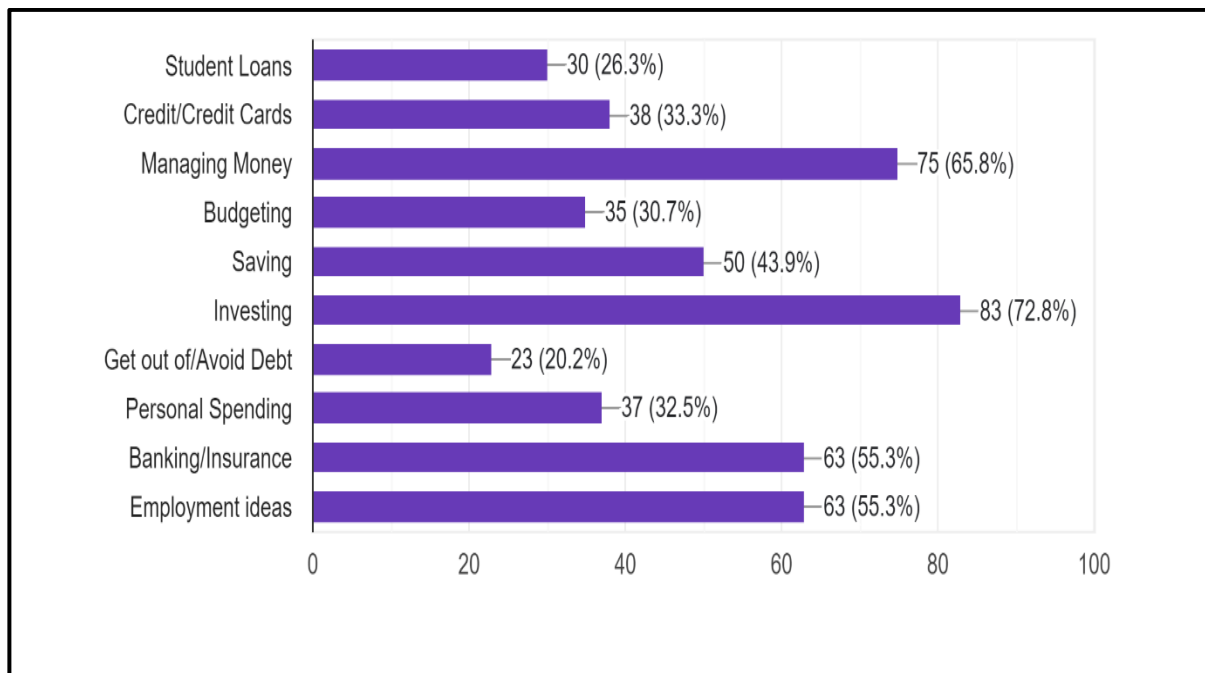
Table 12: Level of Interest towards Financial education.



Source: Primary data Collection 2024

The results here are encouraging with nearly 94 % of the respondents saying that they were interested in learning more about managing their money.

Table 13: Topics which the respondents would like to study about



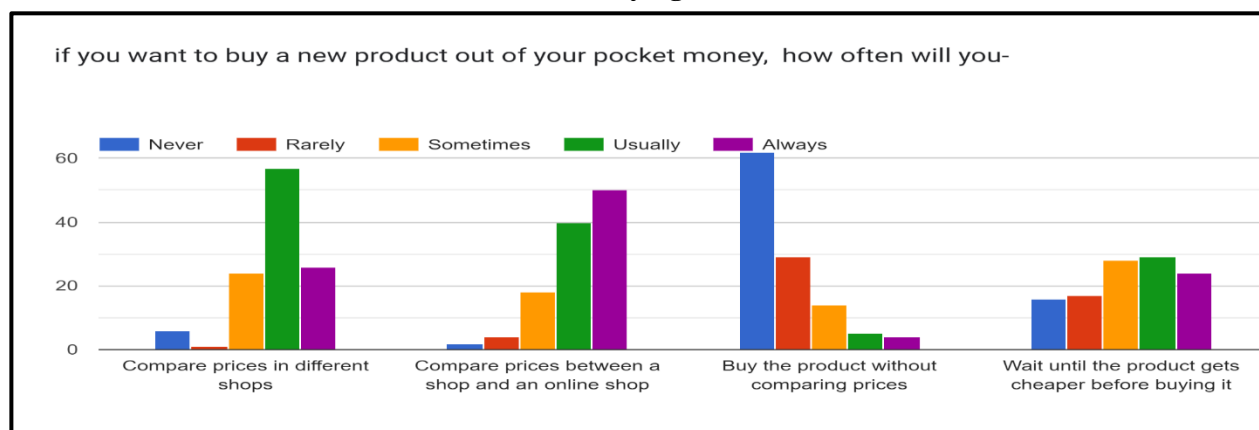
Source: Primary data Collection 2024

As per the above chart, ways to manage money and investing are the most popular topics, that youngsters are interested in followed by banking and insurance and employment options.

