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A STUDY ON THE IMPACT OF DIGITAL FINANCIAL LITERACY ON DEBT MANAGEMENT

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Keywords

Debt Management, Digital Financial Literacy, DFL, SEM, SMARTPLS.

Abstract

Digital financial literacy is essential because it enables people to use current technology to manage their finances effectively, improving their capacity to avoid fraud and make wise decisions. Better saving, investing, and budgeting techniques are made easier by it, which enhances financial security and stability. Good debt management helps people plan and prioritise debt payments, preventing excessive interest and penalties, which is crucial for preserving financial health. The focus of this research paper was to analyse the impact of digital financial literacy on debt management. The technique used in this study is SEM using SMARTPLS. The outcome of the study indicated that there is a significant impact of digital financial literacy on debt management.

1. Introduction

One of the most important issues in India is financial literacy, or the capacity to understand and efficiently handle personal finances. Of Indian adults, only twenty-four percent possess financial literacy, according to the National Centre for Financial Education (NCFE). Many problems, such as debt, insufficient savings, and financial instability, can be brought on by this lack of financial

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understanding and expertise. In an attempt to address this issue, the Indian government has launched a number of initiatives aimed at improving financial literacy nationwide. Apart from governmental initiatives, the private sector is also significantly contributing to the advancement of financial literacy. To assist customers in managing their finances more effectively, banks and other financial organisations are holding training sessions and financial education programmes. Furthermore, non-governmental organisations (NGOs) are putting a lot of effort into raising financial literacy, especially in marginalised and underprivileged groups. In spite of these initiatives, many people in India still lack the information and abilities needed to handle their funds sensibly, and financial literacy levels are still low. Only 24% of Indian individuals, according to a Reserve Bank of India (RBI) survey, are financially literate, which contributes to a number of financial difficulties include debt, bankruptcy, and insufficient retirement savings. (Marvaniya 2023).

India is actively promoting digital financial literacy through several schemes. One notable endeavour is the Digital India programme, which was established by the Indian government in 2015. The aim of this plan is to develop a digitally empowered society and knowledge economy in India. As part of this effort, the government has started a number of programmes to raise digital financial literacy. Two notable examples are the Pradhan Mantri Jan Dhan Yojana (PMJDY), which aims to provide every household with a bank account, and the government-sponsored mobile payment service BHIM. Digital financial literacy includes the skills and information needed to manage financial matters using digital platforms and technologies. This entails possessing the technological know-how to avoid financial fraud, receive financial services, and make informed judgements. (Marvaniya 2023). Digital financial literacy includes the ability to use digital wallets, mobile payment systems, online banking platforms, and financial planning apps and software to manage investments, savings, and expenses. It also entails being informed about online safety procedures, like safeguarding private data and averting fraud. Digital financial literacy is essential in the modern day for people to handle their money wisely and make wise decisions. It increases financial security and well-being, lowers the danger of fraud and financial loss, and permits more effective access to financial services.

Managing and repaying debts efficiently is the goal of debt management techniques and methods. Prioritising high-interest bills, negotiating better terms with creditors, and making a budget to monitor income and expenses are all part of it. Sustaining financial stability, preventing default, and lowering

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stress levels are all made possible by effective debt management. Debt management techniques and long-term financial health can both be enhanced by tools like financial counselling and debt consolidation.

2. Review of Literature

T., Tarus., John, K., Tarus. (2023). The study's goal was to determine how chosen SMEs in Nairobi County, Kenya, performed when it came to repaying their digital loans in terms of debt management literacy. The results of the study showed that digital loan repayment performance was favourably and significantly influenced by debt management literacy. It was underlined that effective financial management and on-time loan repayment depended on SME owners receiving training on debt management techniques.

Johann, Clarence., Dewi, Pertiwi. (2023). The aim of the research was to examine how students who use digital banking services in Surabaya manage their finances differently depending on their level of digital financial literacy. The study discovered that students' saving, spending, and investing behaviours were highly impacted by their level of digital financial literacy. It was shown that when using digital banking services, financially literate Surabaya students exhibited superior money management practices.

Edy, Jumady, et al. (2024). The study set out to investigate the mediating roles that financial motivation, self-efficacy, and financial literacy play in the relationship between consumer debt management and financial planning. The study discovered that a fundamental component that improved participants' capacity to successfully manage debt was financial literacy. Proactive financial behaviours were encouraged by high financial self-efficacy, which was impacted by literacy and resulted in better financial well-being. Ignorance and a lack of self-control were major obstacles to efficient debt management.

