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Financial Literacy and Youth in India: Why What We Don't Know Is Costing Us

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Independent Research Paper

Abstract

This paper began with a straightforward observation: secondary school students in India routinely study Economics for years without gaining the practical financial knowledge needed for everyday decisions. That gap raised a broader question: how many young people across India face the same disconnect, not just academically, but in the real financial choices they encounter daily? This paper tries to answer that. It looks at what financial literacy actually means, how bad the gap is among Indian youth, why the gap exists in the first place, and what has genuinely helped close it. The findings are striking. Only 27% of Indian adults are financially literate according to a 2019 SEBI survey, and among young people the numbers are not much better. The reasons go deeper than bad teaching. Families don't talk about money, schools don't teach it practically, and fintech apps are making it easier than ever to borrow without understanding what you're signing up for. This paper argues that fixing this problem requires changes in schools, in families, and in how financial products are designed. It also argues that some of those changes are already happening, just not at the scale they need to be.

Keywords: financial literacy, Indian youth, fintech, behavioural economics, financial education, NCFE, debt awareness, secondary education

1. Introduction

By the time most young Indians complete secondary school, they have already faced several financial decisions, whether to take a loan for college, whether to help a parent pick an insurance policy, or simply how to manage pocket money over a month. Yet the formal education system has given them almost no tools to make these decisions well. Money, as a subject, is treated like a taboo in Indian classrooms: present in commerce textbooks in theory, absent from real life entirely.

This is not a small problem. By 2030, India is projected to have the world's largest working-age population. If that demographic dividend is going to mean anything economically, it requires young people who understand credit, savings, risk, and investment, not just in principle but in practice. A country cannot build financial wealth on financial ignorance.

This paper is not a policy document. It is an attempt to understand the problem clearly: where the gap is, why it exists, what it costs people, and what has genuinely helped. The focus is on youth, particularly those in urban and semi-urban India, because this is where the stakes of financial decision-making are rising fastest, and where the consequences of bad decisions compound most visibly.

2. What Do We Mean by Financial Literacy?

Upon examining this topic, the standard definition of financial literacy reads as follows: the ability to understand and apply financial skills including budgeting, saving, investing, and debt management. For most students, this definition feels abstract and distant from the financial decisions they actually face. A more practical framing makes the concept easier to engage with.

Being financially literate means you know what you're doing with money before you do it. It means when someone offers you a credit card, you understand it's not extra money, it's borrowed money you'll pay interest on. It means when your parents are picking an insurance policy, you can tell the difference between term insurance and an investment plan. It means you know that keeping all your savings in a fixed deposit while inflation runs at 6% is quietly losing you money every year.

Researchers at the OECD and India's National Centre for Financial Education (NCFE) break financial literacy into three parts: knowledge (do you understand the concepts), attitudes (how do you think about money), and behaviour (what do you actually do with it). The reason this matters is that most financial education programs only target the first one. They teach you what a mutual fund is. They don't change how you feel about saving, or whether you actually start a SIP. That gap between knowing and doing is why so many well-intentioned programs don't work. In this paper, financial literacy means all three together.

3. The Current State: Data from India

3.1 National Surveys

The NCFE's National Financial Literacy and Inclusion Survey (2019) found that India's overall financial literacy score was 27%, considerably below the global average of 33% identified by Standard & Poor's financial literacy surveys. Among youth (defined as 18–29 in most surveys), the numbers are only marginally better, and they mask large disparities across gender, geography, and income group.

A 2021 survey by Visa found that only 24% of young Indians aged 18–25 had a clear savings plan. Meanwhile, the Reserve Bank of India's data on retail loan defaults suggests that the 18–30 age group accounts for a disproportionate share of first-time borrowers who miss repayments, often because they had not fully understood the terms of what they were signing.

Perhaps most strikingly, a 2022 survey by the Fintech Association for Consumer Empowerment (FACE) found that over 60% of young borrowers who had taken loans through digital lending apps did not understand the annualised interest rate they were paying. They understood the monthly EMI; they did not understand that it implied an annual interest rate sometimes exceeding 40%.

3.2 What Young People Don't Know

The gaps are specific. Research across Indian cities consistently shows that young people are weakest on: compound interest (most underestimate how fast debt grows), insurance (most conflate insurance with investment), inflation (most do not account for it in savings plans), and tax basics (most are unaware of even standard deductions). These are not obscure concepts. They are the foundations of every financial decision a working adult makes.

4. Why the Gap Exists

4.1 The Curriculum Problem

Financial literacy does not exist as a subject in most Indian schools. Commerce students encounter some relevant content, accountancy and business studies, but this is theoretical and exam-oriented, not practical. Science and humanities students encounter almost nothing. The National Education Policy 2020 mentions financial literacy in passing as part of life skills education, but implementation has been slow and uneven. Most teachers are not trained to teach it, and there is no standardised framework for what financial literacy education should look like at different ages.

