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Digital Financial Literacy and its Impact on the Financial Behaviour of Millennials: An Empirical Investigation

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Abstract

Today's financial services sector has been significantly affected by a digital transformation driven by technology. It is now feasible to manage money and make financial plans using a smart phone, a computer, plastic money, and the cyberspace, thanks to the growing digitisation of financial products and services. The COVID pandemic has inadvertently encouraged the use of DFS. More customers have been drawn to DFS due to its easy usage, quickness, dependability, safety, and low cost. However, to use DFS successfully, one must possess digital financial literacy (DFL). DFL is crucial with regard to how digital financial technology affects saving and spending habits. The millennial generation is the one that uses digital technology most frequently in India, and a sizeable portion of them are influenced by social media when making financial decisions. This research examines the relationship between DFL, and saving and spending habits among millennials, by using a structured questionnaire framed with the help of prior studies in the area. The study focused on four dimensions of DFL: knowledge, experience, awareness, and skill. A simple correlation and regression were used to study the relationship among the variables. The study found that there exists a positive and significant relationship between financial behaviour and DFL among the millennial generation. Spending habit also positively influences saving habit.

Keywords: Digital Financial Literacy, Digital Financial Service, Saving Behaviour, Spending Behaviour, Millennials

Introduction

The Indian government is currently developing a paperless and digitised economy. People started to realise the importance of a paperless and digitised economy, especially after the government implemented demonetisation, and during the COVID pandemic, thereby increasing the use of digital financial services (Prasad et al., 2018). Nowadays, all government services are accessible to the general public online through e-Kranthi, one of the government's initiatives towards Digital India (Joshi & Goswami, 2016). The Indian government has also introduced numerous programmes to enhance Digital India, such as *Pradhan Mantri Jan Dhan Yojna, Aadhaar-enabled payment systems*, and many more. The digital financial service (DFS) industry in India has been developing progressively. Hence, today, India has a pressing demand for digital financial literacy (Prasad et al., 2018).

The recent advancements in e-commerce and digital technologies have altered customers' purchasing and saving patterns. E-commerce encompasses both the retail and financial services industries (Setiawan et al., 2022). The arrival of financial technology (Fintech) is evidence that the financial sector has been impacted by digital technology. The term 'fintech' refers to all technological advancements that enable or enhance the delivery of financial services. It enables users to do financial transactions via e-wallets, online banking, m-banking, and other channels, without visiting the bank (Rahayu et

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al., 2022). People are exposed to a wide range of risks as a result of the growing usage of digital financial services, including data theft, confidentiality issues, unregulated network operators, security threats, and poor financial and digital skills. To use digital financial services effectively, one must have digital financial literacy (Lyons & Kass-Hanna, 2021). Digital financial literacy is defined as “the ability to define, access, manage, integrate, communicate, evaluate, and create information safely and appropriately through digital technologies and networked devices for participation in economic and social life” (OECD, 2018). Digital financial literacy (DFL) is crucial when examining how digital financial technology affects saving and spending habits. If consumers are aware of DFL, excessive spending can be prevented; in addition, DFL enables individuals to save (Setiawan et al., 2022). Poor financial management has a negative impact on long-term financial security (Hung et al., 2009). Although many technologies have been developed throughout the years, the mobile phone has transformed the world, particularly consumer habits (Jack & Suri, 2011). Cobla and Osei-Assibey (2018) found that spending behaviour is affected by digital payment. Technology changes people’s lifestyles and behaviours by making work easier, making people’s lives more pleasant, influencing people’s savings for things they wish to buy, and increasing their spending (Maurer, 2012).

The millennial generation is the one that uses digital technology most frequently in India, and a sizeable portion of them are influenced by social media when making financial decisions (Sivaramakrishnan et al., 2017). Being the emerging generation, educating millennials about digital financing will become a deciding factor for a superior Indian economy (Rahayu et al., 2022). According to Cobla and Osei-Assibey (2018), the younger generation is the group that readily adopts computer and mobile phone-related technologies, so their saving and spending behaviour is more influenced by technology.

Hence, studying the effect of DFL on financial management decisions among millennials is important. Previous studies are limited to only financial literacy, without specifying financial behaviour. With the growing importance of digital financial technologies, the lack of DFL may affect individuals’ financial decisions of saving and spending. Therefore, it is important to study the impact of DFL on the financial behaviour of millennials.

Objectives

- To study the impact of digital financial literacy on saving behaviour of millennials.
- To study the impact of digital financial literacy on spending behaviour of millennials.
- To study the effect of spending behaviour of millennials on their saving behaviour.

