Investment and Spending Habits of Generation Z and The Role of Financial Literacy: Implications under NEP 2020

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Abstract

Each new generation is born with new challenges that continuously change in every aspect of living. The habits related to investment and spending by Generation Z differ from previous generations. In this work, the authors tried to conceptualize a framework of investment and spending habits of Generation Z and the role of financial literacy for better decisions of personal finance. The world has the highest population of Generation Z, and they are and will be the cohort of the majority working class. The investment and spending habits of this age group of the population have a critical implication on the future of economic activities and businesses at large. On the broader side, India has developed and initiated the implementation of New Education Policy (NEP) 2020, and there is a dire need to include basic financial literacy modules and courses at the high school level. There is a need to make basic financial literacy courses mandatory in all the streams for the greater good of all the stakeholders.

Keywords: Generation Z, Investment and Spending Habits, Financial Literacy, Financial well-being, Personal Finance, NEP 2020.

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Introduction

The article tries to interweave aspects of Gen Z, its investment and spending habits, the role of financial literacy, and the National Educational Policy, 2020 (NEP 2020) to strengthen it. India is one of the largest democratic and liberal nations for educational reforms. It has over 850 universities and almost forty-thousand higher education institutions (HIEs). This reflects the high disintegration and diverse sizes of HEIs affiliated with these universities. There is a huge gap between what the NEP 2020 envisages and the ground-level situation. Around 40 percent of these affiliated institutions offer a single degree instead of a multidiscipline-based institutional structure of higher education, which is a basic requirement for the educational reforms in the country for the twenty-first century. (Aithal, P.S., & Aithal, S. (2020). Furthermore, over 20 percent of the colleges are struggling with enrolment and have, on average less than 100 students enrolling. This restricts the institution to enhance the quality of education. There are hardly 4 percent of institutes enrolling more than three thousand students annually because of a lack of standardized quality of education and regional limitations due to underdevelopment. The ruling government decided to revamp the Indian education system by establishing and announcing a broader National Education Policy 2020 to encourage the sector's growth. In the proposed NEP 2020, a fragmental focus is placed on life skills that include financial education and literacy. India generally ranks poorly in terms of overall education and gross enrolment ratio. Hence, financial literacy is a far-fetched dream to achieve.

If one looks at the bright side, India is one of the most populated countries with an adult population. At present, the current percentage of population for Gen Z who is born between 1997-2012 is 27 percent and that is where this study focuses. Gen Z is different in several aspects regarding their behaviour, and decisions related to life, education, occupation, and personal life. The habits of spending and investment are also distinct from the previous generations of millennials, Gen Y, and Baby Boomers.

Thus, this calls for a comprehensive look into the distinct area of study and identify how NEP 2020 can aid the financial literacy and change certain non-desirable spending and investment habits of Gen Z.

Review of Literature

Generation Z

According to the Pew Research Center, Generation Z refers to the generation born between 1997-2012, following millennials (born between

1981-1996). They have very different approaches towards everything, and henceforth they are changing the world with their new approach to everything. Gen Zs are the children of Gen X, people born between 1965 and 1980 and they are the prior generation to Gen Y; People born between 1981 and 1996. Generation Z is also called zoomers, iGeneration, Gen Tech, Digital natives, Gen Wii, Founders, Centennials, post-millennials, or Homelanders. They spend their time largely online (working, learning, spending three to six hours daily on social media, viewing movies and other entertainment content, etc.). Further, Gen Z expects to utilize the information, follow reviews, and do their homework before buying anything (Grigoreva et al. 2021).

