# Financial Literacy Among College Students - Challenges & Approach

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***Abstract***

*For most university students in India, college life is the first life experience of living away from parents and family and managing their finances. Unlike many developed countries, university education is relatively cheap and almost free in most instances, therefore students in India aren't normally encumbered with education loans. The prevalence of credit cards is also quite not very significant therefore credit card debt is also not a serious issue for most students. Most students in India are not expected to earn while studying hence the need to be aware of taxation & insurance topics is also not acute for Indian university students. Culturally as well Indians are conservative concerning taking on debts for consumption purposes.*

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## Introduction

At the same time, those cultural norms & attitude towards money is rapidly shifting towards a more individualistic, materialistic, and hedonic outlook, esp amongst youngsters. Moreover, with the rise of e-commerce and fintech, the availability and salience of financial products to young adults has exponentially increased. Instant purchase & payment has become faster easier and more convenient, thanks to mobile wallets integrated with buy now pay later creditor, which in turn is driving impulsive financial decisions. Various fintech startups in e-payments, e-wallet, and neo-banking are marketing sophisticated products with enticing upfront discounts to young adults and students at an unprecedented pace and scale. Moreover, the use of credit ratings and proxy credit profiling is also on the rise. With the recent boom in the stock market and cryptocurrency, coupled with easy access to information and easy emergence of "role models" on social media, many students and young adults are also participating in complex financial products without necessarily understanding the risks or the nuances of these markets. Such decisions have a long-term impact on their financial well-being.

Adequate personal finance know-how and skills and a healthy attitude towards money enable individuals to make good choices with their money, minimize the probability of being misled and blunt the severity of financial shocks. With the deregulation of financial markets, easier access to credit, rapid growth in complexity of financial products, shriller marketing by financial intermediaries and fintech startups, lack of an adequate social security system, longer lifespans coupled with the reduction in government's support for pensions, there is an increasing need for financial literacy among young adults.

Therefore it is pertinent to examine the current state of financial literacy of university students, compare & contrast that with literacy levels in similar and more developed markets, understand the strength & gaps in traditional sources of financial literacy information that Indian students have relied upon, and accordingly investigate corrective strategies to address gaps in money management knowledge & skills, to shape at a formative stage a healthy attitude and foster healthy behavior towards money – to earn, borrow, spend, save and invest wisely.

## Background

Financial literacy refers to the knowledge and skills necessary to handle money and money decisions in everyday life. Financial literacy is a measure of a person's ability to understand, analyze, manage and communicate personal financial matters (Rosacker, 2009). Remund summarized and classified various definitions for financial literacy into five categories: (1) knowledge of financial concepts (2) ability to communicate financial concepts (3) aptitude in managing personal finances (4) skill in making appropriate financial decisions, and confidence in planning effectively for future financial needs. (Remund, 2010). A financially literate student should be able to monitor his or her spending habits, make their monthly budget for necessities, and plan carefully before buying new luxuries. On the other hand, a low level of financial literacy will manifest in ineffective spending habits, expensive borrowing, and poor debt management (Lusardi A. , 2019). Financial literacy enables individuals to make informed decisions about money and minimize the chances of being misled on financial matters.

Financial literacy is the basis for both avoiding and solving financial problems, problems which are often the basis for a variety of unhappy experiences, generate emotional stress, and in extreme cases, even depression. Young adults are particularly susceptible to the temptations of taking excessive debt. Unaddressed and chronic Financial problems often lower self-esteem which in turn can generate or exacerbate self-destructive behavior. Inadequate financial literacy leads to a propensity to under-save, fall into a debt trap, and an inability of individuals to secure their financial well-being. Therefore, there is a need to improve the financial literacy of individuals, especially students at the university level, before they enter the job market.

Students must understand the basics of saving & investing for the future, they must understand the relationship between risk and return and learn to manage risks through diversification as well as be cognizant of the ramifications of inadequate money management. Early life financial literacy creates a foundation for future financial behavior and well-being. Early financial literacy has a snowball effect in later life, as the early exposure exponentially increases the likelihood that students will pursue more financial education later in life through magazines, books & seminars. (OECD, 2018) (Angrisani, 2020) Those who are financially literate when young will more likely take steps later in life to build wealth, and when considering using or buying more sophisticated services, such as credit cards, loans, insurance, and investments. (Bucher-Koenen, 2021)

Financial behaviors influence not only financial satisfaction but also academic performance. Rather, the impact of financial behavior on students' life satisfaction is comparable to the impact that academic satisfaction has on overall life satisfaction. (Xiao, 2009). Thus, it seems that of the many transformational learning journeys that college students undergo during higher education, one of the most important ones pertains to personal financial issues.

