RESEARCH ARTICLE

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Exploring the Impact of Financial Literacy on Financial Satisfaction Among Youth: Mediating Role of Financial Behavior

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Abstract

Analyzing the financial habits of youth has become a substantial topic of interest in recent years. This research examines the association between financial literacy, behavior, and satisfaction among youth. The knowledge, skills, and attitudes essential to making choices related to financial matters form financial literacy. Financial behavior encompasses spending habits, saving practices, and debt management. Financial satisfaction represents how content a person feels about their present financial situation. The research investigates how financial literacy levels influence financial behaviors and how these behaviors, in turn, affect financial satisfaction. The study aims to identify how awareness and literacy on personal financial management can influence financial satisfaction among youth.

Keywords: Financial literacy, Financial behavior, Financial satisfaction, Financial habit, Youth.

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Introduction

Young people today deal with a complex and unique financial landscape. Evolving financial products, easy access to credit, and the prevalence of online financial transactions necessitate a solid groundwork to create financial literacy. This study delves into the financial habits of youth, investigating the connections between financial literacy, financial behavior, and financial satisfaction. Achieving happiness in life often involves reaching a level of financial satisfaction, which is influenced by how well individuals manage their income to meet their needs (Panjaitan *et al.*, 2022).

Financial literacy equips young people to make better financial decisions, evaluate investment options, and secure their financial future (Iqbal, 2023). However, financial knowledge alone may not lead to financial satisfaction. This study aims to understand how financial literacy can lead to financial satisfaction through effective financial behaviors. Additionally, it examines the link between financial habits and financial satisfaction, which measures a person's contentment with their current financial condition. Insights from this study could help promote healthy financial habits among young people, contributing to their overall well-being.

It is widely recognized that financial behavior and literacy are critical to achieving wealth and satisfaction (Ghaffar *et al.* 2022 However, there is a dearth of research on this topic in developing countries such as India. Furthermore, there is a scarcity of scholarly research on financial behavior and its influence on financial literacy – satisfaction link among Indian youth. This study focuses on closing the research gap by offering a more in-depth understanding of these characteristics in order to better support young people's financial well-being in emerging economies.

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Statement of the Problem

Today's young people face a significantly different economic climate than earlier generations. Because of the growing complexity of financial products, the plethora of credit options, and the shift to digital financial it is nowadays essential to have a strong financial literacy among youth. Despite its critical importance, research shows a gap in the literature on how financial literacy can impact financial satisfaction through positive financial behavior. While the value of financial literacy is widely recognized, we still lack a comprehensive understanding of how it connects to financial behaviors and ultimately affects financial well-being in youth. Existing financial literacy programs often fail to translate knowledge into practical skills and attitudes. A one-size-fits-all approach to financial education does not address the diverse needs and circumstances of young people. This study aims to bridge these gaps by exploring the interactions involved.

Significance of the Study

This study seeks to shed light on how financial literacy, behaviors, and satisfaction interact among young people. Financial illiteracy among income earning youth can create a detrimental effect on our economy at large. Exploring how to shape proper financial behavior can help policymakers to address this issue to a certain extent by framing sound financial understanding. The elements that influence their financial habits can help policymakers establish efforts that encourage good financial management among young people. This can result in a more financially stable population with a greater capacity to contribute to economic growth. While the value of financial literacy is acknowledged, research indicates a disconnect between financial literacy and actual financial practices. This study will give insight into how to close this gap by studying the consequence of financial behaviors in influencing young people to transform financial knowledge into financial satisfaction. Understanding these elements can help build more effective financial education programs.

Purpose of the Study

The following are the objectives of the study:

- To examine how financial literacy influences financial behaviors.
- To investigate the association between financial behaviors and financial satisfaction
- To study the mediating role of financial behavior in the financial literacy and financial satisfaction link.

Hypothesis of the Study

H1: FNL is strongly and positively correlated with FNB.
H2: FNL is strongly and positively correlated with FNS.
H3: FNB is strongly and positively correlated with FNS.
H4: FNB mediates the positive relationship between FNL and FNS.

Scope of the Study

This research investigates the financial behavior of youth to ensure generalizability within manageable research boundaries. While this research may not capture every factor influencing financial habits, it will provide valuable insights into the financial literacy-behavior-satisfaction relationship among youth. This study is centered on the income earning persons of age between 15 to 29 years in Ernakulam district Kerala.

