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Financial literacy among the youth- A conceptual review

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ABSTRACT

Financial literacy is the sum total of various skills, aptitudes and abilities required to make sense of financial phenomena & take sound financial decisions. It is a very important concept in the present times. The world that we witness today is a much different one than the one occupied by our elders. Even though many things have managed to remain the same, many more have changed rapidly. Accompanying these rapid changes are the growing complexity in the way in which this work, for eg; the financial system. Just consider the following; More and more youngsters are conscious about considering retirement planning since early on, as they know they have to fend for themselves past their retirement age. More than ever before, youngsters today need to think of their income as a limited economic resource, which has unlimited demands, many alternative uses, considerable opportunity cost & their spending behaviour can have long term, irrevocable consequences. We, as a country, over the past decade are slowly but surely shifting from a nation of savers to that of spenders, with more and more youngsters being comfortable with credit cards & term loans for acquiring a variety of consumer goods. The financial system, too, has never been more flabbergasting, with a plethora of investment & insurance products (who often intermingle) to choose from & advisors of all classes & pedigree vying for a chance to manage other's money for them, for a fee, of course. Easy access to & low barriers in financial markets of all types, terms, sizes & shapes have attracted many youngsters to take part in them, irrespective of these youngsters' understanding thereof & expertise therein. It is very easy to fumble and make mistakes in such a scenario, if one is not well equipped with the necessary skills and abilities to make sense of & then harness all the data & information, often easily & abundantly available, to make sound financial decisions. Often, such mistakes have been known to have long term, even permanent, ramifications. It is evident from the large number of youngsters and even middle-aged people still struggling pay off their student loan arrears & make sense of their burgeoning credit card debt. Considering this, it probably wouldn't be an exaggeration to consider financial literacy a valuable life skill. Measuring relevant parameters is the first logical step towards solving a problem. In order to understand whether the youngsters of today possess necessary skills, aptitudes & abilities to make sound financial decisions, we first need to measure their current level of financial literacy & identify the various determinants & influencing factors in financial decision-making process, as engaged in by the youth. This is an endeavor which will aid the various stakeholders (policy makers, educators, parents, youngsters, banks & other financial institutions, regulators, etc.) to undertake necessary policy interventions, create effective educational programs, develop relevant financial products and effectively train the next generation of decision makers to make better financial decisions. Also, relevant research gaps need to be explored in order to undertake future research. The current research paper is an attempt in that direction.

Keywords: *Young Adults, Financial Behavior, Financial Attitude, Financial Literacy, Risk Aversion, Self-Perception, Financial Decision Making*

1. INTRODUCTION

Our elders have always warned us against unnecessary expenditure via various anecdotes and moral stories. They have always advised us to manage our expenses in such a way that they are always below the level of our earnings. The current young generation has also been subjected to the same dose of advice, disguised or otherwise, however, its effect has been challenged due to many factors. Rising consumerism, limitless choice for products & services and rising ease in availability of credit has worked together over the past decade to undo the effect of all the elderly advice over the centuries. A sort of recklessness is evident in the way financial decisions are made and financial practices are indulged into. This is evident in the rising burden of student loans or credit card debt carried by the youth well into their middle ages. This situation also has long lasting effects on mental as well as physical health of the younger generation (Shim, Xiao, Barber, & Lyons, 2009) apart from its more visible counterparts, like bankruptcy (Roberts & Jones, 2001) being unable to take advantage of legitimate investment opportunities, etc (Van Rooij, Lusardi, & Alessie, 2011). The recent mortgage meltdown of 2008 has also revealed the extent of the impact of poor financial decision making (Volpe & Mumaw, 2010). It appears that even though many today are taking proactive steps to secure their financial future, many more are still struggling to take sound savings & investment decisions.

The obvious remedy to the above situation is the inculcation of financial discipline and financial prudence. The best way to inculcate the above is through financial literacy, which is defined as the ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions (Lusardi, 2015). The Jump$tart Coalition tested US teens as part of a national financial exam and fund that their test scores actually lowered down from 1997 to 2008 by almost 9% (Jump$tart Coalition for Personal Financial Literacy, 2008). This brings out the urgent need to design policy interventions to address this issue of lowering financial capabilities & capacities among our young. However, the first step in solving any problem should always be measurement of the relevant factors.

Towards that end, this study aims to find about the level of financial literacy among the youth. It also tries to understand trends with respect to savings & expenditure.

