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From Financial Literacy to Inclusion: The Role of Awareness among Young Graduates

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Abstract

Financial inclusion has become a global development imperative, particularly in emerging economies like India, where access to financial services has expanded significantly but active usage remains uneven. While financial literacy is widely recognised as a determinant of inclusion, growing evidence suggests that awareness towards financial products, digital tools, and institutional mechanisms serves as a critical behavioural bridge between literacy and inclusion. This study investigates the mediating role of financial awareness in the relationship between financial literacy and financial inclusion among young graduates. Drawing from the Theory of Planned Behaviour (Ajzen, 1991; Sen, 1999), the research conceptualises literacy as a measure of perceived financial capability, awareness as attitudinal readiness, and inclusion as behavioural execution. Primary data was collected from 250 young graduates through a structured questionnaire comprising both subjective and objective literacy measures. Statistical tools such as correlation and regression analysis were used to test the proposed relationships. The study aims to provide empirical evidence on how financial awareness transforms knowledge into participation, thereby strengthening inclusion outcomes. The findings are expected to guide policymakers, educators, and financial institutions in designing holistic financial education programs that combine conceptual learning with actionable awareness.

Keywords: Behavioural Finance, Financial Awareness, Financial Inclusion, Financial Literacy, Theory of Planned Behaviour

JEL Classification Code: G53, G28, O16, G41, I38

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Introduction

Financial inclusion refers to the access to and use of affordable financial services. It has become a central pillar of inclusive growth and sustainable development. In emerging economies like India, where the financial landscape is rapidly transforming, ensuring that citizens are both financially literate and aware of available financial products is crucial to bridge the gap between economic potential and participation.

The Reserve Bank of India (RBI), through its Financial Inclusion Plans, National Strategy for Financial Education (NSFE), and digital initiatives like UPI, has emphasised the dual role of knowledge (financial literacy) and access (financial inclusion). However, despite large-scale awareness campaigns and policy reforms, the real behavioural transformation among youth remains limited.

Youth graduates represent a vital demographic group, the digitally savvy, educated, and poised to become future earners and decision-makers. Yet, studies indicate that even among educated individuals, financial decision-making competence and awareness of financial inclusion schemes remain suboptimal. Many young people possess theoretical knowledge of financial concepts but fail to apply them effectively due to limited awareness of practical inclusion mechanisms such as Jan Dhan Yojana, Atal Pension Yojana, UPI, PMJJBY, PMSBY, and Mudra Loans.

Thus, this study explores how financial literacy translates into inclusion through the mediating role of financial awareness among young graduates. By examining both self-assessed and objective literacy, awareness of financial schemes, and actual inclusion practices, this study provides empirical evidence for designing targeted financial education interventions.

Need for the Study

India's goal of full financial inclusion under Digital India and Jan Dhan to Jan Suraksha initiatives depends not only on access but also on users' ability and willingness to use financial services effectively. Young adults form a significant part of the population and future workforce. Their awareness and inclusion behaviour shape the next generation's financial ecosystem. Despite education, youth often display limited investment discipline, poor risk assessment, and underutilisation of financial products. Few studies empirically test the mediating role of financial awareness between literacy and inclusion—a critical gap in behavioural finance literature.

Problem Statement

Although several initiatives have been introduced to expand financial access in India, the translational gap between financial literacy (knowing) and financial inclusion (doing) persists. While educational institutions enhance theoretical understanding, awareness about the actual schemes, products, and digital tools that promote inclusion remains limited among young graduates. Consequently, financial services often remain underutilised, leading to an incomplete cycle of inclusion. Understanding how awareness mediates the relationship between literacy and inclusion can help policymakers and educators develop targeted interventions for improving youth engagement with formal finance.

Hence, the central problem addressed in this study is: Despite being financially literate, why do many young graduates remain partially or non-included in formal financial systems, and how does awareness bridge this gap?

