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Decoding Financial Literacy Gaps and Their Influence on Modern Banking Choices

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Abstract: The contemporary financial system depends on the financial literacy of the individuals to determine how individuals carry themselves in the banks. Since digital banking service is growing at very high rates, customers are the only ones who can be presumed to be making good decisions, which include saving, investments and loans, and electronic payment systems. However, there is a high degree of differentiation of financial literacy at each level of the society, which affects the decisions of the banking and in certain instances, poor financial decision-making is at stake. The proposed research paper will review financial literacy among the customers and the effect of the demand of the non- outdated banking products and services on lack of literacy. The article illustrates the financial literacy and decision to use it in the banking predicament via descriptive and inferential statistics. They have pointed out that, the degree of financial literacy is reflected by the enhanced adoption of new banking services and automatic decision-making as far as informed decision-making is concerned. The banks, policymakers and teachers can find the research useful as a way of empowering them to formulate good tenets of financial literacy.

Keywords: Financial Literacy, Banking Choices, Digital Banking, Customer Awareness, Financial Inclusion

Introduction:

The changes in the industry are due to the globalization, demand pressure placed on the industry by the consumers, drastic industry shifts due to change in technology and change in the regulatory environment that operates the banking and financial services industry in the last few years have introduced a few fundamental changes to the industry. The banking is no longer effectively placed to take deposits, issue loans but has evolved as an based financial services delivery system offering possibilities to deal with internet payment, mobile banking, internet banking and automated services, wealth management services, insurances and fintech-y solutions. Banking is an enabling aspect of the prevailing economic existence since it introduces the modern economy to the speed, convenience, transparency and customer considerate services. This is then outweighed by the fact that presently, the individuals are expected to influence a peak frequency of, and extremely complicated fiscal choices, investments, involvement in credit and cyber transactions in most cases.

This progressive development of a complex financial scenario nowadays became a life skill, as far as financial literacy is involved. Financial literacy could be described as the ability of people to reflect the simple financial jargon such as dealing with money, budgeting, savings, and interest, inflation, credit, risk and returns and the skill of applying the skills in a decision of financial products and utilizing it. It further involves digital banking products awareness,

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understanding of online banking security line and the consumer rights understanding among others. An economically insightful person will find the possibility to perform an analysis of products that the bank will provide, and the risk annuity and evaluate the profit, how to plan the financial aspects of the future and take positive decisions, which will bring the prosperity of an individual and his family.

Below this financial inclusion figure (a):

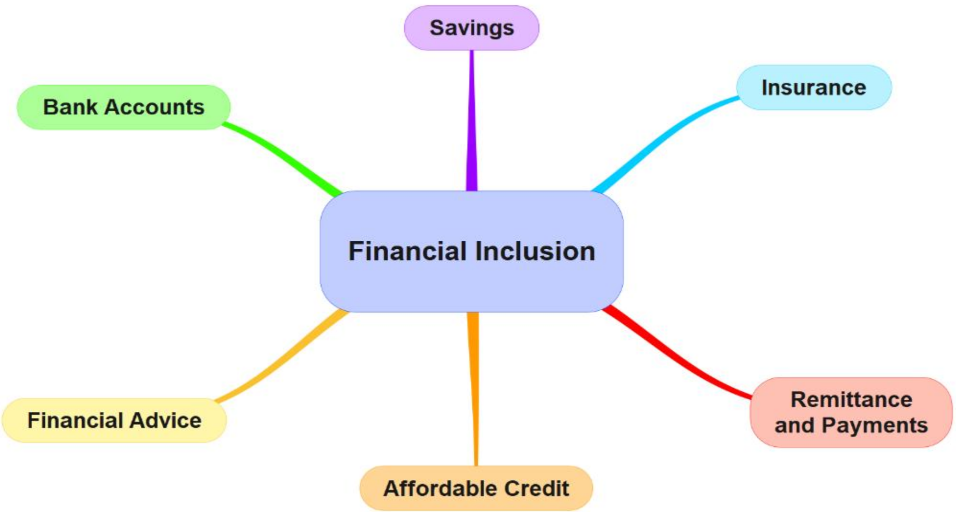

Figure (a)

