



ORIGINAL RESEARCH PAPER

Economics

IMPACT OF FINANCIAL LITERACY ON HOUSEHOLD SAVINGS AND INVESTMENT BEHAVIOUR: A COMPREHENSIVE REVIEW OF GLOBAL AND INDIAN EVIDENCE

KEY WORDS: Financial Literacy, India, China, Singapore, Malaysia, Japan, Ghana, Vietnam, Indonesia, Netherland, Savings, Investment, Digital Financial

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ABSTRACT

This extended research paper examines financial literacy as a critical contributor to household financial well-being across global and Indian contexts. The paper synthesizes more than twenty major empirical studies, conceptual frameworks, and experimental research findings from multiple countries including India, China, Singapore, Malaysia, Japan, Ghana, Vietnam, Indonesia, and the Netherlands. The expanding financial landscape, driven by fintech innovations and digital platforms, demands a stronger understanding of financial knowledge, behaviour, and attitudes. The analysis explores how financial literacy influences household savings patterns, investment decisions, digital financial behaviour, risk management capabilities, borrowing quality, and long-term financial planning. The review identifies key demographic determinants of literacy such as gender, income, education, age, occupation, and digital awareness. Significant attention is also given to contradictory patterns where higher financial literacy encourages excessive risk-taking and overconfidence. The study concludes with policy implications and a roadmap for future research.

INTRODUCTION

Financial literacy plays a transformative role in individual and household financial decision-making. Global financial markets have become increasingly complex due to the proliferation of credit products, investment vehicles, digital banking, and fintech applications. While financial access has increased significantly-especially in emerging economies-the ability to make informed decisions has not grown proportionately. India, for instance, has seen a substantial rise in financial inclusion through the Pradhan Mantri Jan Dhan Yojana (PMJDY), Unified Payments Interface (UPI), and rapid mobile penetration. However, financial literacy levels remain below global averages. The Reserve Bank of India (RBI), National Centre for Financial Education (NCFE), and SEBI has repeatedly emphasized the urgency of addressing financial illiteracy. International evidence further supports the idea that inadequate financial knowledge results in poor savings behaviour, irrational investment decisions, heavy dependence on informal lending, susceptibility to financial fraud, and weak retirement planning. By reviewing major studies across different socio-economic contexts, this paper aims to provide a comprehensive understanding of behavioural patterns influenced by financial literacy.

Objectives of the Study

- To examine the influence of financial literacy on household savings and investment behavior across countries.
- To identify socio-demographic determinants affecting levels of financial literacy.
- To study the role of financial literacy in borrowing behaviour, debt management, and asset accumulation.
- To explore digital financial literacy and its relationship with digital financial behavior.
- To investigate behavioral biases those mediate the relationship between literacy and financial decisions.
- To synthesize findings from experimental and observational studies into a comprehensive analytical review.
- To propose policy implications for strengthening financial literacy frameworks.

Literature Review

The literature reveals that financial literacy is a multi-dimensional construct composed of financial knowledge, skills, attitudes, and behaviours (OECD, 2016). Lusardi and Mitchell's (2014) "Big Three" and "Big Five" questions form the backbone of global assessments and are widely used in studies across continents.

1. Financial Literacy and Savings:

Behavior Studies conducted in India, China, Vietnam, and the

Netherlands show that individuals with higher financial literacy save more frequently, plan their budgets better, and maintain emergency funds. Notably, RCT evidence from Ghana demonstrated that financial literacy training increased household savings by over 7%.

2. Investment Decision-Making:

Research using large datasets, such as China's CHFS and Singapore's National Financial Capability Survey, shows that financial literacy significantly increases participation in the stock market and mutual funds. These households diversify better and avoid herd mentality.

3. Gender and Financial Literacy:

Across nearly all countries, women have lower financial literacy than men. However, several studies report that women are more disciplined in saving and less likely to engage in speculative behaviour.