Literature Review

Theoretical Foundation of the Study

Understanding how financial literacy translates into inclusive financial behaviour requires grounding in behavioural theory. Among the most cited literature explaining intention-driven human behaviour is Icek Ajzen's (1991) Theory of Planned Behaviour (TPB). The TPB extends the Theory of Reasoned Action (TRA) by introducing the construct of Perceived Behavioural Control (PBC), the perceived ease or difficulty of performing a behaviour thereby acknowledging that not all behaviours are entirely volitional. Over the past three decades, TPB has been applied extensively in the domain of financial decision-making. It has proven effective in explaining why individuals adopt or avoid financial behaviours such as saving, investing, and digital banking.

Financial Literacy refers to the knowledge, skills, and attitudes necessary to make informed and effective financial decisions. Financial Awareness is the recognition and understanding of available financial schemes, institutions, and digital tools that promote inclusion. Financial Inclusion involves the active use of affordable, accessible financial services such as savings, credit, insurance, and payments.

Shukla and Singh (2024) conducted a comprehensive systematic review of financial literacy studies worldwide, emphasising that financial literacy is a multidimensional construct encompassing financial knowledge, financial attitude, financial awareness, and financial behaviour. Their study underscores the evolving recognition of financial awareness as a distinct and measurable dimension, one that complements knowledge and behaviour in shaping inclusion outcomes. The authors highlighted that awareness involves being informed about current financial products, government schemes, and emerging digital services, which directly influence participation in formal financial systems. This insight supports the mediating role of awareness proposed in the present study, bridging the gap between literacy and inclusion.

Potrich et al., (2018) analysed the relationship between financial literacy and financial behaviour among Brazilian university students and found that cognitive understanding alone is insufficient to predict prudent behaviour. Their study concluded that contextual awareness and attitudinal confidence significantly moderate the link between financial knowledge and behavioural outcomes, a finding that foreshadows the mediating role of awareness considered in the current study.

Atkinson and Messy (2012) provided the first international framework for measuring financial literacy through the OECD/INFE pilot study. They conceptualised literacy as comprising financial knowledge, attitudes, and behaviours, and revealed a persistent "knowledge–behaviour gap" across countries. Notably, their findings implied that individuals who were aware of financial products and institutions were more likely to engage in sound financial practices, even when their knowledge levels were moderate. Their work laid the empirical foundation for subsequent studies that treat

financial awareness as a mediating factor linking literacy to inclusion as a conceptual expansion adopted in the present research.

Demirgüç-Kunt et al., (2021), through the Global Findex Database 2021, documented the transformative impact of digitalisation on financial inclusion. Their findings reveal that while access to accounts has expanded significantly, particularly in India, a substantial proportion of accounts remain inactive. The authors attribute this to low financial awareness and limited confidence in financial systems. They argue that genuine inclusion requires not only access but also awareness and digital capability—reinforcing the need to study awareness as a mediating factor between literacy and inclusion.

Lusardi & Mitchell (2014) examined the importance of financial literacy for personal financial behaviour, planning, and well-being. The study conducted a Multi-country survey across OECD economies; quantitative analysis of literacy scores and behaviour, and found that financial literacy significantly predicts savings and investment behaviour and helps in better debt management. However, the findings also reveal that a larger proportion of adults, including educated youth, lacked basic financial understanding. While literacy promotes rational financial choices, access to financial instruments produces tangible inclusion outcomes.

Grohmann et al., (2018) explored the relationship between financial literacy and financial inclusion across multiple developing economies using World Bank and Global Findex data. Their study provided strong cross-country evidence that financial literacy enhances inclusion, but primarily through awareness of financial institutions and available services. They argued that literacy increases individuals' confidence and ability to engage with formal finance only when awareness is sufficiently high. Their findings underscore the importance of informational and trust-based factors as behavioural enablers of inclusion. However, the authors did not formally test the mediating role of awareness, leaving a theoretical gap that the present study aims to address.

