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Digital and Financial Literacy and Its Impact On Financial Decision

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Abstract
In the modern financial ecosystem, both digital literacy and financial literacy are critical for making informed and secure financial decisions. Digital literacy enables individuals to effectively use online banking, mobile payment platforms, and digital investment portals, while financial literacy equips them with the ability to evaluate risks, returns, and manage personal finances. This research investigates the combined effect of digital and financial literacy on financial decision-making50 respondents. The results show that individuals with higher literacy levels are more confident, better at identifying profitable opportunities, and more capable of avoiding fraudulent schemes. The study concludes with recommendations for literacy improvement programs to bridge existing gaps.

Keywords: Digital Literacy, Financial Literacy, Financial Decision-Making, Investment Behavior, Financial Inclusion.

I.INTRODUCTION

In the era of rapid technological advancement, the financial landscape has undergone a significant transformation. The integration of digital technologies into financial services such as online banking, mobile wallets, Unified Payments Interface (UPI), internet-based investment platforms, and digital lending has made transactions faster, more accessible, and more convenient. This shift has brought substantial opportunities for individuals to manage their finances efficiently. However, the ability to fully benefit from these innovations depends on two critical competencies: digital literacy and financial literacy**.** Digital literacy refers to the ability to effectively and safely use digital tools and platforms, including knowledge of online transactions, mobile applications, and cyber security practices. Without adequate digital literacy, individuals may face challenges in navigating online financial services, leading to inefficiency, vulnerability to fraud, or complete avoidance of digital platforms. Financial literacy, on the other hand, is the knowledge and understanding of basic financial concepts such as budgeting, saving, investment planning, interest calculation, inflation, and risk diversification. A financially literate individual can assess investment options, manage debts responsibly, and plan for future financial needs. The convergence of these two literacy plays a pivotal role in financial decision-making, which encompasses choices about saving, investing, spending, and managing risks. Poor literacy in either area can lead to costly mistakes, such as falling for scams, over-investing in risky assets, or missing profitable opportunities. In the Indian context, initiatives like Digital India, Pradhan Mantri Jan Dhan Yojana (PMJDY), and the proliferation of fetch applications have increased access to digital finance. However, disparities in literacy levels remain, especially in semi-urban and rural areas. This study aims to explore the extent to which digital and financial literacy influence decision-making quality, using primary data from 50 respondents, and to propose strategies for improving these competencies for more secure and informed financial choices.

Financial Literacy

Financial literacy refers to the ability to understand, manage, and make informed decisions about personal finances. It involves the knowledge and skills necessary to effectively handle financial resources, including budgeting, saving, investing, borrowing, and planning for the future. A financially literate individual can evaluate the benefits and risks of different financial products, understand the implications of interest rates and inflation, and make decisions that enhance long-term financial well-being.

At its core, financial literacy includes:

1. **Budgeting Skills**: Knowing how to create and follow a spending plan to ensure expenses do not exceed income.
2. **Savings and Investment Knowledge**: Understanding the importance of saving for emergencies and choosing appropriate investment avenues such as fixed deposits, mutual funds, or government securities.
3. **Debt Management**: Awareness of responsible borrowing practices, interest rates, and repayment obligations to avoid excessive debt burdens.
4. **Risk and Return Analysis**: Ability to assess financial products based on their potential returns and associated risks.
5. **Retirement and Insurance Planning**: Understanding long-term needs and the role of pension schemes, life insurance, and health coverage.

Financial literacy is essential in today's economy because individuals are increasingly responsible for managing their own financial futures. With a wide range of complex financial products available, the absence of sufficient knowledge can lead to poor financial choices, excessive debt, or vulnerability to fraudulent schemes.

In India, studies have shown that while access to financial services has increased especially after initiatives like Pradhan Mantri Jan Dhan Yojana (PMJDY)—the actual usage of these services remains limited due to gaps in financial literacy. Therefore, enhancing financial literacy not only empowers individuals to make sound financial decisions but also supports broader economic stability and inclusion.

DIGITAL FINANCIAL LITERACY

Digital financial literacy refers to the knowledge and skills required to manage personal finances effectively in a digital or online environment. It involves understanding how to use digital tools and platforms to access financial services, make payments, and manage financial accounts. In today's digital age, financial transactions are increasingly conducted online, and it is essential to have a basic understanding of digital financial services to manage personal finances effectively. Digital financial literacy includes understanding concepts such as online banking, mobile payments, e-wallets, digital currencies, and investment platforms. Digital financial literacy is important because it allows individuals to take advantage of the convenience and accessibility of digital financial services while avoiding potential risks such as online scams, identity theft, and cyber-attacks. By understanding how to use digital financial services effectively and securely, individuals can make informed decisions about their finances and achieve greater financial stability and security.

II. REVIEW OF LITERATURE

Bhatt D., (2023) Digital literacy skills are required to develop among learners in this current digital environment. Awareness about government schemes is helpful to create the betterment of lifestyle. The world moves towards digitalization in that situation rural people also have to learn the use of digitalization.