Review of Literature and Hypothesis Development

Digital Financial Literacy

Digital financial literacy (DFL) is composed of two terms, including financial literacy and the digital platform; to make easy use of digital finances, financial literacy is needed (Tony & Desai, 2020). Digital financial literacy is the knowledge of various digital platforms and how frequently one uses them (Prasad et al., 2018). The education level has a significant role in determining awareness of the digital platform and its utilisation. Therefore, the government, banks, and other institutions must focus on awareness campaigns. Personal characteristics have an effect on the awareness and usage of the digital platform, and there is a positive relationship between awareness and use of digital financial services (Prasad et al., 2018). Digital financial literacy is described through four dimensions: knowledge of digital financial products and services; experience of digital financial products and services; awareness of digital financial risk; and skills in controlling and managing financial digital activities (P. Morgan & Trinh, 2019; Prasad et al., 2018).

DFL is the integration of financial literacy (FL) and digital literacy (DL). Evaluating their reciprocal influence on financial performance and providing education on fundamental FL ideas is still vital to the financial planning process. Therefore, DFL is a crucial driver for enabling usage and access to online financial services and products (Hung et al., 2009). Kass-Hanna et al. (2022) observed that both financial and digital literacy are vital for promoting financial inclusiveness and stability, and very few studies have examined the real effects of digital literacy on financial behaviour, compared to financial literacy. Despite extensive research on DFL in India, there are not many studies linking DFL to saving and spending behaviour (Setiawan et al., 2022). For example, Tony and Desai (2020) studied only the impact of DFL on financial inclusion. In addition, Prasad et al. (2018) focused on DFL among households. Hence, studying the impact of digital financial literacy on the spending and saving behaviour of millennials is relevant.

Although previous research has not directly looked at the impact of DFL on saving and spending behaviour, one can look at the studies related to the effect of financial literacy on saving and spending behaviour to study their connection (Setiawan et al., 2022).

The digital version of financial literacy is known as DFL (Prasad et al., 2018). Hence, it is expected that the impact of DFL and the impact of financial literacy on saving and spending habits will be the same.

Digital Financial Literacy and Saving Behaviour

Regarding the effect of DFL on saving behaviour, Sabri et al. (2010) found that financial literacy has a favourable impact on saving behaviour among college students in Malaysia, where students' saving habits rises along with their financial literacy, and as a result, their financial issues diminish. This means financial literacy was negatively correlated with financial issues and positively correlated with better saving habit. Jamal Amer et al. (2015) stated that the saving behaviour of young adults was affected by financial literacy, and financial education should be provided to students from a young age so that when they are adults, they would be able to manage their savings, income, and retirement planning. Henager and Cude (2016) observed that both short-term and long-term financial behaviour were affected by financial literacy; short-term financial behaviour includes savings behaviour. P. Morgan and Trinh (2019) found that financial literacy has an impact on both savings behaviour and financial inclusion. As financial literacy increases, both formal and informal savings behaviour among people increases. Yong Hui and Tan Kock-Lim (2017) observed that financial literacy enables young people to select appropriate financial goods and services to save more money. Therefore, financial literacy influences young people's saving behaviour favourably. Those who comprehend the fundamentals of finance can handle debt more effectively.

H1: Digital financial literacy has a positive effect on saving behaviour.

Digital Financial Literacy and Spending Behaviour

Regarding the impact of DFL on spending behaviour, Perry (2011) found that millennials have a poor grasp of credit and financial concepts. They have no control over their spending, and a majority of them have trouble controlling credit card spending. Hence, financial literacy has a large impact on millennials' spending habits, since they are more exposed to financial services. Fraczek and Klimontowicz (2015) found that youth who lack financial literacy have excessive spending habits. Through financial literacy, the youth's ability to manage their money, use credit cards wisely, and make sound financial decisions can be improved (Allgood & Walstad, 2016). Wangmo (2018) found that people with higher financial literacy have better spending habits. Hence, financial literacy affects people's spending patterns; he also found that financially literate people are better at controlling their spending than those who are not.

H2: Digital financial literacy has a positive effect on spending behaviour.

Saving and Spending Behaviour

PP Ajeesh (2019) found that saving and spending are positively correlated. Spending habits among youth decreased as savings increased. Jeevitha and Priya (2019) found that the saving habits of college students in Coimbatore are affected by their spending habits, and with the advent of digital technology, students now spend more than they save. Velankar et al. (2015) found that spending habit has a great influence on saving habit; they found that spending behaviour as an exogenous variable has an impact on the savings behaviour of non-working women. De et al. (2010) found that spending behaviour among students was correlated with saving behaviour; students exhibit ineffective financial behaviour if their spending pattern was less.

H3: Spending behaviour has a positive effect on saving behaviour.

Research Methodology

This survey concentrated on respondents from the millennial generation who utilise online shopping and financial services. According to Carlson Elwood (2008), those who were born between 1980 and 1996 are known as the millennial generation. The sample contains 325 millennials from Kerala. The analysis method used in the study is Statistical Package for the Social Sciences (SPSS version 25.0).

Table 1: Demographic Profile of Respondents

Demographic Variables	*Category*	*Frequency*	*Percentage*
Gender	Male	168	52
	Female	156	48
Education	Undergraduate	3	1
	Graduate	88	27
	Post-graduate	233	72
Income	Below 1 Lakh	113	35
	1-3 Lakhs	97	30
	3-5 Lakhs	45	14
	5-7 Lakhs	6	2
	Above 7 Lakhs	63	19

Around 93% of the millennials have bank accounts and 75% of them have mobile money applications to access their bank account.

