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Taking Ownership of the Future: Developing Practical Money Skills among the Youth in Emerging Economies

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Abstract: Financial literacy is critical to the prosperity and well-being of people. The present research was undertaken in India to examine the level of financial literacy among the youth and to understand whether it is linked to any other variables. It attempts to arrive at a mean score of financial literacy by evaluating the knowledge of the respondents in five main subject areas of financial literacy with a series of fifty questions. It has used a comprehensive questionnaire designed to cover major aspects of personal financial prudence comprising multiple-choice questions. The researcher distributed the survey using stratified random sampling by age groupings that reflect the Mumbai youth population. A total of 875 respondents were selected for the study, out of which 679 completed and returned questionnaires that have finally been used for this study. This research shows that keeping personal financial records is very important as it makes one keep track of his/her various expenses and develop the qualities of a cautious spender. In order to store up enough money for future expenses such as higher education, buying a house/car, managing a family, etc., the young must develop a disciplined habit of managing their money. This research also recommends the best practices to impart financial education to the youth in emerging markets.

Key Words: Expenditure, Financial literacy, Financial planning, Youth

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INTRODUCTION

As is the case in many fields of research, different researchers and organizations have defined financial literacy in many different ways. On a general plane, financial literacy can be defined as having the knowledge, skills and confidence to make responsible financial decisions. The ability to make the correct financial decisions is vital for individuals to manage their financial affairs (Ansari, 2006). Also, great changes are happening in the society. Increasing life expectancy makes it necessary for people to do their prudent financial planning. All countries of the world are focusing on programmes to increase the financial literacy of their population (Xu & Zia, 2012).

Objectives of the study

The present research was undertaken with the following objectives:

- To study the extent to which the youth need to have financial literacy in the global economy.
- To examine the level of financial literacy among the youth.
- To identify the true determinants of financial literacy among the youth and to understand whether it is linked to any other variables.
- To recommend the best practices to impart financial education to the youth.

RESEARCH METHODOLOGY

Research design

The study is set in the city of Mumbai and focuses on the youth population. It has used a comprehensive questionnaire designed to cover major aspects of personal financial prudence comprising of multiple-choice questions. The questionnaire contained several age-appropriate multiple choice questions that focused

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on personal finance topics applied to each of the financial literacy subject areas of Money Management, Plastic money, Savings, Interest, Spending and Debt. The survey was distributed by the researcher using stratified random sampling by age groupings that reflect the Mumbai youth population.

A total of 875 respondents were selected for the study out of which 679 completed and returned questionnaires which have finally been used for the purpose of this study. The researcher has eliminated those responses where the respondents had not given serious attention to filling out the questionnaire (about 29 forms) so that a more correct picture of the state of financial literacy among the youth in Mumbai could be obtained. Thus the percentage of usable responses is worked out at 74%.

Apart from the data collected through structured questionnaires, a final experience survey was conducted of people with practical experience in this field. Several academicians and experts expressed their general views and these have been incorporated so as not to leave out a point of great promise. Hence unstructured interviews became another source of data collection. Some respondents chose to express their views orally only.

Out of the 650 usable responses of the respondents who took part in this survey, 46.78% of them were female and 53.22% were male.

The respondents were between 18 to 30 years of age, with almost equal representation given to the 18 years to 22 years, 23 years to 26 years and 27 years to 30 years age group.

Table 1: Demographic profile of respondents

Age Group	Male	Female
18-22 years	103	115
23-26 years	125	108
27-30 years	118	081
Total	346	304

n = 650

23.52% of the respondents did not have any source of earned income. 76.48% of the respondents were working in part time or full time jobs.