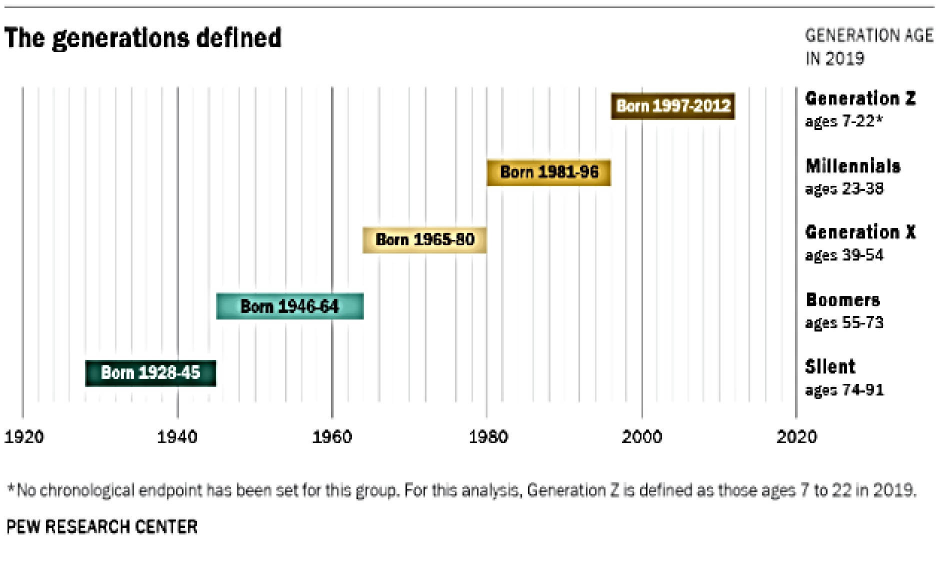


Figure 1: Definition of Generations, Pew Research Center

In comparison to the world's most developed countries, India has a major share of millennials and Generation Z in terms of the total population. Millennials and Generation Z sum up to 52 percent of the population as of 2021, which is higher than the global average of 47 percent. Up to 2030, when India's share of Generation Z and Millennials will be 50 percent, greater than the global average of 46 percent, this trend will continue for the coming decades.

Generation Z has a predominately WEIRD (Western, educated, industrialized, affluent, and democratic) upbringing, which is found to be true for the upper-class and upper-caste population in India's major cities. Gen Z, however, expresses themselves differently in second- and thirdtier Indian towns due to the fusion of two diametrically opposed sources of influence, which makes them uniquely distinctive. To comprehend these differences, it is crucial to take note of how Gen Z in non-metro cities in India differs from the Gen Z global schema.

As far as financial well-being is concerned, Malaysia's Gen-Y was found to be a major defaulter with 47 percent in 2013 (Alwi et al. 2015). It further shows that Gen Y finds difficulties in saving money and has limited knowledge of financial planning. Thus, it is intriguing to check the same phenomena for Gen Z as well. Wijaya and Afgani (2021) found a significant impact of financial literacy and risk tolerance on stock investment among Generation Z.

Regarding the Gen Z population in India, a recent study conducted by Srivastava et al. (2023) attempted to compare and assess consumer behaviour between Gen Z and Gen Y regarding the acceptability and implementation of digital payment and other FinTech services. The findings indicated that behavioural intention was significantly influenced by customer satisfaction, effort expectancy, and performance expectancy.

Investment and Spending Habits

Kreinin (1959) observed a positive connection between age and responsibility for investment in different avenues. Zhong and Xiao (1995) likewise observed that age positively affects stock property. They further clarified that corporate security is one enhancement to benefits reserves. Hossain and Nasrin (2012) likewise observed that age significantly affects capital determination choice.

As per the views of Marda et al., the interest and ease of access affect investment activities for millennials and Gen Z. Adding to it, the authors have found a significant relationship between the ease of having an integrated educational platform and general interest in investment.

According to Mazzatto (2022), the security of Generation Z is their top priority. There is a good chance that Generation Z, like Millennials, may lose faith in huge organizations after seeing the 2008 Financial Crisis at such an early age and the current COVID-19 pandemic as young adults.

Ahuja and Grover (2023) discovered intriguing findings in their recent study concerning the Indian setting on the correlation between Gen Z's propensity to invest in stock markets and their overindulgence in social networking sites. The mediating effects of perceived behavioral control and financial attitude were also examined in this study. The findings indicated that excessive usage of social networking sites had a beneficial effect on investment intention. Financial attitude and perceived behavioral control were also found to have a significant influence on investment intention.

The results of Michaela and Anastasia's study from 2022 showed that saving practices and financial literacy had a big influence on the capital market investments made by Generation Z. According to this report, Generation Z is changing from a society that saves money to one that invests it.

According to Birari and Patil's (2014) study on investment and spending habits, it was discovered that students with varying levels of education have considerably diverse spending patterns over a wide range of categories. It was also observed that the gender difference is also evident to some extent. This generation’s personal disposable income gets spent on products and services such as fast food, shopping, investments, mobile phone costs, and transportation. There is a tremendous opportunity for internet advertising, shopping centers, retailers, motels, fast-food chains, and mobile phone firms to capitalize on young people's spending.