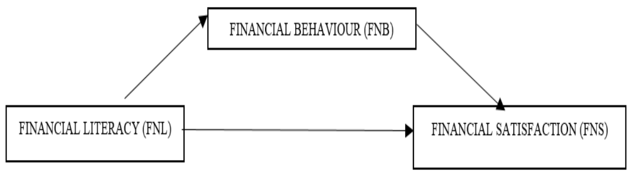
Literature Review

Youth

UNESCO defines youth as "a period of transition from the dependence of childhood to adulthood's independence and awareness of our interdependence as members of a community," with age being the easiest way to categorize this group. Typically, youth are those between the ages of leaving compulsory education and finding their first job. As per the United Nations youth are individuals aged 15 to 24 to ensure statistical consistency across international programs, though it allows member states to use their definitions for national purposes. According to the African Youth Charter, youth are those aged 15 to 35. In India, Factsheets (2014) describe youth as individuals aged 15 to 29.

Financial Literacy

FNL is defined as "knowledge and understanding of financial concepts and risks, and the skills, motivation, and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life" (OECD, 2014), according to a definition provided by the "Organization for Economic Co-operation and Development (OECD)." OECD explains three basic components of financial literacy: "financial knowledge, financial behavior and financial attitude." Financial literacy has become increasingly crucial for youth navigating a complex financial landscape.



Flowchart 1: Research framework

Financial Satisfaction

Financial satisfaction refers to the level of satisfaction of an individual with his current financial situation, taking into account both the material and immaterial aspects of their financial health. It relates to perceptions of financial adequacy and concerns, influenced by a variety of elements such as demographics, financial pressures, knowledge, attitudes, and behaviors. It has been thoroughly studied in studies on health and stress (Hasibuan & Lubis, 2017). It represents a situation in which people feel content, joyful, and free from financial concerns; it represents a harmony between tangible possessions and personal experiences (Arifin, 2018).

Financial satisfaction is a measure of health, happiness, and absence of financial concern that is based on both perceived needs and unbiased financial indicators (such as wealth and income). It is thought of as a part of overall well-being. Individuals' contentment levels might vary as they negotiate the financial terrain of life, frequently impacted by aspects such as debt accumulation and evolving financial aspirations (Hafni 2020).

Financial Behavior

FNB means the ways in which people handle their financial affairs. It is based on the idea that human conduct is formed by rational decision-making processes that take normative, behavioral, and control beliefs into account. These processes are rooted in theories such as the Theory of Planned conduct (TPB) (Arifin, 2018). According to this theoretical paradigm, societal norms, perceived control over the conduct, and personal views about the consequences of action all influence behavioral intentions (Arifin,2017).

Several studies found a positive association between FNL and responsible FNB like budgeting, saving, and making informed investment decisions (Lusardi & Mitchell, 2014; Fernandes *et al*., 2019). Conversely, a lower level of FNL is linked with impulsive spending habits and excessive debt accumulation (Huston, 2009; Mandell & Collin, 2008).

The research proposes a positive connection between responsible financial behaviors and financial satisfaction among young adults (Lin *et al*., 2013; Danes & Hudgens, 2007).

Conversely, studies have shown that impulsive spending and high debt levels can lead to lower financial satisfaction and financial stress (Xiao *et al*., 2018; Sabri & Karim, 2016). While the association between FNL and FNB is established, some studies call for an analysis of the factors influencing the translation of knowledge into action (Lusardi & Mitchell, 2017). The outcomes of current financial literacy programs in supporting long-term behavioral change require further investigation (Remund *et al*., 2014). The influence of FNL on the link between FNB AND FNS is proved in the literature. So, this research explores the mediating role of FNB in the r FNL and FNS connection.

Research Design

This research employs a descriptive research design, specifically focusing on analytical research using a structured questionnaire. The study is based on income-yearning young people from different parts of Kerala between the age group of 15 and 29. Convenient sampling techniques were used for the data collection. This study relies on primary data which has been gathered from 123 respondents to a questionnaire. SPSS is used for the efficient statistical analysis of the research. Likert five-point scale was used to measure responses (1- strongly disagree, 2- Disagree, 3- Neutral, 4 – Agree, 5- Strongly Agree). To test the mediation process macros were used.

Data Analysis and Discussion

Descriptive statistics

The study mostly involved young people, with 69.1% between 21 and 25 years old, and a bit more Female (56.1%) than Male (43.1%). Many of their parents worked in businesses (30.1%). In terms of income, the largest group (39.8%) earned between 4 to 6 lakhs per year, 13 % below one lakh, 19.5 % 1 lakh to 4 lakhs, 17.9% 6 lakhs to 8 lakhs, and 9.8 % above 8 lakhs.