2. FUNDAMENTALS OF FINANCIAL LITERACY

It is intended to familiarize the reader with the basic fundamentals of financial literacy in this section. In the European and American countries, many studies pertaining to financial literacy have taken place due to its rising importance as a policy making goal, especially after the 2008 financial meltdown (Volpe & Mumaw, 2010). Owing to the varied nature, objectives and participants of these studies, we can find a variety of definitions and viewpoints on financial literacy. Many of these definitions are explored further in this study in the literature review section, however, most simplistically, financial literacy refers to the basic knowledge pertaining to past, current and future financial matters which enables the individual to make sense of financial data or information and undertake sound financial decision making. Since there is scope for different researchers to study different aspects of financial literacy from different angles, it can be considered as a very flexible concept. It is also well argued that financial literacy has a cultural component also (Czakó, Husz, & Szántó, 2011), as financial behaviour of human beings is also affected by such qualitative factors like values, upbringing, traditions, social norms, etc. This highlights the aspect of measurement of financial literacy, which has been attempted using many different methods. Beginning with the simplest models, now we are considering measurement of financial skills and attitudes too, as part of measuring financial literacy. Needless to say, it is still a struggle to measure the qualitative aspects previously mentioned.

3. LITERATURE REVIEW

Financial Inclusion and, by extension, Financial Literacy have achieved buzzword status, especially after 2008 financial crisis (Czakó, Husz, & Szántó, 2011; Botos, Botos, Béres, Csernák, & Németh, 2012). Various researchers pointed towards low levels of financial literacy as one of the contributing factors for the crisis (Volpe & Mumaw, 2010; Klapper & Lusardi, 2020), as it was the financial sector, which originated the crisis, not the other aspects of the economy. Many researchers tried to highlight the need to prioritise the provision of financial education while attending specifically to financial attitude along with cognitive elements therein (kenesei, 2014; Lusardi & Mitchell, 2014), since it is no longer enough to just raise the financial literacy levels of an individual, but that of the whole society.

Numerous contributors have attempted to proffer their definitions for financial literacy. Huston, 2007, Van Rooij et al., 2008; Chen & Volpe, 2008; Lusardi et al., 2009; Pillai et al., 2009; Xiao et al., 2010; Luksander et al., 2016; Botos et al., 2012; Kovács et al., 2013 ; Wagland & Taylor, 2009 ; Németh et al., 2016 and others have attempted to provide a suitable definition for the same over the years. The 2017 G20/OECD INFE report on Adult Financial Literacy in G20 countries defines Financial Literacy as, "*Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being*". OECD collected data provided from all G20 countries (plus Norway & the Netherlands) via its OECD/ INFE toolkit. It measures financial knowledge, financial attitude, financial behaviour & the extent of financial inclusion with respect to the above countries. It was noted that the 2 guest countries (Norway & Netherlands) were at the forefront with maximum participants achieving minimum required score.

The definition given by Annamaria Lusardi, viz, "*Financial literacy is defined as the ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions*" is also extremely applicable. Furthermore, in 2008, the National Bank of Hungary was a pioneer in developing a comprehensive definition of financial literacy, viz., "*A level of financial knowledge and skills that enables individuals to identify the fundamental financial information required to make their conscious and prudent decisions; and after the acquisition of identified data, allows them to interpret said data, make decisions on their basis, all the while assessing potential future financial and other consequences of their decisions."* (Magyar Nemzeti Bank (National Bank of Hungary), 2011)

Dr. Anjali Sane (2014) provided the following points while arguing for the need of financial literacy, viz, increase in life expectancy, risk transfer, pension policy changes, emergence of the nuclear family structure, rising complexity & innovation in financial products & services, rising competition among financial services providing companies, rapid changes in technology and disruptions therefrom (Sane, 2014)

Researchers have been observing the connection between money & finances since long. Goldberg & Lewis (1978) divided individuals into 3 categories of security collectors, autonomy worshippers and power grabbers (Goldberg H, 1978). Yamauchi and Templer (1982) devised a scale to measure 4 aspects of financial attitudes (viz. power-prestige, retention-time, distrust, anxiety). In a similar vein, Money Beliefs & Behavior Scale (MBBS) was devised by Furnham (1984) to isolate the underlying 6 factors (i.e. obsession, power, retention, security, inadequacy & effort / ability).