Nurhazrina, Mat, Rahim., et al. (2022). The goal of the study was to ascertain the level of basic and digital financial literacy among Selangor university students. The findings demonstrated that the pupils had sophisticated financial understanding and self-assurance. Even though the students have a lot of familiarity with online banking, they don't know much about digital finance or the dangers that come

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with using these services. Thus, it is crucial to incorporate DFL into financial education in order to guarantee the financial security of future generations.

Yulianah. (2023). The aim of the research was to examine the impact of financial literacy, hedonistic lifestyle, and family features on the debt management practices of newly married families in Jabodetabek. The survey discovered that while the respondents' debt management behaviour was rated as low, they did not generally lead hedonistic lives and had a medium degree of financial literacy. Age and debt management practices were negatively correlated. Better debt management was linked to a better financial attitude, as demonstrated by the multiple linear regression analysis, which found that the financial literacy attitude factor strongly predicted debt management behaviour. The hedonistic lifestyle had no effect on how people managed their debt.

Gengyu, Tian. (2022). The study aimed to ascertain how household leverage ratio in China is affected by digital finance using data from the China Digital Inclusive Finance Index and the 2019 China Household Finance Survey. The study found that households' leverage ratio increased due to rising household debt and digital finance. This was demonstrated by numerous tests. Digital finance led to excessive consumption, which increased debt levels; nevertheless, income also increased, possibly reducing debt. Higher-income households saw a decline in their leverage, whereas households in urban areas and with lower levels of education felt the effects more keenly.

3. Objectives of the Study

1. To analyse the impact of digital financial Literacy on Debt Management
2. To give appropriate suggestive measures towards inclusion of digital financial literacy.

4. Hypothesis of the Study

H_0: Digital Financial Literacy has no significant impact on Debt Management

H_1: Digital Financial Literacy has a significant impact on Debt Management

5. Research Methodology

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Table No: 1 Research Methodology	
Data Collection	Both Primary and Secondary Data
Sampling Technique	Non=Probability Purposive Sampling
Sample Size	120 Individuals
Sample Size Justification	At 0.3 effect size, statistical power 0.9, number of latent variables = 2. Number of observed variables = 9 and probability level = 0.05 the minimum required sample size = 119
Statistical Technique	Structural Equation Model
Statistical Tool	SMART PLS

