ISSN: 2582-7219

International Journal of Multidisciplinary Research in Science, Engineering and Technology

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

Impact Factor: 8.206

Volume 9, Issue 4, April 2026

www.ijmrset.com ijmrset@gmail.com +91 6381 907 438 +91 63819 07438

© 2026 IJMRSET | Volume 9, Issue 4, April 2026 | DOI:10.15680/IJMRSET.2026.0904225

ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 8.206| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

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The Influence of Financial Literacy on Personal Savings Behaviour across Different Income Levels in Urban India

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ABSTRACT: This study examines the influence of financial literacy on personal savings behaviour across different income levels in urban India. Using a quantitative descriptive-cum-analytical design, primary survey data were collected from 185 urban respondents. Financial literacy was operationalised through objective knowledge, subjective confidence, and behavioural literacy dimensions; personal savings behaviour was measured as a multidimensional construct covering regularity, formality, budgeting, emergency preparedness, and goal orientation. Statistical techniques included descriptive statistics, reliability analysis, exploratory factor analysis, Pearson correlation, Welch's ANOVA, and linear regression. The overall financial literacy index did not significantly predict savings behaviour, and no significant group differences in literacy or savings were found across income levels. However, behavioural literacy showed a moderate, statistically significant positive association with savings behaviour ($r = 0.412$, $p < 0.001$), explaining approximately 17% of the variance. These findings suggest that practical financial capability — rather than factual knowledge alone — is the more proximate driver of household saving practices in urban India. The study contributes a nuanced view to the financial literacy–savings literature and highlights measurement limitations and the need for behaviour-focused financial education interventions.

KEYWORDS: Financial Literacy; Personal Savings Behaviour; Income Groups; Urban India; Behavioural Literacy; Household Finance

I. INTRODUCTION

Financial literacy has evolved from a narrow banking-awareness concept into a broad developmental capability encompassing budgeting, risk management, retirement preparedness, and long-term asset formation. In India, rapid expansion of bank account ownership, digital payments, mobile finance, micro-insurance, and mutual fund access has transformed the urban financial environment. Yet access alone does not guarantee sound behaviour; a person may own a bank account while failing to budget regularly, maintain emergency funds, or allocate income prudently.

This gap between financial access and effective financial behaviour is acutely visible in urban India, where households face higher living costs, consumption pressure, credit-based lifestyles, and a vastly wider range of financial products. Personal savings behaviour — the regularity, intentionality, formality, and goal orientation of saving — has become a crucial indicator of household financial health. The National Strategy for Financial Education (2020–2025) treats financial literacy as a combination of awareness, knowledge, skills, attitude, and behaviour, placing active saving among its core strategic concerns.

Income level is a particularly important contextual variable. Low-income earners may face liquidity constraints that limit the conversion of knowledge into savings; middle-income groups may experience lifestyle inflation and debt pressure; and high-income individuals may shift toward investment vehicles rather than conventional savings instruments. The present study therefore investigates not only whether financial literacy influences savings behaviour, but whether this influence differs across income groups — an empirical question with both theoretical and policy significance.

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II. REVIEW OF LITERATURE AND RESEARCH GAPS

Foundational work by Lusardi and Mitchell (2007) established financial illiteracy as widespread and economically consequential, particularly for retirement planning. Bernheim and Garrett (2003) demonstrated that employer-based financial education increased household saving and asset accumulation. Hilgert, Hogarth, and Beverly (2003) linked financial knowledge directly to cash-flow management, credit discipline, and saving practices. Huston (2010) argued that literacy must encompass both understanding and the practical ability to apply personal finance information.

Van Rooij, Lusardi, and Alessie (2011, 2012) linked literacy to investment participation and retirement wealth accumulation, showing that literate individuals translate abstract future needs into disciplined present-day saving. Jappelli and Padula (2013) treated literacy as human capital that improves intertemporal choice, while Johnson and Sherraden (2007) introduced the 'financial capability' concept, emphasising that institutional opportunity mediates the literacy–behaviour relationship.

In the Indian context, Agarwalla et al. (2015) documented weak literacy among urban working young, with socio-demographic factors shaping capability levels. Kiliyanni and Sivaraman (2016) uncovered a perception-reality gap in Kerala. Calderone et al. (2018) provided rare causal evidence that literacy interventions can improve savings among low-income households in Uttar Pradesh. The NCFE–FLIS (2019) confirmed that urban adults outperform rural counterparts but remain below global literacy benchmarks. Lahiri and Biswas (2022) found literacy–behaviour links more pronounced for urban, confident respondents. Ananda, Kumar, and Dalwai (2024) showed that risk aversion and financial confidence moderate the literacy–savings relationship.