Factor analysis

Exploratory factor analysis is performed and the KMO value is 0.900, which is more than 0.5. This indicates that data is adequate with factor analysis. Bartlett's Test shows a significant value of 0.000, which is less than 0.05. The running of the factor analysis technique followed this (Table 1).

Regression analysis

Table 2 shows that financial literacy significantly influenced financial behavior (β = 0.564, *p* = 0.000). R^2 Value of 0.432 shows that financial literacy explained 43.2 % of the variance in financial behavior. (H1). Financial literacy also shows a significant positive association with financial satisfaction (β= 0.896, *p* = 0.000) and explains 52% variance in financial satisfaction. (H2). Financial behavior, in turn, influences financial satisfaction (β = 0.746, *p* = 0.000) and explained 19.9% variance in financial Satisfaction (H3).

Table 1: Rotated component matrixa

	Component		
	1	*2*	*3*
FL1	.619		
FL2	.883		
FL3	.844		
FL4	.727		
FS1		.594	
FS2		.774	
FS3		.718	
FS4		.833	
FB1			.845
FB2	.		.522
FB3			.714

Source : SPSS Analysis
Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.[a]
a. Rotation converged in 5 iterations.

Table 2: Model summary

Hyp	*Relationship*	*β*	*R^2*	*Sig.*	*Result*
H1	FNL→ FNB	0.564	0.432	0.000	Accepted
H2	FNL→ FNS	0.896	0.520	0.000	Accepted
H3	FNB → FNS	0.746	0.199	0.000	Accepted

Source- SPSS Analysis FNL-Financial Literacy, FNB- Financial Behaviour,FNS-Financial Satisfaction

Mediation analysis

A bootstrapping method was performed using SPSS Process Macro to investigate how FNB mediates the relationship between FNL and FNS. The findings revealed a significant indirect effect of FNL on FN, supporting H4. Additionally, the direct effect of FNL on FNB, even when accounting for the mediator, was also significant. Furthermore, financial behavior was found to partially mediate the relationship between FNL and FNS. A summary of the mediation analysis is provided in Table 3.

The regression analysis demonstrates a moderately positive relationship between FNL and FNS, as well as between FNL and FNB. Furthermore, a moderate positive link exists between FNB and FNS. Mediation analysis reveals that financial behavior plays an essential role in achieving financial satisfaction. Individuals whose financial literacy level is high are more likely to directly perceive financial satisfaction as well as develop positive financial behaviors, which in tur contributes to financial satisfaction.

Limitations and further scope

while this study aims to shed insight into young people's financial behavior, it has several drawbacks. The results may be influenced by the participant's age group and demography. Focusing on a certain subset of youths may not apply to the larger young population. Self-reported financial behaviors can be biased. The study's design may not reflect the entire complexity of factors impacting financial behavior. Social media influence, access to financial technology, and individual financial aspirations are just a few of the aspects that could be investigated in future studies. Despite its limitations, this study provides a useful beginning point for studying the relationship between FNL, FNB and FNS among young people.

Table 3: Mediation analysis result

Relationship	*Total effect*	*Direct effect*	*Indirect effect*	*95% Confidence interval*		*t- statistics*	*Conclusion*
				Lower bound	Upper bound		
Financial Literacy> Financial Behavior > Financial Satisfaction	0.551 (0.000)	0.318 (0.000)	0.233	0.168	0.467	4.050	Partial Mediation

Source : Process Macro Mediation Analysis Result

Conclusion

In short, this study has provided insightful information about financial practices among youth. We can create more successful plans to raise financial literacy if we know the present financial knowledge, attitudes, and practices. Subsequent endeavors need to concentrate on developing captivating instructional initiatives that incorporate them into currently present educational frameworks. By promoting youth-friendly financial instruments and instructional content, collaboration between financial institutions and social media platforms can further improve financial literacy. We can enable young people to accomplish their long-term financial objectives and create a secure future by giving them the information and abilities to handle their money wisely.

Future efforts could concentrate on creating interesting literacy programs that are suited to young people's preferred learning methods and integrating them into already-existing educational frameworks based on the insights obtained from this study on youth financial behavior. Furthermore, by promoting youth-oriented financial tools and instructional content, collaborations with financial institutions and social media platforms could encourage sound financial conduct among youth.

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