Financial behaviour:

Numerous questions were posed to the respondents to assess the way they behave when spending money and also to find out what are the pre-conceived ideas they have on some important personal finance matters.

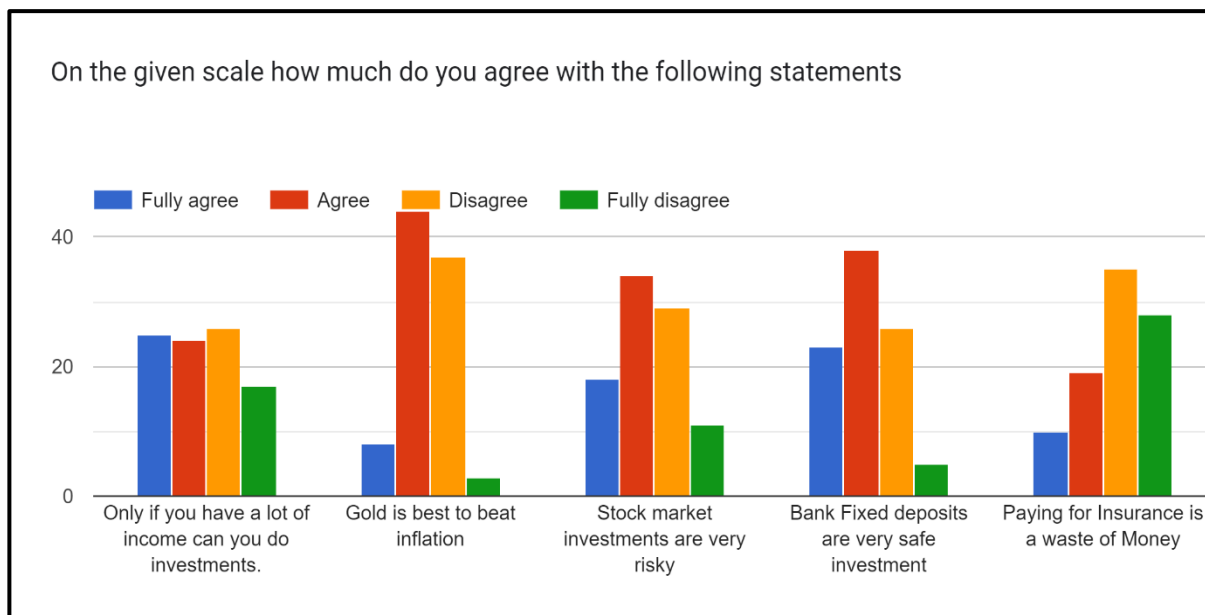
Table 14: Buying behaviour



Source: Primary data Collection 2024

When it comes to spending, we can see that respondents were adept at comparison of prices of products before purchasing. However not many of them were willing to postpone or delay their purchase decision for a future fall in the prices.

Table 13: Opinions on certain notions about saving, insurance and investment



Source: Primary data Collection 2024

The survey results bring out one important pre-conceived notion that people have; which is that one must have a lot of income to start investing. They fail to understand the impact that small savings can have on a person's wealth in the long run.

Another fallacy respondents seem to have is that Gold is the best form of investment in order to beat inflation. Here again most of the respondents were unaware about the concept of gold bonds.

Another false notion being that bank fixed deposits are a very safe investment whereas the fact remains that these are unsecured and safety of the deposit depends on the financial strength of the bank concerned.

Regarding insurance, more than half (63 respondents) did not regard insurance cover as a waste of money.

Conclusion:

The findings even in such a limited research point to the lack of financial capability among youngsters. Many of the respondents were found to be ignorant or not confident about many procedures and concepts. All this points to a pressing need for financial education to be taken up by educational institutions, governmental bodies, financial institutions and the like. The focus needs to shift from merely earning income to creation of wealth. Income is a temporary phenomenon, whereas wealth once created has the capacity to sustain itself and generate income year after year.

In this age of rapid societal changes, materialism, competition, and technological advancements, it is only prudent financial management of money and smart

investing which can lead to a good and sustainable standard of living for oneself and one's family.

Limitations and Future Research:

The participants in this study were only young people, mostly under graduate and post graduate college students from a few colleges in Mumbai. Therefore, it is impossible to assert representation for the entire populace. Second, the quantity of the sample and the circumstances of the procedure are also limiting factors.

Researchers working in this subject may be able to draw conclusions more quickly thanks to the study's findings. This research can be expanded to a bigger scale in the future using a larger sample size and an appropriate sampling technique. More research in this

space would throw up important pointers for our education system and rise up to the global challenges.

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Cite This Article:

Ms. Nichani S. (2024). *Financial Capability and The Need for Financial Education: A Study among Youngsters in Selected Areas of Central Mumbai.* In *Aarhat Multidisciplinary International Education Research Journal: Vol. XIII (Number I, pp. 144–153).* **AMIERJ.** <https://doi.org/10.5281/zenodo.10566078>