The detailed demographic classification is given in the table below:

Table 2: Demographic classification of respondents

Classification	South Mumbai		Western Mumbai		Central Mumbai	
	Males	Females	Males	Females	Males	Females
Unmarried Undergraduate students and not working	25	26	22	19	18	14
Unmarried Undergraduate students and working	28	31	34	28	16	15
Unmarried Postgraduate students and not working	06	15	05	07	04	06
Unmarried Postgraduate students and working	27	22	26	18	15	11
Working married having no children	23	20	23	17	12	07
Working married having children	21	19	28	18	14	11
Total	129	133	138	107	079	064

n = 650

In computing an aggregate Financial Literacy Score the questions in the survey were scored assessing what actions the respondents have taken to manage their finances and how much they know about common financial products and services (Jeff, 2011). After the scores for all the responses were aggregated, they were then normalized on a 0 100 scale, to derive a Financial Literacy Score for the youth population. Thus an aggregated Financial Literacy Score has been derived, which serves as a proper yardstick of the aggregate financial literacy level of the population.

Significance of the study

Financial literacy among the youth is an upcoming field for research and an extremely important concern for the governments of various countries (Agarwal, Amromin, Ben-David, Chomsisengphet & Evanoff, 2010). One of the major challenges facing the youth today and young married couples is managing money. A recent all-India research study has shown that 62% of marriages break down due to arguments about money (Bihari, 2012).This research is absolutely convinced that improving financial education of the youth is vital to the future of all economies in the world. When these youth enter the working population it is unlikely they would have the right money management skills (Djilali, Sarra & Abdesselem, 2016). The youth also unfortunately generally believe that they are far more financially literate than is really the case (Cheng, Leung & Wong, 2009).

Limitations of the study

The sample was drawn from Mumbai. Further studies taking a wide sample from the whole of India may be warranted.

This study does not make an attempt to compare financial literacy levels of students from different disciplines. It may be valuable to make comparisons against several disciplines and years of study.

Furthermore, there has been no attempt in the current research to explicitly link financial literacy with financial behaviour. It is possible that though a person may have a low score in certain aspects of financial literacy, he may demonstrate high financial success (Reserve Bank of India, 2010).

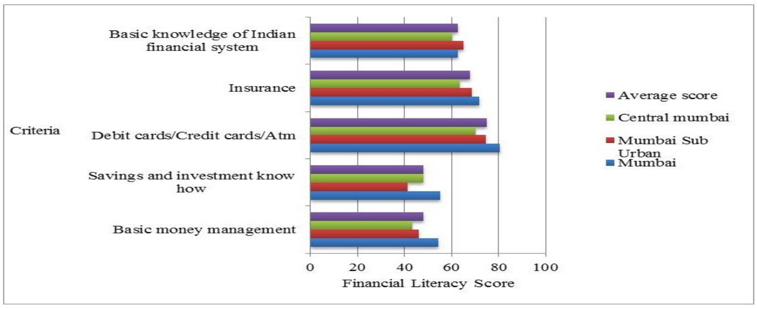
The scope of the survey was also limited by the need to ensure that the survey questionnaire was kept to a manageable length hence only 50 questions were asked to judge the level of financial literacy.

COMPUTATION OF FINANCIAL LITERACY SCORES

Table no. 3 shows the mean percentage of correct responses for Basic money management, Savings and investment knowledge, Debit cards/credit cards/ ATMs, Insurance and Basic knowledge of the Indian financial system.

Table 3: Final literacy scores of the youth by region (Mean Scores)

Indicator	South Mumbai	Western Mumbai	Central Mumbai	Average score
Basic money management	54.5	46.2	43.2	47.96
Savings and investment know-how	55.1	41.4	47.8	48.1
Debit cards/credit cards/ ATM	80.6	74.4	70.2	75.06
Insurance	71.8	68.7	63.4	67.96
Basic knowledge of Indian financial system	62.5	65.1	60.1	62.56



Graph 1. Final literacy scores of the youth by region

As is seen from the table and graph, the overall level of financial literacy cannot be ranked as high. The highest mean score is obtained in the field of debit cards and credit cards with a mean score of 75.06%, and knowledge of insurance comes second with a mean score of 67.96%. The respondents have relatively low financial knowledge in the spheres of basic money management (47.96%) and savings and investment know-how (48.10%).