It is worth assuming that the level of financial literacy is not efficient, and it is poorly disseminated throughout the population due to the simplicity of the banking services offered and the general system of digital financial services. The disparity is very wide in terms of education, socio-economic status, age, gender, work, and location of physical place of residence therefore, influence the financial knowledge and financial behavior. In most of the emerging markets such as India, the new banking products and online banking services have not been yet adopted by a large proportion of the population. Despite the similar nature of the introduction of financial inclusion programs in the form of zero balance account and internet payment system, the access to the banking services via this form does not immediately translate to a direct utilization of the given financial services. The outcome of the lack of financial literacy is poor use of the service; one also does not trust to use the online service and turns into a victim of financial fraud.

The implications of the gaps in financial literacy deficit are deemed to be determinant in the banking decisions. The low financial literate people will be more predisposed towards old fashion banking, to use cash payments and that they are not being made frightened to use complex financial scripts or simply they are not interested to do so. These customers may also make the wrong decisions on loans, credit card and savings plans regarding accumulating financial load and debts. At the other end of the spectrum, consumers that are more financially prudent are more digital in their banking line of services and they embrace electronic payment services, including having organised maintenance and investments and well scheduled monies. With this, it is the direct influence on the decision making on the banking services, quality and outcome of the financial decision making where the influence is realised.

Perhaps, it can be predicted that the new world that was spread with the digital transformation has to be more financially literate than ever. The online and mobile banking digital platforms to invest using internet and online credit services and Unified Payments Interface (UPI) are gaining popularity that presupposes financial and online capabilities of the customers. Financial illiteracy as such could be an issue in which the less financially literate individual may be threatened by the careless individuals who never bother with the subject personally in regards to the issue of the cyber security, the data privacy and the issue of online fraud. The financial literacy, however, was not only diluted to the bare minimum but stretched to the digital financial literacy, which is the precondition of the secure and assured passage into the new banking system.

Due to the identification of the financial literacy problem, the same world has witnessed the existence of a number of such programs which have been implemented by different governments, central banks, and other financial institutions as part of the approach of enhancing financial awareness among people. Part of the financial education that is practised in India involves, the digital literacy programmes, customers awareness programmes and are taught in institutions, which are the reserve bank of India (RBI), the securities and exchange board of India (SEBI) and banks. These have been able to establish the sense of improvement, yet there are still many gaps, especially over the translation of knowledge, about knowledge translation into the real banking practice and knowledge-based decision.

Below the financial literacy figure (b).

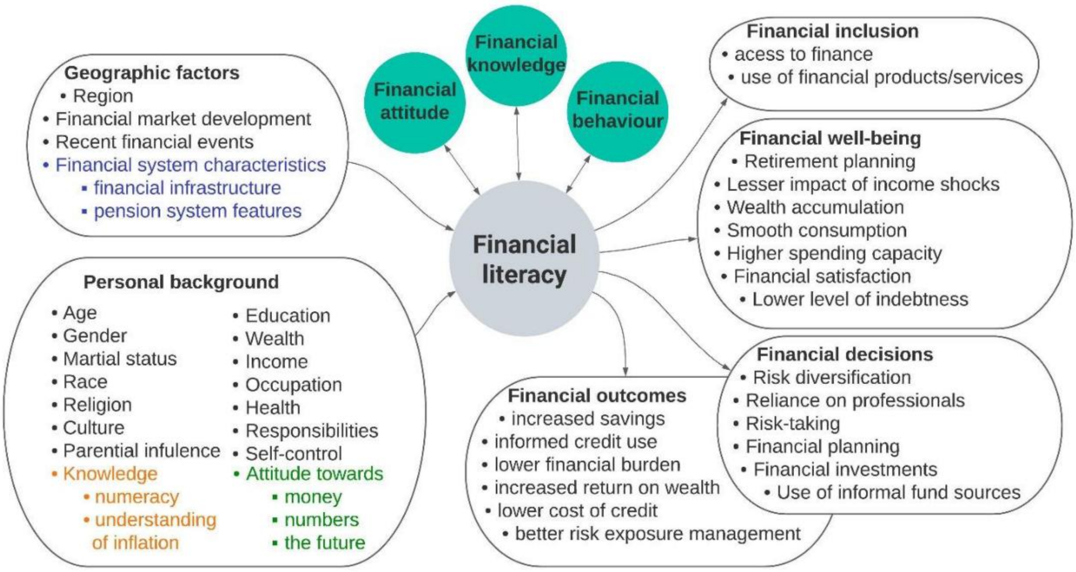

Figure (b)