It has been observed that financial decision makers must keep on updating the financial literacy levels acquired by them due to the continuously changing financial landscape. Botos et al., (2012) proposed that failing to update the financial literacy levels will give rise to a gap between required knowledge and available knowledge, thus causing misalignment between the nature of risks undertaken and the knowledge with which they are undertaken.

Ideally, based on the definitions of financial literacy, the financially literate people are expected to be capable of assessing the risk and acknowledging the uncertainty in their decisions. Risk, and the underlying risk related behaviour, form important considerations while assessing financial literacy. Risk is understood as nothing but the probability of undesirable events occurring. It is obvious that different people will perceive risk differently, as a result of their varied experiences & attitudes. *Fenton-O'Creevy–Soane* (2001) argued that individual attitudes (about gains & losses), prejudices & personalities play an important role in individual perception of risks.

Financial behaviour, & by extension, financial habits are also an important consideration in the study of financial literacy. It is the direct result of the financial education & an indicator of financial literacy (Wagner, 2015). Jones (2006) conducted an examination of college freshmen's credit card behaviour and found that more than half of the sample possessed credit cards & various factors, viz, marital status, relationship status, age, etc will cause accumulation of credit card debt among them. It was found that credit card debt was accumulated irrespective of nature of knowledge acquired.

4. RESEARCH METHODOLOGY

This study aims to discover the financial preparedness of students participating in graduate level programs. It was explored whether financially prudent young people will exhibit debt averse behavior.

For this purpose, a questionnaire was designed to achieve this objective. The target of this questionnaire was a representative sample of 50 young adults; aged 18 years to 25 years, participating in various graduate level programs in educational institutions. The participants were selected for this study via convenience sampling, a non-probability sampling technique. This technique was used due to the easy access & proximity of participants to the researcher.

The questionnaire comprised of 50 questions (distributed along 6 divisions). The questions were diverse & robust, viz; open ended, close ended, scales, etc. Three indices were utilized to examine the risk related behaviour of young people. With respect to this, the impact of confidence in knowledge, actual or assumed was also considered. Impetus was laid on the level of knowledge regarding economics & general finance among the participants.

5. FINDINGS

In a survey of financial literacy conducted among the students of 6 Institutes of Pune, Researchers found that 53 per cent of students gave correct answers to questions which tested their financial knowledge.

It was observed that students were able to perform well on questions testing the general knowledge of finance and insurance, however, they struggled to perform well with respect to specific questions about savings, investments and loans. On the whole, this study revealed the need for financial literacy among the youth.

In fact, 74 per cent of the students indicated their need for coaching on financial topics, specifically in the fields of money and debt management. Half of respondents specifically stated the need for teaching student loan repayment and debt reduction strategies. In the field of general financial knowledge, they indicated the need to improve their budgeting and saving capabilities (40 and 47 per cent, respectively).

At the same time, less than one-third of the students considered early saving for retirement and financial planning for the future to be important while 25% showed any interest in understanding the finer aspects of loans. On the question of where they should acquire such knowledge, 68 per cent would already have liked to receive information of this sort during their secondary school years, while 42 per cent highlighted first year at college.

Responding students were of the view that financial education should be in the form of one on- one sessions that use guided or passive methods. Instructors participating in financial education assume that secondary school and college courses on personal finances and related matters improve the level of financial knowledge, and that students will demonstrate appropriate financial behaviour in making less risky financial decisions with better financial knowledge. Research findings, however, are mixed. Conducted at regular intervals over the six month among college graduates. One major finding is terms of financial knowledge acquired at graduation level and financial education at universities has tremendous difference and more rigorous and useful at university level (CANT UNDERSTAND HOW THIS PART CAME ABOUT!!!, WE HAVEN'T QUIZZED COLLEGE PROFESSORS, HAVE WE?)

6. CONCLUSION

It is evident that financial literacy can have major impact on financial behavior. It has been found that people with low levels of financial literacy (perceived or otherwise) exhibit more caution and fearful financial behaviour. They find it difficult to select appropriate financial products & struggle with debt. They view stock markets with suspicion & anxiety and fail to choose appropriate mutual fund products at appropriate prices. Overall, they seldom plan for retirement & rarely acquire & manage wealth appropriately & effectively. It was evident that majority of young people lacking financial literacy would have loved to have had financial knowledge, due to its importance in making sound financial decisions.

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