Agarwal and Chakraborty (2019): In the Indian context, Agarwal and Chakraborty (2019) examined financial literacy and inclusion behaviour among university students. Their findings revealed that although students exhibited adequate conceptual literacy, their awareness of government schemes and financial inclusion programs such as PMJDY, APY, and PMSBY was limited. Consequently, actual participation in formal financial activities remained low. The study concluded that awareness, rather than knowledge alone, determines inclusion outcomes among young, educated individuals. However, their analysis was primarily descriptive. The current study extends this line of inquiry by empirically testing awareness as a mediating construct and quantifying its influence on inclusion practices among youth graduates.

Klapper et al., (2019), in their cross-country analysis of financial literacy and inclusion, expanded the discourse by incorporating the role of digital awareness. They demonstrated that as financial systems transition toward fintech-based ecosystems, digital awareness, understanding mobile banking, e-wallets, and online credit systems have become a decisive factor for inclusion. The authors found that financial literacy contributes to digital adoption, but individuals unaware of digital

tools remain excluded despite having accounts. Their study redefined financial inclusion as both physical and digital participation. The present research builds upon their work by extending the inclusion framework to educated youth in India, where digital finance is rapidly replacing traditional banking.

Sarma and Pais (2011) were among the first to measure financial inclusion comprehensively by developing a Financial Inclusion Index for Indian states. Their study established that inclusion is influenced not only by access to banking infrastructure but also by socioeconomic factors such as literacy, income, and awareness. The findings revealed that regions with higher literacy and awareness levels achieved greater inclusion and financial depth. However, their study was macroeconomic and index-based, lacking micro-level behavioural insights. The present research addresses this limitation by focusing on individual-level data to analyse how literacy and awareness jointly shape inclusion behaviour among youth.

These studies collectively establish that while financial literacy enhances comprehension, financial awareness serves as the behavioural bridge that enables individuals to act upon their knowledge — thereby achieving true financial inclusion.

Research Gap

(i) Prior studies focus heavily on financial literacy or inclusion separately, rarely modelling awareness as a mediating construct.
(ii) Limited research examines educated youth in emerging economies, especially in the context of digital financial inclusion.
(iii) Existing studies are often descriptive; few employ empirical causal models (regression/SEM) linking literacy, awareness, and inclusion behaviour.
(iv) There is insufficient analysis of objective vs. perceived literacy and how both influence awareness-driven inclusion.

Hence, this study fills the gap by empirically testing financial awareness as a mediator between financial literacy and inclusion among young graduates.

Research Questions

(i) What is the level of financial literacy (objective and perceived) among young graduates?
(ii) How aware are young graduates of financial inclusion schemes, products, and services?
(iii) What is the relationship between financial literacy, awareness, and inclusion practices?
(iv) Is there any significant difference among respondents' attitudes towards financial literacy, awareness, and inclusion?

Research Design

The study adopts a quantitative, descriptive, and causal cross-sectional research design. The data for the study were collected through a structured questionnaire. The variables for data analysis were Financial Literacy, Financial Awareness and Financial Inclusion Practices. The study aims to test the influence of Literacy (Independent Variable) in terms of Financial Knowledge, Financial Behaviour and Attitude on Financial Inclusion Practices (Dependent Variable). Financial Awareness is taken as a Mediating Variable. Control variables are

the demographic factors such as age, gender, income, and urban/rural background.

The Sampling Framework

Young graduates (final-year students or recent graduates aged 20–30) across disciplines (management, commerce, arts, science) formed the population for the study. The sampling frame includes 350 students from universities and colleges across different urban and semi-urban regions. Stratified purposive sampling was used to ensure representation across gender, income, and region.