It is against this backdrop that the current paper seeks to fill these gaps with regards to financial literacy, and how this mandate has been implemented in the modern banking decision-making. The research may probably help the policy-makers, financial institutions and educators enlighten themselves on how money literacy can help in the understanding, preference and utilization of the offered banking services among the banking clients. The relationship forms one of the most optimum spheres one may learn in the formulation of financial literacy programs, pro-social banking behaviour and the financial inclusion and sustainable economic growth.

Literature Review:

In cross-country research, Beck, Demirguc-Kunt and Martinez peria (2007) intended to analyze the level of Accessibility and use of banking services in the economy of various economies. Their analysis showed that banking gap provision exists between the developed and the development countries, in a large scale. The study later reached the conclusion that access and the use of the banking facilities by the population are enormous based on the income, education, standard of the institutions and financial infrastructure. The lack of banking service utilization is, in turn, the result of lack of awareness and financial means that determines the degree of significance of financial literacy in the procedure of increasing the banking inclusiveness, as the authors discovered.

An article written by Bhushan and Medury (2013) on predictors of financial literacy among individuals established that the predictors such as education, income, age and occupation among others were some of the most significant predictors of the same. Through analysis of their study, it was discovered that, finance literates have high financial standards in regard to financial planning, saving and controlled use of financial products. The authors had concluded that the lack of financial literacy suffocates the use of banking and investment services by the individuals hence, the significance of increasing the financial decision making by promoting financial literacy.

In an article, which was carried out by Cole, Sampson and Zia (2011), the researchers studied the influence of the price or financial knowledge on the demand of the financial services in emerging markets. Their findings showed that the cost was not a major issue when it came to absence of information about the finances in the adoption of the financial products. The experiment also revealed that the availability of banking services in terms of affordability does not contribute to its consumption among the financially uneducated people. This is what makes it crucial towards the problem of financial awareness in the establishment of the banking behavior.

Demirgueckunt and Klapper (2012) in their evidence on the issue of financial inclusion have provided substantial evidence on this aspect, in terms of Global Findex Database, among the world-wide evidence. They found out that high percentage of the population in the globe is not brought into the principles of formal banking. Researchers have determined education and financial literacy as significant variables that lead to the ownership of digital payment system, saving and utilization of this system. The authors expressed the need to ensure that an effective financial inclusion can be strengthened by the assistance of the financial literacy.

Garg and Singh (2018) also dedicated their efforts to the issue of financial literacy of children and adolescents, and the research they conducted led to the fact that not many youths using more active contact with banking products are now not aware of money. They discovered that the level of financial literacy does play strong roles in the saving behavior, budgeting

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behavior as well as the budgeting awareness behavior of digital financial services. According to the authors who reported that they will participate in structured financial education at an early age, the youths are taught on how to make good financial choices.

Hilgert, Hogarth and Beverly (2003) developed the correlation between financial knowledge to financial behaviour at the household. Their exploration has formed an excellent harmony between financial literacy and best monetary processes that comprise of saving and credit, budgetary management. These findings revealed that the financially smart individuals are also likely to apply their financial knowledge in a more efficient way thereby practicing a good financial behavior as compared to financial ignorance in the literal running of the financial behavior.

It is also known that financial literacy is a vital instrument of making informed implementations of consumer actions in a continuously increasingly complex financial market (Lusardi, 2008). The researchers discovered that the poor who are financially illiterate are unable to understand some simple financial terms to include the interest rates or inflation rates, and this influences their capacities to make unsound financial decisions. One of the areas of consumer empowerment that Lusardi placed his emphasis on is the financial literacy that will allow the consumer to take an informed choice among the products offered in the bank.