4.2 Social and Cultural Norms

In many Indian families, money is not discussed openly, particularly with children. Decisions about savings, debt, or investment are made by the oldest earning member, often without explanation. This creates a culture where young people enter adulthood without having observed financial decision-making at close range. When they do start earning, they have no mental models to fall back on.

There is also a gender dimension. Girls in many households are actively excluded from financial conversations, on the assumption that a future spouse will handle money. This means that young women often enter adult life with even less financial preparation than their male peers, a gap that becomes costly once they face financial independence through divorce, widowhood, or simply choosing to work.

4.3 The Digital Acceleration

The rapid spread of fintech in India has accelerated the cost of financial illiteracy. Products like Buy Now Pay Later (BNPL), instant personal loans, and crypto investment apps are now accessible to anyone with a smartphone. These products are not inherently harmful, but they are designed to make spending and borrowing frictionless. For someone who does not understand interest rates or impulse control, frictionless borrowing is dangerous. The speed at which these tools have spread has far outpaced any effort to educate users about them.

5. What Has Worked

5.1 Community-Based Programs

Some of the most effective financial literacy interventions in India have been hyper-local. The Self-Employed Women's Association (SEWA) has run financial education programs for low-income women in Gujarat for decades, with documented improvements in savings behaviour and insurance uptake. What makes SEWA's model work is that it is embedded in a community the women already trust, delivered in their own language, and tied to real products they can actually use. Abstract knowledge taught in isolation rarely changes behaviour; knowledge that is immediately applicable tends to stick.

Similarly, programs run by organisations like the Muskurahat Foundation and other youth-focused NGOs have shown that peer-based financial education, where young people learn from and with each other, tends to be more effective than top-down instruction. Peer credibility matters. A 22-year-old explaining how SIPs work to a roomful of 18-year-olds is more persuasive than a textbook chapter on mutual funds.

5.2 Digital Tools

Apps like Fi, Jupiter, and Jar have built financial education into their products, woven into the core experience rather than tucked into a tab. Jar, for instance, rounds up every UPI transaction and saves the difference in digital gold. The user is saving without thinking about saving, which removes the most common barrier: willpower. This kind of behavioural nudge, rooted in the work of Thaler and Sunstein on choice architecture, has shown real promise in getting young people to start saving who otherwise would not.

5.3 School-Level Pilots

Several state governments, notably Kerala and Rajasthan, have piloted financial literacy modules in secondary school curricula. Early evaluations suggest that even a few sessions of well-designed, practical financial education can shift attitudes, even if full behavioural change takes longer. The key word is well-designed: sessions that focus on real-world scenarios (how do I budget my first salary? what should I look for in an insurance policy?) outperform sessions that simply explain what a bond is.

6. What a Realistic Solution Looks Like

This paper does not claim to offer a definitive solution. However, the research consistently points toward several actionable priorities.

The most obvious one is that schools need to actually teach this. Not buried inside commerce for students who picked that stream, but as a real subject for everyone. Teach a Class 9 student how to read a bank statement. Teach a Class 11 student what compound interest actually means in rupees over ten years. Make them do a mock budget for their first salary. These are not complicated things to teach. They just require someone deciding they're worth teaching.

However, curriculum reform alone is insufficient. A new subject is only effective if educators are equipped to teach it meaningfully. Currently, most teachers have not received training in practical financial content delivery. Without accompanying investment in teacher development, any new syllabus risks remaining a document without real classroom impact. State governments need to invest in that training before they launch any new curriculum.

Beyond schools, fintech companies must be held to stronger standards of transparency. When a student takes a loan through an app and only sees the monthly EMI without understanding what that adds up to in a year, that's not just poor financial literacy on the student's part. That's a product designed to obscure the full cost. The RBI has started pushing for clearer disclosures but enforcement is inconsistent. This needs to get stricter.

And finally, community-based programs like SEWA's work because they reach people through channels they already trust. Not every solution has to come through a school or a government scheme. Youth NGOs, self-help groups, and peer education programs can get to people that formal systems miss. The goal should be to fund and scale what is already working, rather than always inventing something new.

7. Conclusion

Financial literacy is not a luxury subject. It determines whether a young person accumulates savings or debt in their first decade of working life. It shapes whether families are able to absorb economic shocks or are destroyed by them. In a country with India's demographic profile, the stakes could not be higher.

The problem is real, well-documented, and solvable. What it lacks is not research or good intentions, of which there is plenty, but implementation at scale. The curriculum reforms, the teacher training, the product design changes, the community programs: all of these exist in pockets. The challenge is making them systemic.

If India's youth are going to be the economic force that this country's growth story depends on, they need to understand money. Right now, most of them do not. That is not their failure. It is a failure of the systems that were supposed to prepare them.

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