4. Digital Financial Literacy:

Malaysia, Indonesia, and India report high digital platform usage, particularly among youth. However, awareness of cyber security risks- fraud, identity theft, data breaches-remains significantly low.

5. Behavioral Biases:

Japanese studies highlight that financially literate individuals may become overconfident, leading to excessive trading and risk-taking. Behavioural factors such as loss aversion, anchoring, and time discounting significantly influence outcomes.

Overall, the literature strongly supports the claim that financial literacy improves financial behavior, but also warns against ignoring behavioral and technological complexities.

METHODOLOGY

This extended research paper adopts a systematic literature review methodology. The sources include:

- Peer-reviewed journals from global finance and economics databases
- National financial literacy surveys (OECD-INFE, NCFE, CHFS, MoneySense)
- Experimental studies such as randomized controlled trials (RCTs)
- Cross-sectional and longitudinal household surveys
- Qualitative and behavioural economics research
- Studies summarizing digital financial literacy trends

The review spans over twenty major studies from 2010 to 2025, offering a comprehensive global perspective.

Major Findings

1. Financial Literacy Improves Savings:

Households with higher literacy consistently report higher

savings rates, long-term planning, and effective budgeting habits.

2. Investment Behaviour Enhances with Literacy:

Literate individuals diversify portfolios, invest in long-term products, understand risk-return tradeoffs, and avoid herd behavior. Chinese and Singaporean causal evidence confirms this relationship.

3. Responsible Borrowing and Debt Management:

Financially literate households use credit wisely, avoid high-interest informal loans, and pay debts on time. Singaporean evidence found a 23% reduction in missed payments among literate individuals.

4. Asset Accumulation:

Financial literacy facilitates the accumulation of both productive and non-productive assets. The Ghana RCT demonstrated significant improvement in productive assets among women and youth.

5. Digital Financial Literacy Gaps:

Despite widespread digital platform use, cybersecurity awareness remains poor. Many users fall prey to phishing, OTP fraud, and online scams.

6. Behavioral Biases Mediate Outcomes:

Overconfidence, present bias, and excessive optimism can undermine literacy advantages.

DISCUSSION

The findings indicate that financial literacy alone is not sufficient for optimal financial behaviour. Behavioral interventions, digital risk awareness, and structural financial reforms are necessary to bridge the gap between knowledge and behaviour. Gender gaps, rural-urban disparities, and socio-economic inequalities further shape financial decisions.

Cultural norms also play an influential role. For instance, in India and Vietnam, informal borrowing persists despite increased financial access. Similarly, in Japan, high literacy sometimes encourages speculative behaviour, contradicting traditional expectations.

Therefore, literacy programs should integrate behavioural insights, financial psychology, and digital security education.

Policy Implications

- Integrate financial literacy modules into school and higher education curricula.
- Focus on women, rural communities, low-income households, and elderly populations.
- Strengthen digital financial literacy programmes focusing on online fraud prevention.
- Incorporate behavioural economics principles into financial education.
- Increase financial counselling and advisory services through banks and fintech platforms.
- Reform government literacy initiatives to ensure practical, hands-on financial learning.
- Develop targeted financial literacy approaches using AI-based personalised learning tools.

Limitations

- Most studies rely on cross-sectional self-reported data.
- Lack of longitudinal or decade-long follow-up studies.
- Limited focus on behavioural and digital dimensions in early studies.
- Regional and income disparities limit generalizability.
- Cultural influences are often overlooked.

CONCLUSION

Financial literacy plays a pivotal role in enhancing household savings, investment practices, debt management, digital financial behaviour, and asset accumulation. However, financial literacy alone is not enough—behavioral interventions, digital awareness, and targeted policy initiatives are essential. The global evidence strongly

supports the need for comprehensive, inclusive, and technology-driven financial education systems to foster resilient financial behaviour, particularly in emerging economies like India.

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