Gokhru, N., & Kanchan, P., (2023) ,As part of the 12th Five-Year Plan (2012-17), the Indian government has ensured that all residents have access to basic financial services. SHG is well known worldwide. The SHG technique was developed by Dr. Mohammed Younus. Almost every nation knows who he is. The oldest of nine brothers, Dr. Mohamad Younus, was born in 1940 in a Bangladeshi village close to Chittagong. His father worked as a jeweller and his mother stayed at home. The SHGs play a vital role in the fight against poverty because they assist individuals in starting their own businesses. Through the Mysore Resettlement and Development Agency (MYRADA), the Savings and Credit Management Group (SCMG) and the Mysore Resettlement and Development Agency (MYRADA) developed the first self-help groups in India.

Abdul Azeez, et al., (2022) Recent years have seen a rise in interest in digital financial literacy among researchers and policymakers globally, particularly in India. By promoting financial literacy, financial inclusion can be achieved with more effectiveness. Demographic factors should be considered while developing digital financial literacy training programme for the development of digital literacy. Digital financial literacy is an important life skill for every individual

Yadav, P., & Seth, A., (2022) The purpose of this study is to examine how Financial Literacy impacts investment decisions made by people of different economic classes in Delhi, the Indian capital city. People have a difference in their financial needs though they are live in same geographical area. Research shows that for the majority of investors investment in the stock market is not a primary skill of most investors, and of those who do invest in it, the majority prefers to trade as investors rather than as speculators or hedge funds. Economy of the nation is highly dependent on the investment by an individual. A country's prosperity is bolstered by the investment of money in a variety of opportunities available to its citizens. In Indian investment market countless options are available in the present era. Mutual funds have become popular in recent years as a tool for good financial health. Compare to the other groups, self-employed and professionals are investing more than business people. This is especially true for the age groups 20 to 40 years. The modern investors are mature, highly knowledgeable and adequately groomed persons.

De Beckker, et al., (2019) The purpose of this study is to identify and analyse the characteristics of financial vulnerable groups. In recent years there is a dramatical change in the social and financial environment. An increase in financial knowledge and behaviours leads to improved financial literacy, as a result of an increase in financial knowledge.

III. STATEMENT OF THE PROBLEM

In today's rapidly digitizing economy, individuals are increasingly required to manage their finances through digital platforms. However, a significant portion of the population lacks sufficient digital and financial literacy, which hampers their ability to make informed financial decisions. This gap exposes them to risks such as poor investment choices, susceptibility to fraud, and inefficient money management. Despite growing access to digital financial services, many users remain unaware of how to navigate these tools effectively. The problem is further compounded by limited awareness of financial concepts and government schemes designed to promote financial inclusion. Therefore, understanding the impact of digital and financial literacy on decision-making is critical to developing targeted interventions that can empower individuals and promote economic well-being.

IV. OBJECTIVES

- ✓ To evaluate the prevailing levels of digital and financial literacy among the selected respondents.
- ✓ To analyze the relationship between literacy competencies and the quality of financial decision-making.
- ✓ To identify critical gaps in digital and financial literacy that hinder effective financial choices.
- ✓ To propose actionable strategies for enhancing literacy to achieve improved financial outcomes.

V. RESEARCH METHODOLOGY

1. Research Design:

The study adopts a descriptive and analytical research design to assess literacy levels and examine their relationship with financial decision-making.

2. Sampling Technique and Design:

A convenience sampling method was used to select 50 respondents based on accessibility and willingness to participate.

Data Analysis Methods:

- ★ **Likert Five-Point Scale** – to measure attitudes and perceptions.
- ★ **Garrett Ranking Method** – to prioritize factors affecting decision-making.
- ★ **Percentage Method** – to summarize and present demographic and literacy data.

VI. ANALYSIS AND INTERPRETATION

1. Demographic Profile of Respondents

The demographic analysis helps understand the background of the participants, which can influence literacy levels and decision-making.

Table 1 Demographic Profile of Respondents

Demographic Variable	Category	Number of Respondents	Percentage (%)
Gender	Male	28	56 %
	Female	22	44 %
Age Group	18-25 Years	20	40 %
	26 -35 Years	15	30%

	36 above	15	30 %
Educational level	Undergraduate	18	36 %
	Graduate	20	40 %
	Post Graduate	12	24 %

Source: Primary data

2. Digital Literacy Levels (Percentage Method)

Digital literacy levels measure respondents' ability to effectively use digital tools and platforms for financial activities. This analysis categorizes respondents into high, moderate, and low literacy groups based on their skills and knowledge. The percentage method is used to present the distribution clearly and highlight areas needing improvement.