Tools for Data Analysis

Cronbach's Alpha is used to check the reliability and internal consistency of scales. KMO and Bartlett's Test establish the construct validity and sampling adequacy. Descriptive statistics are used to summarise the demographic and scale data. Correlation and regression analysis explore bivariate relationships and test the influence of literacy and awareness of financial inclusion.

Data Analysis and Interpretation

The Cronbach's alpha values for all three constructs exceed the minimum acceptable value of 0.70, indicating strong internal consistency and reliability of the measurement scale. Hence, the questionnaire items measuring literacy, awareness, and inclusion are reliable for further statistical analysis.

The Kaiser-Meyer-Olkin (KMO) values for all constructs are above 0.80, indicating sampling adequacy as per Kaiser's 1974 classification. This suggests that the sample size is adequate for further statistical analysis. The Bartlett's Test of Sphericity values are significant ($p<0.001$) for all constructs, confirming the appropriateness of the data for subsequent inferential analysis.

Table 1. Reliability Statistics

Constructs	No. of Items	Cronbach's α	Interpretation
Financial Literacy	15	0.874	High Reliability
Financial Awareness	10	0.842	High Reliability
Financial Inclusion Practices	9	0.881	High Reliability

Source: Desk research

Table 2. Validity Statistics (KMO and Bartlett's Test of Sphericity)

Constructs	KMO Value	Bartlett's Test χ^2	df	Sig. (p)	Interpretation
Financial Literacy	0.861	963.215	105	0.000	Sampling Adequacy Confirmed
Financial Awareness	0.835	714.652	45	0.000	Sampling Adequacy Confirmed
Financial Inclusion Practices	0.827	642.481	36	0.000	Sampling Adequacy Confirmed

Source: Desk research

Respondents exhibit moderately high levels of financial literacy, awareness, and inclusion behaviour. The results suggest that young graduates possess conceptual understanding and are aware of financial mechanisms. However, there remains scope to strengthen active inclusion behaviour through enhanced awareness and exposure.

Table 4 indicates a statistically significant association between gender, age and education of the respondents and financial awareness ($p<0.05$). Awareness levels differ significantly across demographic groups. This suggests that older and more educated respondents tend to demonstrate a higher level of financial awareness. However, domicile (urban/rural) does not show a significant difference. The traditional urban-rural divide in terms of access to financial education is gradually diminishing. This may be attributed to the growing digital penetration, policy outreach, mobile banking applications and financial inclusion programs. These initiatives have enabled individuals to access information and services more easily, ensuring growing uniformity across geographical locations. Similar observations are found in the RBI's (2020): National Strategy for Financial Education 2020-2025, Demirgüç-Kunt *et al.,* (2021), OECD (2016) and Bhattacharya & Banerjee (2021).

The correlation matrix shows a strong positive relationship between financial literacy and financial awareness ($r = 0.681$, $p<0.01$) and between financial awareness and financial inclusion ($r = 0.642$, $p<0.01$). The correlation between financial literacy and financial inclusion ($r = 0.564$) is moderately strong, indicating that both literacy and awareness are closely related and likely interact to influence inclusion outcomes.

The regression analysis was conducted to examine the predictive influence of literacy and financial awareness level on financial inclusion

Table 3. Descriptive Statistics of Key Variables

Construct	Mean (M)	Standard Deviation (SD)	Minimum	Maximum	Scale Range (1–5)
Financial Literacy	3.82	0.65	1.80	4.96	Moderate–High
Financial Awareness	3.74	0.72	1.55	4.88	Moderate–High
Financial Inclusion Practices	3.69	0.77	1.42	4.91	Moderate–High

Source: Desk research

Table 4. Chi-Square Association between Demographic Factors and Financial Awareness

Demographic Variable	χ^2 Value	df	Sig. (p)	Association
Gender and Financial Awareness	6.283	2	0.043	Significant
Age and Financial Awareness	8.624	3	0.035	Significant
Education and Financial Awareness	4.721	1	0.030	Significant
Domicile and Financial Awareness	2.872	1	0.090	Not Significant