According to the works of Morgan and Trinh (2019), the research work was directed at the study of the factors and the impact of the financial literacy in Cambodia and Viet Nam. They found out that financial literacy positively affects the saving behavior, official financial banking service, and financial resilience. It was also established that the highly educated individuals have greater confidence in the utilization of the digital financial products and it presupposes that the level of literacy is highly correlated with the utilization of the modern facility of bank.

The authors of the paper by Singh and Srivastava (2020) have analyzed the variables that predetermine the introduction of digital banking to use in India. They also discovered in their study that, usefulness perceived, trust, and ease of use, is the most significant in digital banking adoption. These results observed that the more financially skilful clients would use mobile banking, internet banking, and digital payment platform and the lack of literacy is an enormous downside.

Suri and Jack (2016) addressed the topic of the impact of mobile money in the long-term of alleviating poverty and gender inequality in their study. In their research, they knew that the financial welfare was open to improvement once the delivery of the digital financial services was through to the women. However, what the authors also report is that it all of this will only be effective once the prerequisite is that such services must be used sparingly and not in a costly way, and it is here where financial literacy will be able to help in the most powerful implementation of the digital banking.

In the work of Van Rooij, Lusardi and Alessie (2021), the use was based on the correlation of the financial literacy and investing in the stock market. The study had already made it clear that the financially literate individuals would venture into financial market and even make

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investment in intricate financial products. Applying the application to financial education, the authors may arrive at the conclusion that the lack of financial knowledge is the predeterminer of the lack of desire to use modern financial services in individuals.

Objectives of the Study:

- To assess the level of financial literacy among banking customers.
- To identify gaps in financial knowledge related to modern banking services.
- To analyze the influence of financial literacy on customers□ banking choices.
- To examine the relationship between financial literacy and adoption of digital banking.

Research methodology:

The character of the research design applied in the present study implies the descriptive and analytical research design. The correlational relationship between the financial literacy and the adoption of the modern banking decisions shall be established through analytical design whereas the level of financial literacy and practising banking behaviour among the respondents shall be established through descriptive design. This ambivalent approach will allow perceiving the current state of affairs and correlation between the variables of the study in an objective view.

The research uses the primary data because the primary data is the data that is received by direct interaction with the bank□s customers. The special questionnaire was developed in form of structured survey and form questionnaire was sent to the respondents. Although, the secondary data were used to identify the conceptual background of the study and frame it, they have not been applied to the data analysis and interpretation.

Sampling that was adopted was conveniently sampled on population of 120 banking customers who were chosen to participate in the study under the convenience sampling methodology that considers availability and willingness of the respondents to participate in the study. The sample was formed in a way that it supported a cluster of diverse financial literacy and range of banking taste given the different categories of the customers based on age bracket, educational levels and occupational levels of the customers formed groups included in a part of the sample.

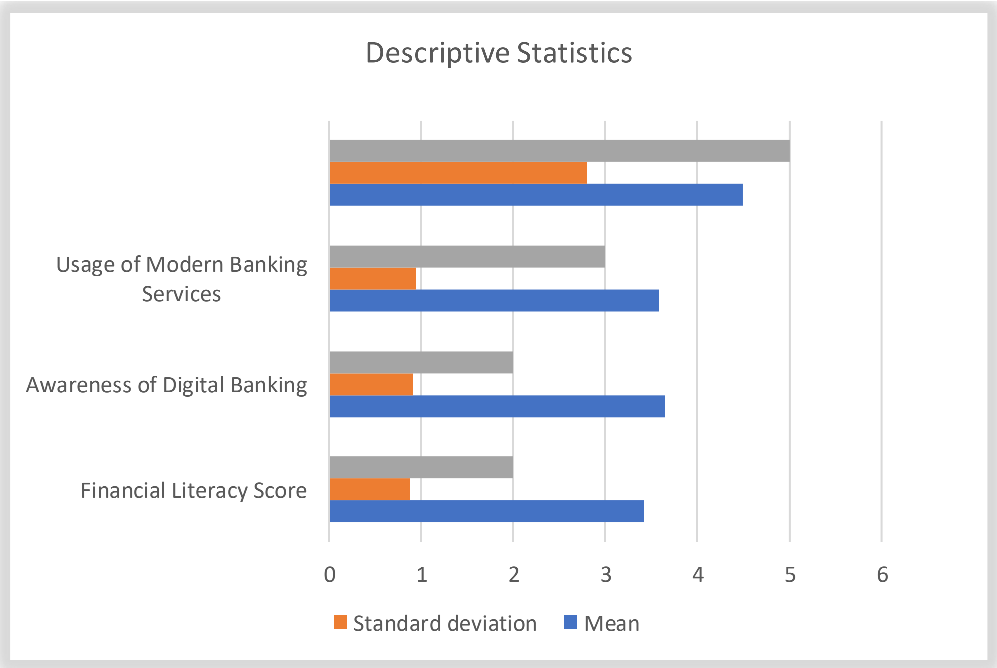
The study data was obtained following the application of the structured questionnaire which had two parts. The introductory section was used to justify the demographic data on the respondents, with the second section devoted to the further nature of the financial literacy offered as the level of knowledge on the existing banking products, the understanding of the existing banking products offered and the use of the offered digital banking service. The five point Likert scale that was considered, was calculated and reflected the level of consistency with the application of the scale of the despondences.

