



Role of financial literacy in shaping saving behaviour in India

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Abstract

This study explores the critical role of financial literacy in shaping the saving behaviour of individuals in India. As households navigate a complex financial environment with diverse saving and investment options, the ability to understand and apply financial knowledge has emerged as a key determinant of disciplined and informed saving practices. The paper examines how financial literacy influences individuals' budgeting, investment choices, risk management, and long-term financial planning. By highlighting the relationship between financial knowledge and saving behaviour, the study emphasizes the importance of targeted financial education programs, awareness campaigns, and tailored financial products in promoting responsible financial decision-making. The findings suggest that enhancing financial literacy can improve the use of formal financial instruments, foster systematic saving habits, and increase financial resilience, ultimately contributing to individual financial security and broader economic stability. The study provides valuable insights for policymakers, financial institutions, and educators seeking to enhance financial well-being and promote sustainable saving behaviour across diverse population segments in India.

Keywords: Financial literacy, saving, household, financial awareness

Introduction

In the modern economic environment, individuals face increasing financial complexities due to the availability of diverse financial products, changing consumption patterns, and uncertainties in income and markets. Financial literacy, defined as the ability to understand and apply financial concepts such as budgeting, saving, investment, and risk management, has become a critical determinant of effective financial decision-making (Firli, 2017) ^[4]. In India, where a large proportion of the population still relies on traditional saving methods, the importance of financial literacy in promoting informed saving behaviour cannot be overstated (Reddy & Prasad, 2024) ^[20]. Understanding the relationship between financial knowledge and saving behaviour is essential for ensuring personal financial security, fostering responsible economic behaviour, and supporting broader financial inclusion initiatives.

Saving behaviour, which refers to the tendency of individuals to set aside part of their income for future needs, investments, or emergencies, plays a vital role in personal and national economic stability (Jumena *et al.*, 2022) ^[8]. While savings have traditionally been influenced by cultural norms, income levels, and family responsibilities, recent changes such as the growth of digital financial services, credit accessibility, and evolving consumption patterns have introduced both opportunities and challenges for effective saving (Sikka & Bhayana, 2024) ^[22]. Studies suggest that individuals with higher financial literacy are better equipped to select appropriate saving instruments, plan budgets efficiently, and make rational financial decisions, thereby improving their financial resilience (Katnic *et al.*, 2024) ^[9]. Despite increasing awareness initiatives and government programs aimed at enhancing financial literacy, a significant portion of the Indian population continues to demonstrate low financial awareness, leading to suboptimal saving behaviour and limited utilization of formal financial instruments (Reddy & Prasad, 2024) ^[20]. This gap underscores the need to examine how financial literacy

influences saving decisions and to identify the factors that promote or hinder disciplined saving habits among different demographic groups.

Moreover, the role of socio-economic and demographic factors such as age, gender, education, income level, and urban-rural location cannot be overlooked in shaping saving behaviour. Research indicates that financial literacy alone may not be sufficient to ensure optimal saving practices; external influences such as family responsibilities, peer behaviour, financial attitudes, and exposure to financial advisory services also play a significant role (Alekan *et al.*, 2018) ^[1]. Understanding the interplay between financial knowledge and these socio-economic factors is critical for designing targeted interventions that can effectively improve saving behaviour across diverse population segments in India. Therefore, this study aims to explore the role of financial literacy in shaping saving behaviour in India, examining how knowledge of financial concepts, awareness of financial products, and individual socio-economic characteristics impact saving patterns. By highlighting the relationship between financial literacy and saving behaviour, the study seeks to provide insights that can inform policymakers, financial institutions, and educators in designing effective interventions to promote sustainable financial habits and long-term economic well-being.

Financial Literacy

Financial literacy refers to the ability of individuals to understand, interpret, and apply financial concepts and information to make informed and effective decisions regarding their personal finances (Zait & Berteau, 2015) ^[26]. It encompasses knowledge of budgeting, saving, investing, credit management, risk assessment, and financial planning, enabling individuals to manage their income, expenses, and long-term financial goals efficiently (Yoganandham, 2025) ^[25]. In a rapidly evolving financial environment, where individuals are exposed to complex financial products and

services, financial literacy plays a critical role in promoting responsible financial behaviour and reducing vulnerability to poor financial choices (Hastings *et al.*, 2013) ^[6].