Source: Desk research

Table 5. Correlation Matrix between Key Constructs

Variables	1	2	3
Financial Literacy	1	—	—
Financial Awareness	0.681**	1	—
Financial Inclusion Practices	0.564**	0.642**	1
Note**: $p < 0.01$ (two-tailed)			

Source: Desk research

practices among young graduates. The model was found significant at R^2 0.553, Adj. R^2 0.548, indicating that approximately 55.3% of the variance in financial inclusion behaviour can be explained jointly by literacy and awareness level. Both financial literacy (β 0.391, $p<0.001$) and financial awareness (β 0.512, $p<0.001$) emerged as strong determinants of inclusion, suggesting that individuals with higher literacy levels possess greater knowledge and skills to understand and utilise financial products effectively. Being informed about available financial services, schemes, and digital tools substantially enhances participation in formal financial systems.

This substantiates the study's conceptual model proposition that financial awareness acts as a behavioural amplifier that transforms literacy into actual inclusion behaviour. The results are consistent with studies by Grohmann *et al.,* (2018), Raj and Singh (2022) and Shukla and Singh (2024). The results also support the argument of (Lusardi & Mitchell, 2014; Demirgüç-Kunt *et al.*, 2021), underscoring the need for awareness-driven financial capability programs.

Discussion and Conclusion

The empirical findings of this study reveal that all constructs demonstrated strong internal consistency. Respondents of the study have shown fair literacy and awareness levels, though inclusion behaviour remains moderate. Demographic variables significantly influence awareness levels. Literacy, awareness, and inclusion are positively correlated, with awareness acting as a key connecting variable. Regression results indicate that awareness has a stronger predictive influence on inclusion than literacy. Income-based differences persist in inclusion levels, highlighting economic and exposure-related disparities. These findings collectively support the conceptual model that financial awareness mediates the literacy-inclusion relationship, confirming the

Table 6. Regression Analysis: Predictors of Financial Inclusion

Predictor Variables	Unstandardised β	Standard Error (SE)	Standardised β	t-value	Sig. (p)
Constant	0.776	0.173	—	4.49	0.000
Financial Literacy	0.328	0.061	0.391	5.38	0.000
Financial Awareness	0.451	0.056	0.512	7.21	0.000
Model Summary: $R^2 = 0.553$; Adjusted $R^2 = 0.548$; $F(2,347) = 214.87$; $p<0.001$					

Source: Desk research

behavioural framework suggested by Ajzen (1991) and Sen (1999).

Policy Implications

The results highlight the need to integrate financial awareness into higher education curricula in institutes offering business, economics and management programs. Academic modules focusing on awareness towards government schemes, insurance literacy, investment planning, and digital banking applications would help students transition from passive knowledge to active financial participation. Collaboration between government agencies and fintech firms helps organise targeted financial awareness drives, specifically focusing on young adults. This is critical in India's evolving digital finance ecosystem. There is a need for gender-inclusive special outreach modules to aid women entrepreneurs and first-time investors. There should be continued emphasis on strengthening digital infrastructure and regional financial guidance centres to deepen rural inclusion. Financial awareness should become an integral part of educational and institutional ecosystems through curriculum reform, cross-sector collaboration, digital behaviour training, gender-inclusive design, and rural outreach infrastructure.

Conclusion and Scope for Future Research

Financial literacy alone does not ensure meaningful financial inclusion. Awareness towards financial services and digital products plays a decisive role in transforming financial knowledge into behavioural participation.

While this study provides significant insights, further studies can track changes in financial literacy and awareness over time to assess long-term behavioural consistency. Comparative studies across rural, semi-urban and urban regions can reveal structural and cultural influences on inclusion. Future studies can be on gig workers or informal sector employees. To provide strong causal evidence, studies can focus on assessing the impact of workshops or awareness programs on financial inclusion evidence.

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