On the basis of the scores under each heading, the final scores of financial literacy of the population have been worked out as under:

Table 4: Final financial literacy scores of the youth by region (Mean Scores)

Region	South Mumbai	Western Mumbai	Central Mumbai
Aggregate financial literacy scores	64.90	59.16	56.94

Thus the table shows that the overall financial literacy score as a whole is calculated as 60.33%. This clearly suggests that the knowledge of the youth on finance is inadequate. This figure has partially been swollen because of the good scores achieved in the field of debit cards/credit cards and insurance.

On further analysis, the following observations are worthy of being documented:

It is found that financial literacy is low. In any case, the low correct response rates, particularly to certain questions indicated that many young people lack knowledge of basic financial concepts. Not a single respondent could correctly answer all questions; however 52 respondents (8%) of our total respondents could answer 48 out of the 50 questions correctly.

Only 27% percent of the respondents could correctly answer the question on call money and only 20% correctly answered the question on compound interest. A good 64% correctly answered various questions pertaining to mutual funds. Only about one-third of the youth of Mumbai possess basic knowledge of interest rates and risk diversification. Only 34% of people in the age group 18 to 30 years possess basic knowledge of interest rates and risk diversification.

The highest mean score is obtained in the field of knowledge of debit cards and credit cards with a mean score of 75.06%. This is followed in the second rank by knowledge of insurance with a mean score of 67.96%. The mean score in the realm of basic knowledge of the financial system is seen to be 62.56%. It is unfortunate that the respondents have very low financial literacy scores in the field of basic money management (47.96%) and savings and investments (48.10%).

The youth covered in the survey had no idea of specific facts on money management topics and only knew general topics and that probably explains their low levels of knowledge in financial management areas. The respondents' educational background has a significant impact on their level of financial literacy. The results clearly show that post graduates are more knowledgeable than undergraduates. On an average, the correct response rates for postgraduates are 7% higher than for undergraduates. This tendency is persistently seen throughout the individual five sections. The testing results of ANOVA indicate that the differences are statistically significant at the 0.01 level.

The findings also suggest that participants who are employed know more than the respondents who are not working. The differences in the level of literacy among different sections are statistically significant at the 0.01 level.

Also, the knowledge of the youth varies with their demographic characteristics. The percentages of correct answers from the female participants (50.77%) being lower than the male participants persists among all sections including the overall results. The values of F-statistic suggest that these differences are highly significant. This research shows father's education is strongly associated with financial literacy, especially if the respondents' parents were postgraduates themselves and into high-level professions like Chartered Accountants, Managing Directors of companies and similar occupations.

The model shows that among all the variables, having children is positively correlated (+0.327) with financial literacy. This shows that as people shift to the later stages of the family life cycle and have offspring, they have to shoulder more responsibilities and hence give more importance to managing their finances.

ATTITUDES TOWARDS FINANCIAL MANAGEMENT

Table 5: Opinion of the respondents whether they possess the financial skills to manage their money and plan for the future

Opinion on possession of financial skills	Total responses	Percentage of responses	Total responses from males	Percentage of responses from males	Total responses from females	Percentage of responses from females
Yes	164	25.23	110	31.76	058	19.29
No	283	43.53	131	38.43	151	49.74
To some extent	161	24.76	085	28.16	066	21.91
Cannot say	42	06.48	020	01.65	027	09.06
Total	650	100	346	100	304	100

n = 650

The analysis reveals that only about a quarter of the youth surveyed feel they possess the financial skills to manage their money and plan for the future i.e. to say they presumed themselves to be good money managers and have a proper understanding of personal money management. But a greater proportion feels they are inadequately prepared. About 161 (25%) respondents felt that they possessed these skills only to a certain extent and hence did feel the need to be well-educated with respect to this subject. It is surprising that as many as 42 respondents out of 650 felt that they were not able to answer this question. The male respondents appeared to be more confident about their knowledge of financial skills compared to their female counterparts. Thus with respect to this age group's self-assessed financial health, the survey discovered certain gender differences as well.

Thus understanding the level and intricacies of financial literacy is very important for policymakers in several areas it can aid those who wish to devise effective financial education programmes targeted at the youth.

These figures do not show a clear correlation between the confidence about financial knowledge and whether they had enrolled in a financial education class. In response to a question, the researcher could find only a weak correlation between the students' confidence about their financial knowledge and whether they had participated in a financial education class.