In the Indian context, financial literacy has gained increasing attention due to the government's initiatives for financial inclusion, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), digital banking expansion, and the promotion of insurance and investment schemes (Jalota *et al.*, 2024) ^[7]. Despite these efforts, studies indicate that a significant proportion of the population still lacks adequate knowledge about basic financial concepts, leading to suboptimal saving behaviour, over-indebtedness, and limited participation in formal financial systems (Capuano & Ramsay, 2011) ^[2]. Factors such as education level, income, occupation, gender, and urban-rural location significantly influence the level of financial literacy among individuals, highlighting disparities that affect their financial decision-making capacity (Xu *et al.*, 2024) ^[24].

Financial literacy not only improves individuals' ability to save and invest wisely but also encourages long-term financial planning, risk management, and the use of formal financial institutions (Kyeyune & Ntayi, 2025) ^[13]. Individuals with higher financial knowledge are more likely to maintain emergency funds, invest in retirement plans, and select suitable financial instruments based on risk-return considerations (N. Kumar, 2024) ^[12]. Additionally, financial literacy empowers individuals to critically evaluate financial advice, avoid fraudulent schemes, and make sustainable financial decisions, ultimately contributing to economic stability and inclusive growth at the national level (Kyeyune & Ntayi, 2025) ^[13]. Given its pivotal role in shaping financial behaviour, financial literacy has emerged as a fundamental determinant of saving patterns, particularly in developing economies like India (Lahiri & Biswas, 2022) ^[14]. By enhancing awareness, knowledge, and skills related to personal finance, financial literacy can help individuals adopt disciplined saving habits, optimize resource allocation, and achieve both short-term and long-term financial objectives (Shi *et al.*, 2025) ^[21]. Therefore, understanding the level and impact of financial literacy is essential for designing targeted interventions that can improve saving behaviour and promote financial well-being across diverse population segments in India.

Saving Behaviour

Saving behaviour refers to the patterns, habits, and tendencies of individuals to set aside a portion of their income for future needs, investments, emergencies, or long-term financial goals (Jumena *et al.*, 2022) ^[8]. It is a critical aspect of personal financial management, reflecting not only economic capacity but also attitudes, awareness, and priorities regarding money (Ghimire & Dahal, 2024) ^[5]. Effective saving behaviour contributes to financial stability, reduces vulnerability to unexpected expenses, and enables wealth accumulation over time. It also plays a vital role in supporting broader economic development by providing funds for investment and capital formation at the macroeconomic level (Yoganandham, 2025) ^[25].

In India, saving behaviour has traditionally been influenced by cultural norms, family obligations, and socio-economic factors. Households have relied on a combination of formal and informal saving instruments, including bank deposits, post office schemes, gold, and community-based savings groups (Dimopoulou, 2019) ^[3]. However, over the last

decade, several factors have contributed to changes in saving patterns, including rising household income, urbanization, digital financial services, and exposure to diverse investment opportunities (Liu *et al.*, 2024) ^[15]. Despite these advancements, challenges such as lack of awareness about financial products, low financial literacy, and easy access to credit have sometimes led to irregular or inadequate saving habits (Kefela, 2010) ^[10].

Empirical studies indicate that saving behaviour is shaped not only by financial capacity but also by knowledge, attitudes, and perceptions regarding money management (Ghimire & Dahal, 2024) ^[5]. Individuals with higher financial literacy are more likely to plan savings systematically, choose appropriate saving instruments, and maintain a balance between consumption and long-term financial goals (Kumar, 2024) ^[12]. Conversely, low financial literacy often results in reliance on informal saving methods, underutilization of banking services, and vulnerability to financial mismanagement (Lahiri & Biswas, 2022) ^[14]. Socio-demographic factors, such as age, gender, education, income, and urban-rural location, also influence saving behaviour, creating disparities in financial preparedness and resource allocation across different population groups (Alekan *et al.*, 2018) ^[1].

Understanding saving behaviour in India is critical for promoting financial inclusion, encouraging disciplined financial practices, and achieving long-term economic stability (Pandey *et al.*, 2022) ^[18]. By analyzing the factors that influence how and why individuals save, researchers and policymakers can design targeted interventions, educational programs, and financial products that align with the needs and capacities of diverse population segments. In this context, financial literacy emerges as a key determinant, linking knowledge, awareness, and informed decision-making to improved saving habits and financial security (Katnic *et al.*, 2024) ^[9].

Financial Literacy and Saving Behaviour

Financial literacy and saving behaviour are closely interconnected, as the ability to understand and apply financial knowledge directly influences how individuals manage and allocate their resources. Financially literate individuals possess awareness of budgeting, interest rates, inflation, investment options, and risk-return trade-offs, which enables them to make informed decisions about saving and spending (Jalota *et al.*, 2024) ^[7]. In contrast, individuals with limited financial knowledge often struggle to prioritize savings, choose appropriate financial instruments, or develop long-term financial plans, leading to inefficient resource allocation and financial vulnerability (Shi *et al.*, 2025) ^[21].