The data were compiled in form of a table coded and analyzed with the assistance of the right statistical techniques applied. The standard deviation and the standard mean statistics would be effective to establish the level of the financial literacy and the banking decision among the respondents. The relevance of the correlation based and t-test relationship between the financial literacy and the modern banking option was understood using the inferential statistical tests.

The topicality of the question of the ethics in the study was also justified. The respondents were informed well enough about the purpose of the study in addition to the fact that participation was voluntary.

Table 1: Descriptive Statistics:

Variable	Mean	Standard deviation
Financial Literacy Score	3.42	0.88
Awareness of Digital Banking	3.65	0.91
Usage of Modern Banking Services	3.58	0.94



Analysis of Descriptive Statistics:

The descriptive statistics will show that the mean of financial literacy of the respondents is moderate. The same is applicable to the same medium category of the digital banking awareness and use. The standard deviation scores reveal that there is a way of moderate the difference between the respondents and this shows that there are customers who are well informed and some others who are not so informed and lack financial wisdom. This brings to light the fact that it has not trained its bank clients financially.

Table 2: Hypothesis Testing:

Test Applied	Test Value	Significance Level
Correlation between Financial Literacy and Banking Choices	r = 0.62	p < 0.01

Analysis of Hypothesis Testing:

The report in the correlation study proves that the current banking choices are strongly correlated with the financial literacy with p = 0.8139 that is less than 0.01 as such the null hypothesis is being rejected. This is a confirmation that the extent of customer preference and use of the contemporary banking services is highly dependent on the extent of financial literacy. Those clients that will embrace digital and hi-tech banking products are the more travel understanding clients.

Conclusions Overall Results:

The available research article is informative in relation to the importance of financial literacy in making the current banking decision. The results provide on the fact that the financial literacy of the whole bank customers is of middle age and the spread among the various individuals might be accessible. Such difference is a reality that testifies to existence of the gaps in financial literacy among the financial population of the banks.

The awareness is also strongly related to the utilization of the digital banking services and the financial knowledge according to the descriptive analysis. The customers receiving the value-added image of finance are in a better position to enjoy the enhanced banking services including mobile banking, online payment and electronic banking platform.

The results of the test validation represent the fact that in case of richness of positive correlation between the monetary literacy and modern banking decisions. The sheer magnitude of the association is enough to accrue credit to the financial literacy associated with the choice-making, assistance and good utilization of the digital banking services/ progressive banking services in the mind of the customers.

This paper has demonstrated that one of the hurdles that stand on the path to the decisive choice is a lack of financial literacy, and reduction of the risk of using the services of the modern banking sector in the appropriate way. Nonetheless, the increased financial literacy positively affects the customer confidence, monetary inclusion and monetary responsible attitude. Thus, the increase of financial literacy rates is the key to the improved performance of the contemporary banking system and the stable progress of the bank.

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