FINANCIAL PLANNING

Table 6: Benefits of financial literacy as perceived by the respondents

Benefits of financial literacy	Total responses	Percentage of responses
Healthy spending habits	135	21%
A right approach to investment	232	36%
The right kind of insurance	051	8%
Being defensive in crisis	006	1%
Combination of all these benefits	180	28%
Cannot say	38	6%

N= 644

Table no. 6 probes into the benefits of financial literacy as perceived by the respondents. 180 respondents (almost 28%) signified that financial literacy offers combination of all the mentioned benefits, that is, healthy spending habits, a right approach to investment, the right kind of insurance and being defensive in crisis. Around 36% respondents felt that if they had high financial literacy they would be able to adopt the best investment approach (32%) and 21% felt that a high level of financial literacy would inculcate healthy spending habits. 8% felt it would help them in buying the right kind of insurance. Very few were of the opinion that financial literacy would save them from a crisis situation.

Table 7: Ranking given by the respondents as to the most important issue at their age

Issue	Number of responses	Percentage of responses
Financial literacy	188	31.50
Physical fitness	87	14.58
Strengthening family relationships	265	44.39
Protecting the environment	34	05.66
Any other	23	03.87
Total	597	100

N= 597

Some responses were found unusable as the respondents had ticked more than one issue. The highest number of young adults between the ages of 18 and 30 years i.e. 265 out of 583 (44.38%) who answered this question correctly by ticking only one alternative consider strengthening family relationships the single most important issue at their age. 188 young adults out of the total 583 surveyed feel that financial literacy is the most important issue at their age. 14% say that physical fitness is the most important and 5% believe that protecting the environment should get topmost priority. When people in their twenties and early thirties give priority to responsible money management over physical fitness and other issues it seems clear that the need for financial literacy is very much present. These results are very encouraging.

The youth seem to have fairly healthy attitudes on financial literacy and they generally make the more responsible choice. In this era of knowledge explosion where a wealth of information is available through various sources we cannot undermine the capacity of the younger generation in taking financial decisions (Sahi, 2009).

IDEAL STATE VS. REAL STATE

Table 8: Views of respondents on when to start financial planning

Time of starting financial planning	Real state: When respondents started financial planning		Ideal state: When one should start financial planning	
	Total number of responses	percentage of responses	Total number of responses	percentage of responses
High school	22	03.43	024	03.75
Graduate college but not working	31	04.83	121	18.88
Graduate college and working	75	11.70	105	16.39
After working for a few years and on marriage	338	52.73	198	30.88
On getting first child	65	10.15	028	04.36
Cannot answer	110	17.16	165	25.74

N= 641

Table no. 8 reveals that there is a substantial gap between attitude and action. When asked when one should start financial planning several respondents said that one should start financial planning early. However one-fourth of the respondents admitted they were unable to judge this issue and hence did not answer this question. 30% of the respondents who chose to answer this question felt they should start financial planning after working for a few years and on marriage. The majority who answered this question felt that one should start financial planning whilst in Graduate College and not yet working (19%) while 16% of the respondents feel that one should start it when in Graduate College and working.

However in reality the youth tend to start financial planning at a stage later than they considered ideal. There is a substantial gap between attitude and action. Though 35% felt that one should start financial planning while in Graduate College, only 15% actually did. Similarly while 40% felt that financial planning should be started before marriage, barely 17% had actually started it before marriage.

The majority of the students and the numerous graduates who start earning by the time they are in their twenties do not know how the market works and are hence unaware of the investment options available to them. Yogini (2012) states that the researcher feels that programs or activities on financial literacy should be addressed directly and specifically to the youth so they can have positive cash management attitudes before they enter the job market. This positive attitude will help them to practice proper personal financial management as working adults. Youth who lack financial knowledge would have a tendency to make incorrect financial decisions.

MONEY MANAGEMENT

This section tries to analyse whether the youth have a habit of maintaining detailed financial records.