Table: 2 Digital Literacy Levels

Digital Literacy Levels	**Number of Respondents**	**Percentage (%)**
High	15	30 %
Moderate	25	50 %
Low	10	20 %

Source: Primary data

3. Perceptions on Financial Literacy (Likert Five-Point Scale)

Table 3 Perceptions on Financial Literacy

Source: Primary data

Statement	**Strongly Agree (5)**	**Agree (4)**	**Neutral (3)**	**Disagree (2)**	**Strongly Disagree (1)**	**Mean Score**
I understand how to make a budget.	18	20	7	3	2	4.0
I know how to compare loan interest rates.	12	15	13	6	4	3.4
I can identify fraudulent investment schemes.	10	12	15	8	5	3.1
I am confident in using online banking services.	16	18	9	5	2	3.8
I regularly track my personal expenses.	14	17	11	6	2	3.7

The analysis shows that respondents possess strong foundational financial skills, particularly in budgeting, where the mean score is highest at 4.0**.** Confidence in using online banking **(**3.8) and tracking expenses **(**3.7**)** also reflects a positive trend toward adopting responsible money management practices. However, the comparatively lower scores for comparing loan interest rates (3.4**)** and identifying fraudulent investment schemes **(**3.1**)** reveal notable gaps in critical financial decision-making and risk awareness. This suggests that while participants are proficient in basic financial tasks, they require enhanced training in advanced concepts like credit evaluation and investment fraud prevention. Strengthening these areas could lead to more informed and secure financial behaviours.

4. Factors Affecting Financial Decision-Making (Garrett Ranking Method)

Table 3 Factors Affecting Financial Decision-Making

Factor	Average Score	Rank
Lack of financial knowledge	**72.4**	**I**
Poor digital skills	**68.3**	**II**
Risk aversion	**65.0**	**III**
Peer influence	**58.5**	**IV**
Lack of access to resources	**55.2**	**V**

Source: Primary data

The analysis indicates that lack of financial knowledge is the most significant barrier affecting respondents' financial decision-making, with the highest average score of 72.4. Poor digital skills closely follow, ranking second, which highlights challenges in using digital platforms effectively. Risk aversion is also an important factor, showing that fear of loss influences decision-making behavior. Additionally, peer influence and limited access to resources contribute to less optimal financial choices. Overall, improving financial knowledge and digital competencies is essential to overcoming these barriers.

VII FINDINGS

1. A majority of respondents are male (56%), with females representing 44%, indicating a moderately balanced gender composition in the sample.
2. Most participants fall within the younger age group of 18–25 years (40%), suggesting a higher representation of youth in the study.
3. In terms of education, graduates form the largest group (40%), followed by undergraduates (36%) and postgraduates (24%), highlighting a well-educated respondent base.
4. Digital literacy is generally moderate among respondents, with 50% in the moderate category, 30% possessing high skills, and 20% showing low proficiency.
5. Respondents demonstrate strong foundational financial knowledge in budgeting (mean score: 4.0), reflecting a sound understanding of personal money management basics.
6. Confidence in using online banking (3.8) and regularly tracking expenses (3.7) suggests growing acceptance and adoption of digital financial tools.
7. Skills in comparing loan interest rates (3.4) and identifying fraudulent investment schemes (3.1) remain comparatively weaker, pointing to gaps in critical evaluation and risk awareness.
8. Garrett ranking analysis reveals that lack of financial knowledge is the most significant barrier to sound decision-making, followed closely by poor digital skills.
9. Risk aversion, peer influence, and lack of access to resources also impact financial choices, indicating that both psychological and environmental factors play a role.
10. Overall, the study shows that while basic literacy levels are adequate, targeted interventions are required to enhance advanced financial skills, improve digital proficiency, and reduce vulnerability to fraud.

VIII. SUGGESTIONS

- Conduct targeted financial literacy workshops focusing on advanced topics such as credit evaluation, loan comparison, and investment fraud detection.
- Introduce digital skill training programs to improve competence in using online banking, payment gateways, and investment platforms securely.
- Integrate financial and digital literacy modules into higher education curricula to reach young adults early.
- Promote awareness campaigns about government financial inclusion schemes and digital safety practices through community outreach.
- Encourage regular personal finance tracking using mobile apps or spreadsheets to build disciplined money management habits.
- Develop peer learning groups where individuals can share practical experiences and strategies for better financial decisions.
- Provide accessible online resources such as tutorials, webinars, and interactive tools for continuous self-learning.
- Collaborate with local banks and fintech companies to offer hands-on digital finance training sessions for the public.
- Address risk aversion through investor education programs that explain diversified investment strategies and risk management.
- Ensure financial resources and services are more accessible to rural and semi-urban populations, reducing the digital divide.

IX. CONCLUSION

This study highlights the vital role of both digital and financial literacy in enabling individuals to make informed, secure, and effective financial decisions. The analysis shows that while respondents possess strong basic skills in budgeting and expense tracking, there are significant gaps in advanced competencies such as comparing loan interest rates and detecting fraudulent schemes. Moderate digital literacy levels further indicate the need for enhanced training in navigating online financial platforms confidently and safely.

The findings also reveal that lack of financial knowledge and poor digital skills are the most critical barriers to sound decision-making, followed by risk aversion, peer influence, and limited access to resources. Addressing these issues requires a combined approach of education, awareness campaigns, and improved access to digital tools. Strengthening these competencies will not only empower individuals to manage their finances better but also promote greater financial inclusion and economic resilience in an increasingly digital economy.

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