Collectively, these studies reveal that: (i) the literacy–savings link is positive but not automatic; (ii) behavioural capability may matter more than factual knowledge; (iii) income and institutional context condition the relationship; and (iv) savings behaviour is multidimensional. The present study addresses identified gaps by focusing explicitly on income-stratified urban India, combining objective and behavioural literacy dimensions, and treating savings behaviour as a multidimensional outcome variable.

III. RESEARCH METHODOLOGY

3.1 Research Design and Objectives

A quantitative, descriptive-cum-analytical cross-sectional design was adopted using structured questionnaire-based primary data. The unit of analysis was the individual adult income earner in urban India. Six specific objectives guided the study: (RO1) measuring financial literacy across objective, subjective, and behavioural dimensions; (RO2) assessing the level and pattern of personal savings behaviour; (RO3) analysing the effect of financial literacy on savings behaviour; (RO4) comparing literacy and savings across income groups; (RO5) testing income-level moderation; and (RO6) generating policy implications for financial education.

3.2 Hypotheses

Five null hypotheses were tested: H01: Financial literacy has no significant positive influence on savings behaviour. H02: There is no significant difference in financial literacy across income levels. H03: There is no significant difference in savings behaviour across income levels. H04: Income level does not moderate the literacy–savings relationship. H05: Objective and behavioural literacy do not predict use of structured formal savings.

3.3 Sample and Data Collection

Primary data were collected from 185 urban respondents residing in metropolitan and Tier I cities of India. A structured questionnaire with four sections covered demographic profile, objective financial literacy (knowledge-based items on interest, inflation, risk-return, diversification, insurance, and digital safety), subjective/behavioural literacy (Likert-scale items on confidence and practical capability), and personal savings behaviour (items covering regularity, budgeting, emergency funds, formal channels, and goal orientation). The final analytical sample varied by model (120–185 valid responses depending on the technique applied).

3.4 Statistical Techniques

Analyses were conducted in sequence: (1) Descriptive statistics for sample characterisation; (2) Reliability analysis (Cronbach's alpha) for scale consistency; (3) Exploratory Factor Analysis (EFA) to test construct validity; (4) Pearson

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correlation for bivariate association; (5) Welch's ANOVA for group comparisons, controlling for heterogeneity of variance; and (6) Ordinary Least Squares regression for prediction. Significance was evaluated at the conventional $p < 0.05$ threshold.

IV. DATA ANALYSIS AND FINDINGS

4.1 Sample Profile

The sample was well-educated and predominantly middle-income, with a near-equal gender split. High educational attainment likely contributed to the observed moderate-to-high financial literacy: 59.2% of respondents were classified as 'highly financially literate,' with a mean literacy score of 11.13 out of 15. Despite this, personal savings behaviour remained at only a moderate level (mean = 3.39 out of 5), illustrating the intention–action gap widely observed in behavioural finance research.

4.2 Reliability and Factor Structure

Reliability analysis revealed weak internal consistency across all three scales: Cronbach's alpha was below acceptable thresholds for objective literacy, subjective literacy, and savings behaviour. Exploratory factor analysis did not establish a meaningful latent structure, as the items failed to load cleanly onto stable common factors. These psychometric limitations constrained the inferential conclusions of the study and underline the need for improved scale development in future research.

4.3 Correlation Results

Pearson correlation analysis produced the study's most substantive finding. Behavioural literacy demonstrated a moderate, statistically significant positive association with savings behaviour ($r = 0.412$, $p < 0.001$). By contrast, objective literacy, subjective literacy, and the composite financial literacy index did not show significant direct relationships with savings behaviour. This pattern indicates that practical, action-oriented financial capability is more directly linked to saving outcomes than factual knowledge or self-assessed confidence alone.

Table 1: Summary of Hypothesis Testing Results

Hypothesis	Test Applied	Result	Decision
H01: FL index → Savings Behaviour	OLS Regression	β not significant ($p > 0.05$)	Fail to Reject H01
H02: FL differs across income groups	Welch's ANOVA	$F(2,64.3)=0.402$, $p=0.670$	Fail to Reject H02
H03: Savings differs across income groups	Welch's ANOVA	$F(2,68)=0.275$, $p=0.761$	Fail to Reject H03
H04: Income moderates FL–Savings link	Planned: Hierarchical Reg.	Not formally tested	Inconclusive
H05: Obj. & Behav. FL → Formal Savings	Multiple Regression	$F(13,171)=1.34$, $p=0.192$	Fail to Reject H05

4.4 Regression and ANOVA

The OLS regression model for savings behaviour was not statistically significant at the model level. The composite financial literacy index did not significantly predict savings behaviour. Welch's ANOVA confirmed no significant differences in either the financial literacy index or savings behaviour scores across low-, middle-, and high-income groups. Mean savings scores were almost identical across income categories, challenging the assumption that income-based behavioural heterogeneity in savings is substantial within this urban sample.

