

RELATIONSHIP BETWEEN FINANCIAL LITERACY AND SAVING HABITS AMONG INDIAN YOUTH**Hannah Magdelene Sarah J, Archana A, E S Stephen Paul, Dr.V.P.Seena**

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Abstract -This study investigates how financially literate young people in India save money. The digital economy is growing rapidly in India, which brings many new opportunities and considerable risks for young adults. This study employed a quantitative research design. Using convenience sampling, primary data were obtained from 420 respondents aged 18 to 30 years in India, and a structured questionnaire was administered. Pearson correlation and multiple regression tests were conducted to find the influence of being financially literate on saving behaviour. The findings of the study reveal that young people in India tend to have moderately balanced financial literacy, with better budgeting and expense management skills compared to investing skills. Young people demonstrate satisfactory albeit slightly inconsistent saving behaviour. Financial literacy explains the majority of the variance in saving behaviour, representing 30% of the variability in saving behaviour as shown by regression results.

Keywords: Financial literacy, saving behaviour, Indian youth

OVERVIEW**Study Background**

India's youthful population is both a blessing and a curse. The financial obstacles brought on by rising educational costs, underemployment, lifestyle inflation, and easier access to credit are all made more difficult by the lack of financial security. Although the growth of digital payment platforms has provided financial services to more individuals, a lack of financial literacy has the potential to expose individuals to more complex and risky financial products that do not align with their best interest. Therefore, a financial literacy gap creates a void that needs to be addressed. Indian youth need to be literate financially and exhibit good saving behaviour.

Research Problem

Multiple studies have indicated that many of today's youth do not have sufficient knowledge of the various types of investments available to them, nor do they know how to create a financial plan for themselves. Consequently, many young people who lack financial literacy develop poor savings habits, take on too much debt, and experience a great deal of financial anxiety and stress. The current literature does not provide comprehensive empirical data using established and validated statistical techniques to assess the direct effects of personal finance education on savings behaviour for young people in India.

Research Objectives

An outline of the research objectives is presented below.

- Evaluate the current literacy level regarding finance among Indian youth.
- Investigate the current savings behaviour of young people in India.
- Determine the relationship between savings behaviour and financial literacy.
- Determine the effect of financial literacy levels on the saving habit of young people in India.

Research Hypothesis

H1: There is a significant positive correlation between financial literacy and saving behaviour of Indian youth.

H2: Financial literacy levels significantly impact the improvement of saving behaviour among the youth of India.

Significance of the Research

The results of this research are beneficial to multiple stakeholders. Policymakers can use the results of the research to design and implement national financial awareness programs. Financial awareness sessions can be incorporated into the educational curricula of institutions of learning. Financial institutions may develop financial products marketed to the youth market. Theoretically, this research adds empirical data to the research published in the area of saving habit in the context of the Indian population.

LITERATURE REVIEW**Concept and Dimensions**

Later, researchers including Remund (2010) stated that being financially literate encompasses beyond one's level of knowledge regarding finance. Factors such as a person's behaviour, attitudes towards money and level of confidence also contribute to how a person manages their finances. The difference between a person's perceived level of being financially literate and the actual level of being financially literate may also affect the saving habits of an individual.

Mandell (2008) argued that it is critical for young individuals to begin developing their financial knowledge and skills from a very young age, as behaviours that are developed during formative years tend to carry over into adulthood. Researchers such as Agarwalla et al.(2013) and the Reserve Bank of India have indicated an even stronger need for young people in India to begin developing their financial literacy as it is a growing economy with an influx of new financial products being sold to consumers, however, the availability of financial education for all consumers has not yet matured to the point where every individual has access to quality financial education.

Financial Literacy among Youth: Global and Indian Evidence

In many parts of the world, evidence suggests that adolescents lack monetary knowledge. The OECD conducted two studies in 2015 and 2016, which indicated that adolescents from both affluent and impoverished countries exhibited challenges in understanding fundamental financial topics like inflation, interest, and diversification. Additionally, Klapper, Lusardi, and Van Oudheusden conducted a study in 2015 and established that the majority of adolescents tended to score lower than their adult counterparts in areas related to finance.

Sood, Kaur and Kanwar (2024) and Sharma & Singh (2024) found that although digital finance has become a significant part of the lives of many young Indians, contrary to popular belief, they still lack the ability to assess and determine the value of a financial risk. Therefore, there exists a clear need for a tailored program that provides adequate financial education and resources specifically for youth.

Saving patterns and Financial Behaviour

The term savings refers to the money you set aside from your earnings for different types of expenses that may come up in the near future, emergency expenses and preparing for future expenses. Traditional economic theory has said that people save for retirement because they are employed. However, some professionals believe people's feelings and beliefs regarding saving contributes to their overall behaviour towards saving money.