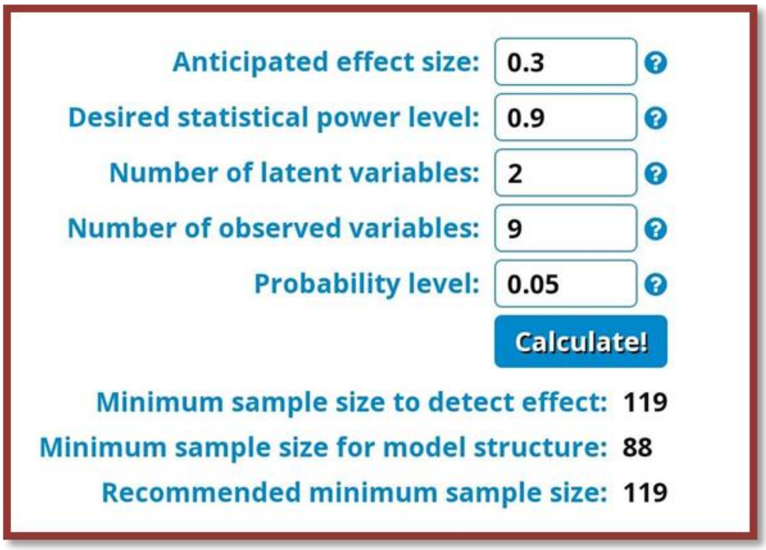

Figure 1 – Sample Size Calculator

6. Data Analysis:

Figure 2 – SEM model

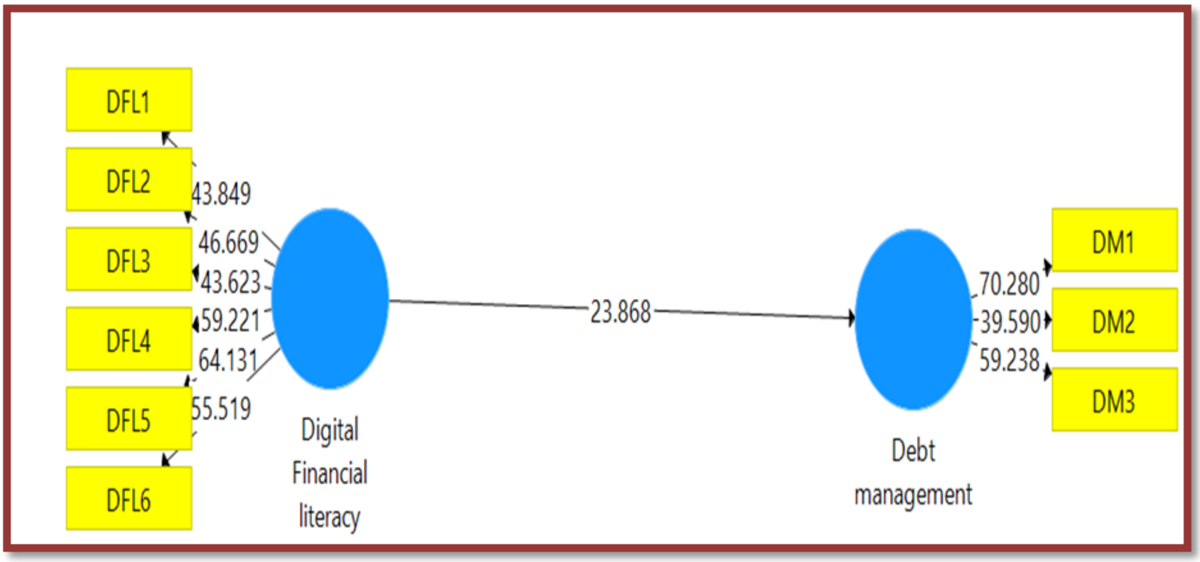

Table No: 2 Reliability and validity			
Path	**Cronbach's Alpha**	**Composite Reliability**	**Average Variance Extracted (AVE)**
Debt Management	**0.797**	**0.799**	**0.573**
Digital financial Literacy	**0.909**	**0.907**	**0.621**
As all the values of Cronbach's alpha >0.7 indicating reliability of responses and it is also seen that composite reliability >0.7 and AVE >0.5 indicating convergent validity.			

Table No: 3 discriminant validity		
Path	**Debt Management**	**Digital financial Literacy**
Debt Management	**0.757**	
Digital financial Literacy	**0.752**	**0.788**
Square root of AVE > correlation (r) thus it can be concluded that their exist an adequate discriminant validity.		

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Table No: 4 Hypothesis testing			
Path	**Beta Coefficient**	**t-statistics**	**P-Value**
Digital financial Literacy → Debt Management	**0.665**	**23.868**	**0.000**
P (value) < level of significance 5% thus Ho is rejected and H1 is accepted in all the cases indicating significant impact of digital financial literacy on debt management.			

7. Conclusion:

The results of the study highlight how important digital financial literacy is to efficient debt management. Strong digital financial tool and resource proficiency makes a person better at tracking and managing their debts, which improves their financial results. Better budgeting, on-time payments, and well-informed financial decisions are made easier with the usage of mobile payment systems, financial planning apps, and online budgeting tools. Therefore, raising one's level of digital financial literacy can help to create more financial stability by drastically lowering debt-related problems. Thus, making investments in digital financial education is crucial to enabling people to attain long-term financial health and better debt management.

7. Suggestions:

- Establish teaching initiatives covering the fundamentals of digital finance in schools and universities. These initiatives should include online banking, mobile payments, and financial planning applications.
- Plan community seminars and workshops to educate individuals on budgeting, financial fraud prevention, and the use of digital technologies for money management.
- Provide and promote simple-to-follow online guides and instructional videos that demonstrate the safe and efficient use of digital financial tools.
- Collaborate with banks and other financial institutions to offer their clients free or inexpensive training sessions on digital financial literacy.

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- Provide tailored programmes, such as one-on-one assistance and streamlined manuals, to assist elders in becoming accustomed to digital financial instruments.
- Start government initiatives to educate people about the value of digital financial literacy and to supply resources for education and assistance.

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