Data Collection

The data was gathered from 325 millennials in Kerala through a structured online questionnaire, with the help of the snowball technique. The questionnaire was circulated to respondents using the WhatsApp application.

Measurement

The study used digital financial literacy as the independent variable and spending and saving behaviour as the dependent variables. In the third hypothesis, saving was the dependent variable and spending was the independent variable. Various indices from earlier studies were utilised to test each variable. These variables are rated on a five-point Likert scale. Four variables have been used to describe digital financial literacy: knowledge, experience, skills, and awareness (Morgan & Trinh, 2019; Prasad et al., 2018). The measurement variables for saving and spending behaviour are adopted from previous studies.

Findings

Pearson correlation analysis is used to test the relationship between variables, as shown in Table 2.

Table 2: Pearson Correlation Analysis

Variables	*1*	*2*	*3*
AVG_DFL	1		
AVG_SAV	.450**	1	
AVG_SP	.526**	.797**	1

**Correlation is significant at the 0.01 level (2-tailed).

- There exists a positive and statistically significant correlation between the digital financial literacy and saving habit ($r = .450$, $n = 324$, $p < 0.000$).
- There is a strong positive and statistically significant correlation between digital financial literacy and spending habit ($r = .526$, $n = 324$, $p < 0.000$).
- There exists a strong positive and statistically significant correlation between saving and spending habits ($r = .797$, $n = 324$, $p < 0.000$).

Based on the result, hypotheses H1, H2, and H3 were accepted.

The findings of the regression analysis are as follows:

Table 3: Impact of Digital Financial Literacy on Saving Behaviour

Model Summary					
Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin Watson*
1	.450[a]	.202	.200	.67218	1.797

a. Predictors: (Constant), AVG_DFL

b. Dependent Variable: AVG_SAV

- To study the impact of digital financial literacy on saving habits, simple linear regression was used. To forecast saving habits based on DFL, the equation used was $\hat{y} = 0.831 + 0.853$. The r^2 was .202; that is, 20.2% of the change in dependent variable (saving habit) was described by the independent variable

(DFL). Savings habit increased by roughly 0.853 for every increment in DFL. Hence, according to simple linear regression, DFL and savings are highly correlated ($p < 0.001$).

Table 4: Impact of Digital Financial Literacy on Spending Behaviour

Model Summary					
Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin Watson*
1	.526[a]	.277	.275	.75993	1.775

a. Predictor: (Constant), AVG_DFL

b. Dependent Variable: AVG_SP

- To check whether digital financial literacy affects spending habits, a simple linear equation, $\hat{y} = 0.596 + 1.184$, was applied. The value of r^2 was .526; this means 52.6% of variation in the dependent variable (spending habit) was described by the independent variable (DFL). For every rise in the DFL, spending habit rises by about 1.184. Therefore, as per the simple linear equation, spending is strongly correlated to DFL ($p < 0.001$).

Table 5: Impact of Saving Behaviour on Spending Behaviour

Model Summary					
Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin Watson*
1	.797[a]	.635	.634	.45484	1.826

a. Predictors: (constant), AVG_SP

b. Dependent Variable: AVG_SAV

- To study the influence of spending habits on saving habits, a simple linear equation was used. The equation $\hat{y} = .530 + .671$ was carried out to forecast the influence of spending habit on saving habit. The value of r^2 was .797; this means 79.7% change in the dependent variable (saving habit) was described by the independent variable (spending habit). Saving habit increased by roughly 0.671 for every increment in spending habit. Hence, as per a simple linear equation, saving and spending habits are highly correlated ($p < 0.001$).

Hence, from the above findings, all the hypotheses are accepted.

Table 6: Result of the Hypotheses based on Simple Correlation and Regression Analysis

Hypothesis	*Result*
H1: Digital financial literacy has a positive effect on saving behaviour.	Accepted
H2: Digital financial literacy has a positive effect on saving behaviour.	Accepted
H3: Spending behaviour has a positive effect on saving behaviour.	Accepted

Conclusion

The research examines the influence of DFL on the millennials' financial behaviour. Here, financial behaviour was measured through two variables: saving and spending habits; DFL was measured through four dimensions: knowledge, experience, awareness, and skill. The study used simple correlation and regression for the analysis of 324 samples collected. The study found that DFL has a positive and significant influence on both saving and spending habits. It is also found that spending habit positively influences saving habits. This means that the millennial generation exhibits superior financial behaviour, including saving and spending habits, and the greater their level of DFL. Based on the findings, we can conclude that DFL is inevitable for better financial management. DFL is necessary for the financial plan of the millennial generation, because they are more exposed to the digital world. One of the leading factors of a nation's economic progress is financial literacy; hence, the government and other responsible authorities must make sure that DFL initiatives are executed to improve digital financial skills, especially among the younger generation.

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