With a basic level of financial literacy, a person shall be able to do simple budgeting, avoid excessive debt, and manage credit. At the macro-level, the more financially literate citizens of a country, the better is their ability to deal with everyday financial situations which then, in the aggregate, would produce better well-being for the society due to aggregation of the optimal decisions at the individual level. (Lusardi A. M., 2014) Obtaining sufficient education and understanding of the basic financial knowledge and skills will enable students to be productive and successful.

Financial literacy also involves being aware of the workings of the financial market and market risk. Widespread Financial literacy is a stepping stone for an efficient market and a prerequisite to market-based economic & political debate. Individuals with high levels of financial literacy tend to make more efficient and optimal decisions compared to those who have a lower financial literacy rate. (Rutledge, 2010). Financially savvy consumers search the market options more deeply & effectively, they can monitor firms more attentively and can effectively exercise their rights to weed out dishonest & incompetent players from the market. (Williams, 2007)

**Financial Literacy Amongst Young Adults in India**

As we have discussed in the previous section, early financial literacy is a crucial foundation for raising the next generations of consumers, workers, and citizens. However a 2012 study by Visa Inc, "Visa's International Financial Literacy" found that high financial knowledge is not widespread among Indians, India ranks 23rd amongst 28 countries where the survey was conducted and less than one-fourth of Indians surveyed were found to be highly knowledgeable as measured by the OECD approach. The Children and the young have significantly lower financial literacy compared to adults because the Indian parents do not talk to their children about money management as frequently as they should. Although the survey results show that most parents are confident that teenagers today are adequately prepared to manage their finances, the reality may not reflect that confidence. In absence of money management discussions in the family, children may struggle with their finances. Basic principles of money and household finance, such as compound interest, inflation & its impact on interest rates and investment returns and the role of diversification for risk management are not well understood. This limited understanding hampers effective personal financial decisions.

Research in multiple countries has found that financial literacy levels among students & young adults have been found to differ by education level, major of study, gender, race & ethnicity, work experience, parental education, family income, parental sophistication in the use of financial saving instruments, urban vs rural divide, the frequency of discussion about money matters in the family, involvement of children in managing the family's finances cultural norms regarding borrowing & savings, and the degree of independence & experiences with saving, spending, and maintaining a bank account.

While there are many common themes of influencing factors across different nationalities, there are also cultural and contextual variations across societies that influence financial literacy. An early study in the Indian context, (Bönte W., 2012), suggests a positive relationship between financial knowledge and social interaction. It observes that word of mouth social interactions mediates the knowledge of and propensity to invest in financial instruments. In contrast to western studies, despite scoring low on financial literacy Indians displayed a sensible attitude towards managing their finances, however, youngsters tend to behave in a profligate manner (Bharucha, 2019). Also, financial literacy was identified to be poor even amongst the respondents with higher education levels probably due to a lack of focus on personal financial literacy in the general education process.

A surprising element of the financial literacy pattern amongst high school students in India is that despite high levels of numeracy skills, the students may be unable to apply that knowledge to financial computations. Also, students from poorer households may display higher financial literacy presumably because they were aware of the financial status of their families and the strategies their parents used to manage their budgets. (Jayaraman J. D., 2018). The practical real-life experiences enabled them to imbibe a better understanding of financial issues.

**Strategies to Improve Financial Literacy**

Financial literacy is an applied skill, although it is rooted in numeracy skills, many students need scaffolding to create a bridge to apply the numeracy know-how in financial decisions. Also, it has been found that Therefore a key focus of the financial literacy program must be participatory & application-oriented (Kasman, 2018). Young adults obtain financial know-how not only through formal education but also from interactions with friends, family, and media, (Sohn, 2012) therefore social networking and gamification aspects must also be considered in the design of a productive financial literacy initiative. Improvement in financial literacy among students & young adults requires coherent engagement & co-ordination among a very diverse set of stakeholders- spanning across governments, education authorities, financial regulators & central banks, NGOs, public & private players in the financial sector, university leaders, parents, and young people themselves. The success of coordination can only be catalyzed if there is a political push from the highest levels.

Like other education, financial education also decays over time, (Fernandes, 2014) moreover due to the shifting landscape of the financial services sector as well as the ever-evolving needs & wants of the young adults at various life-stages, a comprehensive life-long just in time learning approach to financial literacy is needed. It has often been observed that personal financial knowledge by itself does not always translate into healthy financial behavior, hence any financial literacy program needs to address both these aspects – imparting knowledge as well as reinforcing behavior shifts within the cultural context. Improving financial literacy levels requires a community response with cross-sectoral support, it can't be managed by any one organization alone, nor can it be tied to any one course or even a set of activities in college, gaining adequate financial literacy is an incremental lifelong journey, not a destination.

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