Table 9: Whether the youth maintain detailed financial records

Response	Total responses	Percentage of responses
Maintain detailed financial records	087	13.38
Maintain minimal financial records	291	44.76
Maintain no records at all	272	41.84
Total	650	100

N= 650

Maintaining regular financial records is very helpful as it enables to keep track of expenditures and develop disciplined habits. This would also enable them to save enough for further expenses such as higher education, managing a family and many more future responsibilities. It is found that 291 respondents out of 650 i.e. a vast majority maintained very minimal records. It was shocking to observe that 272 respondents did not maintain any records at all. A small minority (87) of the respondents maintained detailed financial records. Thus only a minority of the youth covered in this survey keep close track of their expenses. Majority of the respondents expressed that they do not maintain proper financial records and they lack the habit of financial planning in their real life.

Keeping personal financial records is further important as it makes one aware how much he/she has spent in the recent past. It is a strong recommendation of this study that the youth must be trained on creation and maintenance of basic financial records.

CONCLUSION OF THE STUDY

- It is very necessary today to increase financial literacy and awareness especially among the youth. If the youth is not financially literate, it poses serious issues for the future of the nation.
- It may be important to develop programs specifically for women, since they display much lower financial knowledge (D'Silva, D'Silva & Bhuptani, 2012).
- Among all the variables, having children is positively correlated (+0.327) with financial literacy. This shows that as people shift to the later stages of the family life cycle and have offspring, they have to shoulder more responsibilities and hence give more importance to managing their finances.
- Analysis of our full model shows that students with higher financial literacy score are more likely to be male, are most likely to be residing in the city centre, have a stable job, are married and have offspring.
- The study is forced to point out certain groups with particular challenges. Those groups were identified as women, those with a lower level of education, not working, and single.
- The low pseudo R-squared values in our regressions indicate that some of the variation is unaccounted for, given that many factors are likely to influence the accumulation of financial knowledge (Anggadwita, & Dhewanto, 2016).
- The youth tend to start financial planning at a stage later than they considered ideal. There is a substantial gap between attitude and action. Programmes on financial literacy should be addressed directly and specifically to the youth so they can have the correct financial management attitudes before they enter the job market (Chad, 1998).
- Many young people do not know how to manage their income. Once they start getting a lot of money they simply spend it on ostentatious consumption which is not necessary. Many of them seem to be resorting to impulsive buying and are not cautious in their spending behaviour.
- Keeping personal financial records is very important as it makes one keep track of his/her various expenses and also develop the qualities of a cautious spender. In order to store up enough money for future expenses such as higher education, buying a house/car, managing a family etc., it is crucial for the young to develop a disciplined habit of managing their money.
- People do not receive any formal education or training on personal finances. However they do show significant interest in undergoing such courses, and hence courses should certainly be introduced.

RECOMMENDATIONS OF THE STUDY

High national priority

Promoting financial literacy, in particular, must become a high national priority for every nation. It is hoped that the results of this study would be used to formulate a strategy to strengthen the financial skills of the youth.

Pre-requisite for graduation

Every government should consider making Financial Literacy a pre-requisite for all graduates and post-graduates and all must get at least qualifying grades before they are awarded their degree by the respective universities.

Regular update

Financial education programs should be regularly updated. Due to rapid changes in technology and the economy, the financial markets keep changing. To combat this problem financial education programs should be dynamic and be changed as per the needs of the current scenario (Reddy, 2006).

Ad hoc approach would not work

One of the issues the researcher came across is that various efforts tend to be fragmented and ad hoc. It is important to bring about some kind of standardization of the programmes of financial literacy.

At all stages of life

Financial education should be available and actively promoted at all stages of life on a continuous basis. Financial education should not be provided on a one-time basis, it should rather be a continuous process which involves imparting of financial education beginning from early childhood and continuing till retirement. Financial education can never be irrelevant to any age group.

Practical application

The youth would have to understand that even having a high level of financial literacy is not enough rather it is the matter, but what is most important is practical application of such knowledge to real-life situations. It is crucial for the young to develop a disciplined habit of managing their money (Mukherjee, 2008).

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— This article does not have any appendix. —