Some studies have shown that people who understand finances save more consistently than those who do not. By saving money you provide yourself with a safety net for unexpected changes in your financial circumstances. While saving has always been a prominent part of the financial culture in India, some recent studies have shown there are a significant number of young individuals in India who are spending

more of their disposable income on items that are viewed as 'necessary to operate in modern society,' rather than saving. Examples include higher-end clothing and accessories to be like their peers, as well as the ease of acquiring debt for non-essential items. However, other studies have shown that many young adults in India are capable of managing their finances, and have healthy savings habits to ensure they will have financial stability in the future.

Financial Literacy and Saving Habits

There is a strong positive influence of one's understanding of financial matters on her saving behaviour, as established by previous research. Lusardi (2008) reported that finance-savvy individuals have been more successful in retirement planning and saving. Using regression analysis, Hilgert et al. (Hilgert,2003) concluded that savings behaviour, is also a function of one's financial literacy, to the exclusion of age and income. Without government-sponsored retirement/pension plans, as is the case in many developing economies, including India Grohmann et al. (2018) state that saving habit and understanding of finances must be and are synonymous. Bhushan (2014) and Sharma & Rastogi (2020) conducted similar studies in India and concluded that young adults with financial and economic knowledge generally have long-term saving and make wise investment decisions.

Digital Financial Services and Young Adults' Saving Habits

The financial service industry is undergoing a tremendous change which is transforming how young adults engage with their finances. Anwar (2025) concluded that digital functions such as mobile wallets and Internet banking have escalated young adults' interest in participating in the financial system. The research conducted by Arun and Kamath (2015) and Mukherjee and Sood (2022) indicate that young adults in India are adopting mobile payment systems, online trading, and digital loan services at a rapid rate. Bansal and Singh (2021) opine that in digital finance, less financially knowledgeable people could overspend and over-borrow, Lusardi, Michaud, and Mitchell (2017) and RBI (2021) illustrate that young financially knowledgeable adults make good use of digital finance tools like automated savings, recurring deposit, and investment plans.

Research Gap

We have a lot of information regarding financial literacy and savings; however, the available data on financial literacy among young people is scarce. This is particularly true for data collected through rigorous statistical methods. Furthermore, the majority of research conducted on the savings habits of young people in India has focused on describing the savings habits rather than evaluating the relationship between those habits and the movement to Digital Money. Therefore, there exists a significant gap with respect to using sophisticated statistical analysis techniques to identify the actual savings behaviours of young Indian people. This research project intends to address that gap by testing the effect of financial knowledge on savings behaviour of young Indian people as Digital Money becomes prevalent.

Theoretical Framework

The Theory of Planned Behaviours (TPB) forms the foundation of this research. The TPB proposes that our actions are influenced by our own attitudes and beliefs, the attitudes and beliefs of others, and our perceived level of control. If we possess more information about money, we will feel more positive about it and perceive greater control over our savings, and thus save more effectively. Additionally, financial literacy is an indicator of how effectively we save, as it influences both our attitudes and beliefs and feelings of control regarding money.

METHODOLOGY

Using a quantitative, cross-sectional research design allowed for identification of the relationship between knowledge of money management and practice of saving. The study was conducted in India with young adults aged 18 to 30. Responses were received from 420 participants using an online questionnaire distributed through convenience sampling. The online questionnaire provided first-hand data collected from the respondents. There were twelve questions assessing the participant's knowledge of money management based on budgeting, saving, interest rates, inflation rates, insurance and investments. Questions assessing savings behaviour (regular savings, sticking to budget and saving for goals), were also included. Five options (1-5) were available for participants to choose from. Analyses of descriptive statistics, consistency of data, plus conducting correlation and regression statistical tests were performed using SPSS (version 26).

Results

The average score on the financial literacy measure indicated an ability to manage money effectively with a mean score of 3.42. That is, generally, participants had some degree of understanding regarding the financial trends. The finding regarding saving habits indicated a mean score of 3.80, suggesting that participants tend to save reasonably well. This study found that the reliability for both the financial literacy and savings measures was high (0.83 and 0.87 respectively); indicating an acceptable internal consistency for each measure. Financial literacy of Indian youth had a significant relationship with their savings habits ($r = .56, p < .001$). Financial literacy explained 31% of the variation in saving habits ($\beta = .56, p < .001$). The results are indicated in the following tables.