The regression model predicting use of structured formal savings channels ($F(13,171) = 1.34$, $p = 0.192$, $R^2 = 9.27\%$) was also non-significant. Neither objective literacy ($p = 0.983$) nor behavioural literacy ($p = 0.198$) significantly predicted formal savings adoption, although certain occupational categories (retired, salaried, self-employed/business) showed significant positive coefficients relative to homemakers, suggesting that occupation-based factors may operate independently of literacy levels.

4.5 Barriers to Saving

The primary barriers to saving identified by respondents were high household expenses (27.5%), EMI/debt obligations (19.2%), and low income (17.5%). These structural constraints highlight a fundamental challenge: financial literacy interventions, however well-designed, cannot overcome binding income and expenditure pressures. This has direct implications for the design of savings promotion policies.

Table 2: Reported Barriers to Saving

Barrier	% Respondents
High household expenses	27.5%
EMI / debt obligations	19.2%
Low income	17.5%
Lack of savings discipline	14.8%
Other / multiple factors	21.0%

V. DISCUSSION AND THEORETICAL IMPLICATIONS

The findings offer a nuanced challenge to the straightforward human-capital prediction that greater financial literacy automatically produces better savings outcomes. The absence of a significant effect for the composite literacy index — embedded within a well-educated, moderately literate urban sample — echoes broader literature suggesting that literacy is necessary but not sufficient for behavioural change (Hilgert et al., 2003; Johnson & Sherraden, 2007).The finding that behavioural literacy (practical financial capability) is more strongly associated with savings behaviour than objective or subjective literacy aligns with the Theory of Planned Behaviour (TPB). TPB emphasises that intention is converted to action through perceived behavioural control; factual knowledge may raise awareness, but the capacity to plan, budget, and act in financially disciplined ways is the proximate determinant of saving. This mirrors Barrafrem, Tinghög, and Västfjäll's (2024) argument that different stages of savings behaviour may respond to different dimensions of literacy.

The absence of income-group differences in either literacy or savings behaviour is a counterintuitive but theoretically interpretable finding. It may reflect the relatively narrow income heterogeneity within an urban, educated sample. Alternatively, it supports Johnson and Sherraden's (2007) capability argument: within urban India, access to digital finance tools and formal financial institutions may have partially equalised behavioural opportunities across income tiers. The structural barriers reported (expenses, debt, low income) suggest, however, that beneath observable behaviour, significant underlying constraints differ by income — constraints that survey-measured behaviour scores may not fully capture.From the Behavioural Life-Cycle perspective, the weak composite literacy effect combined with the stronger behavioural literacy correlation suggests that self-regulatory behaviours — budgeting, goal-setting, disciplined allocation — are the operational mechanisms through which literacy translates into saving. Programmes that focus on financial knowledge transmission alone may therefore be insufficient; curricula designed to build budgeting habits and self-control routines are likely to have greater behavioural impact.

VI. CONCLUSION AND RECOMMENDATIONS

This study examined the influence of financial literacy on personal savings behaviour across income levels in urban India using survey data from 185 respondents. The principal finding is that the composite financial literacy index does not significantly predict savings behaviour, and no significant income-group differences were found in either literacy or savings. However, behavioural literacy — the practical, action-oriented dimension of financial capability — demonstrated a meaningful and statistically significant positive association with savings behaviour ($r = 0.412$, $p < 0.001$), explaining approximately 17% of the variance in savings outcomes.

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These results carry several policy and managerial implications. First, financial education programmes in urban India should shift emphasis from knowledge transmission to behavioural skills development — specifically, practising budgeting, automatic saving mechanisms, goal-setting, and debt management. Second, financial institutions designing savings products and outreach should recognise that structural barriers (high expenses, EMI obligations) constrain the literacy–savings link; product features such as micro-savings, small-denomination recurring deposits, and employer-linked payroll savings could reduce friction. Third, policy makers should not assume that a single literacy curriculum will work uniformly across income groups; tailoring content to occupational contexts (salaried, self-employed, gig workers) may be more effective than income-based segmentation.

Methodologically, the study's weak psychometric performance highlights a critical need for better-validated, Indian-context-specific scales for both financial literacy and savings behaviour. Future research should employ confirmatory factor analysis with improved instruments, longitudinal designs to establish temporal ordering, explicit moderation tests using hierarchical regression with interaction terms, and mixed-methods components to explain why knowledge does not consistently convert to behaviour.In sum, this study advances a refined understanding of household financial behaviour in urban India: practical financial capability matters more than formal knowledge for savings outcomes; income-based differences in urban savings behaviour may be subtler than commonly assumed; and improving savings behaviour requires complementary approaches addressing both behavioural skills and structural economic constraints.

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