In the Indian context, studies suggest that financial literacy significantly affects saving behaviour across different demographic groups. Individuals with higher financial literacy are more likely to maintain systematic saving patterns, utilize formal banking channels, and diversify their savings into instruments such as fixed deposits, recurring deposits, mutual funds, and retirement accounts (Dimopoulou, 2019) ^[3]. They are also better prepared for emergencies and unexpected expenses, as they understand the importance of creating contingency funds. Conversely, a lack of financial knowledge often results in irregular savings, over-reliance on informal mechanisms such as cash holdings or community-based lending, and susceptibility to financial mismanagement (Kumar *et al.*, 2022) ^[11].

Empirical evidence highlights that financial literacy not only influences the quantity of savings but also the quality and efficiency of saving behaviour. Individuals who understand the principles of compound interest, inflation, and risk management are more likely to choose instruments that offer higher returns while minimizing risk, thereby optimizing their financial outcomes (Tjiwidjaja, 2025) ^[23]. Moreover, financial literacy encourages disciplined saving habits by fostering goal-setting behaviour, prioritization of future needs, and critical evaluation of financial products (Liu *et al.*, 2024) ^[15]. This link between knowledge and practice underscores the strategic role of financial literacy in enhancing financial inclusion, promoting responsible financial behaviour, and supporting economic security at both the individual and household levels (Kyeyune & Ntayi, 2025) ^[13].

Given the diverse socio-economic landscape in India, the relationship between financial literacy and saving behaviour is further influenced by factors such as education, income, gender, age, and urban-rural location (Aleka *et al.*, 2018) ^[1]. Studies show that individuals with similar financial knowledge may display different saving patterns depending on these demographic characteristics, suggesting the need for targeted financial education programs (Zait & Berteau, 2015) ^[26]. Therefore, understanding the interplay between financial literacy and saving behaviour is essential for designing effective policies and interventions that encourage sustainable financial habits, improve financial preparedness, and contribute to long-term economic well-being across the population.

Implications

The findings of this study have significant implications for policymakers, financial institutions, educators, and individuals aiming to improve financial well-being in India. First, the study highlights the critical role of financial literacy in shaping saving behaviour, emphasizing that knowledge of financial concepts, investment options, and money management strategies directly influences individuals' ability to save effectively (Owusu *et al.*, 2020) ^[17]. This insight underscores the need for targeted financial education programs and awareness campaigns that not only provide information but also enhance practical skills for budgeting, goal-setting, and long-term financial planning (Mancone *et al.*, 2024) ^[16].

Second, financial institutions and banks can leverage these findings to design products and services that are user-friendly, accessible, and aligned with the financial literacy levels of different demographic segments. Customized financial solutions, coupled with guidance on investment and savings strategies, can encourage disciplined saving habits, improve utilization of formal financial systems, and reduce dependence on informal channels (Ugochukwu, 2024). Furthermore, understanding the socio-economic factors that influence saving behaviour enables stakeholders to address disparities in financial inclusion, particularly among women, rural populations, and low-income households.

Finally, at a broader societal level, promoting financial literacy can contribute to economic stability, wealth accumulation, and resilience against financial shocks. By empowering individuals to make informed decisions, improve resource allocation, and plan for future needs, enhanced financial literacy fosters responsible financial

behaviour and sustainable personal finance practices (Zulfikri & Faqihah, 2024) ^[27]. These implications underline the strategic importance of financial literacy initiatives as a tool not only for individual empowerment but also for supporting inclusive economic growth and long-term financial security in India.

Conclusion

In conclusion, this study highlights the pivotal role of financial literacy in shaping the saving behaviour of individuals in India. Financially knowledgeable individuals are better equipped to make informed decisions which directly contributes to disciplined and efficient saving practices. The research underscores that saving behaviour is influenced not only by financial knowledge but also by socio-economic and demographic factors. Individuals with higher financial literacy tend to adopt systematic saving patterns, utilize formal financial instruments effectively, and demonstrate greater financial resilience in the face of uncertainties. The study also emphasizes the strategic importance of promoting financial literacy through targeted educational programs, awareness campaigns, and customized financial services. By enhancing individuals' ability to understand and apply financial concepts, such initiatives can encourage long-term financial planning, improve resource allocation, and strengthen financial security. Ultimately, fostering financial literacy is not only a tool for empowering individuals but also a pathway toward greater financial inclusion, economic stability, and sustainable growth in India. The findings of this research provide valuable insights for policymakers, financial institutions, and educators aiming to improve saving behaviour and financial well-being across diverse population segments.

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