Table 1: Indicators of being financially literate among Indian Youth

S. No	Indicators	Mean	SD	Interpretation	Rank
1	Capability of investing my money in suitable financial instruments	3.18	0.91	Moderate	6
2	Knowledge to manage my income to meet my regular expenses	3.72	0.78	High	2
3	Awareness about financial requirements after retirement	3.85	0.86	High	1
4	Ability to maintain proper records of my income and expenses	3.40	0.88	Moderate	4
5	Confidence in managing my personal finances	3.31	0.89	Moderate	5
6	Knowledge about financial instruments	2.98	0.95	Moderate	7
7	Capability of preparing monthly or weekly budgets	3.52	0.90	High	3
	Overall Mean Score	3.42	—	High	—

Young Indians show reasonable money management ability. Most respondents earned 3.42 score on the money management ability scale. Young Indians understand the importance of managing their income and saving for retirement which reflect on their ability to manage finances for the long term. On the other hand, respondents' ability to understand advanced financial products such as derivatives and bonds is lacking, which indicates the need for education in such areas. This coincides with previous studies where young people possess the ability to manage daily finances and to plan retirement, while exhibiting a poor understanding of sophisticated financial instruments.

Table2:Saving Habits of Indian Youth. No	Indicators	Mean	SD	Interpretation	Rank
1	I save money regularly for future needs	3.66	0.87	Very Satisfactory	6
2	I compare prices before purchasing to save money	3.95	0.81	Very Satisfactory	2
3	I consider the necessity of a purchase before spending	3.93	0.82	Very Satisfactory	3
4	I strictly follow a monthly or weekly budget	3.51	0.94	Very Satisfactory	8
5	I keep emergency funds for unexpected situations	3.78	0.86	Very Satisfactory	5
6	I consciously reduce expenses to increase savings	3.92	0.79	Very Satisfactory	4
7	I set aside money to achieve specific goals	4.05	0.75	Very Satisfactory	1
8	I save money consistently until the month ends	3.63	0.96	Very Satisfactory	7
	Overall Mean Score	3.80	—	Very Satisfactory	—

Young people exhibit good saving habits and scored highly on saving towards a goal and managing expenditure. Scores on budgeting were a bit lower which shows that financial planning practices may need extra attention. This coincided with the findings of previous studies that Indian youth generally need more structured budgeting practices.

Table 3 Reliability Statistics

Construct	Number of Items	Cronbach's α
Financial Literacy	12	0.83
Saving Habits	12	0.87

As indicated in the above table, both the scales used in this study have a high reliability.

Table 4 Pearson Correlation Matrix

Construct	1	2
1. Financial Literacy	1	-
2. Saving Habits	0.56**	1

Note. **p < .01 (two-tailed).

The above table indicates that financial literacy and saving habits are highly correlated which is significant and proves the hypothesis H1, as financial knowledge does influence how individuals save.

Table 5 :Regression Analysis Predicting Saving Habits

Predictor	R	R ²	Adjusted R ²	β	t	Sig.
Financial Literacy	.56	.31	.30	.56	14.82	< .001

Note. Dependent variable - Saving Habits. Independent variable - Financial Literacy.

The results of regression analysis indicate that being financially literate as a predictor variable successfully predicted saving habits ($\beta = 0.56$, $p < 0.001$). R Square value of 0.31 implies that financial literacy explains 31% variance in the saving habits of Indian youth. Further, the model is fit with an F value of 219.63 which is significant at 5% level. The results support H1: for young adults in India, financial knowledge is linked to how they save.

DISCUSSION

The results indicate that though a majority of Indian youth have a preliminary understanding of the financial concepts, there is a dearth of knowledge regarding complex financial trends that play a vital role in saving habits. Nevertheless, the study also brings to light that application of financial knowledge is also influential in taking investment decisions and thereby developing the saving habits. Those who have sound financial knowledge tend to spend only the amount that is left after saving and they also plan for unforeseen expenses and have generally financially stable. The findings of this paper are significant considering the easy access to credit, spiralling cost of living and fluctuating labour market. As far as policy implications are concerned, educational institutions can contribute significantly in enhancing the financial awareness of the younger generation by including financial guidance and expert talks by financial experts in their curriculum. Statutory agencies like SEBI and RBI may also play their role in conducting financial literacy programmes among the Indian youth on a regular basis.

CONCLUSION

Considering the rapid changes in the financial system which is driven by the AI based technological advancement, this study focuses on understanding the financial knowledge of the Indian youth and its impact on their saving habits. The study reaffirmed that there is a considerable role of being financially literate in determining the saving habits of the younger generation of in India. The study threw light on the fact that though majority of the respondents had a basic understanding of the fundamental financial concepts they lacked awareness about sophisticated financial instruments and the recent financial trends which would give them valuable insights in cultivating the saving habits that result in long-term financial stability. Also, the study calls upon the educational institutions to redesign their curricula to include sessions on enhancing the financial awareness of the students so that they cultivate a good saving habit from the beginning of their career.

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