A recent study conducted in Indonesia by Prasetyo and Rahidi (2022) observes Gen Z as one of the fastest-growing investor bases. When Generation Z makes trades in the stock market, they are not entirely rational since they also have behavioural biases and a lack of financial understanding.

According to the study by Dukhande et al. (2022), the respondents who largely belonged to the initial stages of Generation Z found knowledgeable about mutual funds as a possible channel for investing their money, and most of them had already done so. Nugraha & Rahadi (2021) while analysing “Young Generations Toward Stock Investment Intention in an Emerging Market,” found that attitudes to behaviour were found to have a major influence on stock investment. This attitude is also affected by financial literacy.

The study's (Ilyas et al., 2021) results provide credence to the idea that investing intention is positively influenced by financial literacy. The intention to invest is independent of one's financial circumstances. The financial mentality has a beneficial impact on investment intention. Both financial well-being and financial literacy have a favourable impact on one's financial attitude. Financial attitude may act as a partial mediating factor in the relationship between investment intention and financial knowledge.

However, one's financial attitude can act as a complete mediator in the relationship between investing objectives and financial security. Better financial attitudes and knowledge are expected among Gen Z and Millennials, which will increase interest in more targeted investments.

A high financial literacy rate is linked to investor rational decision-making because persons with better financial literacy tend to engage in procedures that lead to economic and wise decision-making (Lantara & Kartini, 2015)

In terms of financial investment chances, Gen-Z is particularly receptive by nature, according to descriptive research by Gupta and Nihlani (2021). But they require readily available tools to help them navigate this constantly evolving industry. The study analyzed several variables that affect their investment choices. Even if the process is largely hassle-free as of 2021, an investigation based on the accessibility and simplicity of using demat accounts revealed that there is still room for improvement.

More youthful ages, regardless of whether they be recent college grads, Gen Z, or past, are bosses of progress with regard to conventional monetary services because of a variety of variables.

According to the study done by Michael McQueen Gen Z’s explores technology more than the other generations like Gen X and Millennials, according to the study conducted Gen Z spends more than one hour and twenty minutes on average in front of a TV or Mobile or PC as many information regarding financial investment is on one click away for them, and they use this advantage in favor of them.

According to Bascha (2011), Generation Z values honesty, self-dependence, adaptability, and self- freedom as non-negotiable traits. The study also suggested that the Gen Z people are more like a risk-averse generation as they grew up in a very protective environment and under the very secure umbrella of their parents so it is very different to say how will they treat risk associated with the investment

Suryani et al (2022) found multiple overlapping factors determining millennials and Generation Z for their investment decisions. The first set of factors are intrinsic and personal, such as financial literacy, self-motivation, surrounding society, experience of investment, and availability of capital. The second set of factors are external market forces such as publicly available information and its transparency and digital content creators.

According to the EverFi survey (2023), 84 percent of Gen Z rely on their parents and family for financial advice even though the majority of them are worried about financial literacy. This is problematic as many parents have varying financial knowledge and have invested in less sophisticated options for savings, retirement, mortgages, and loans than they did growing up. Further, they frequently do not completely comprehend these options themselves. This can lead to a generational curse being passed on regarding poor financial decisions from one generation to another. Financial education and literacy can help break this curse.

The world has changed significantly from ten years ago due to recent moves towards self-service, automation, AI, and a multitude of App-based services for pre-approval credit cards, stock investments, and loans. Generation Z needs to make additional financial decisions than its predecessors did because many banks and employers no longer provide comprehensive support for retired professionals investing in retirement.

Several members of Generation Z watched millennials struggle with debt and school loans as they grew up, which affected their financial practices. Gen Z tends to be quite leery of taking on any debt. While taking on excessive debt might sometimes be a terrible financial move, Generation Z must also establish credit and take on little, manageable debt to obtain mortgages and loans in the future and make greater financial decisions.

Programs for teaching innovative debt management to Gen Z consumers should focus on enhancing their creditworthiness. Also, knowing how debt works will help Gen Z consumers manage their money more effectively. Even though many people already realize that having too much debt is harmful, many people nevertheless use credit cards from an early age.

According to a recent study by Nag and Shah (2022), financial literacy most positively impacted, Gen Z investors' inclination to invest was most positively impacted by financial literacy. The mediating variables, attitude toward investing and perceived behavioral control, strongly positively impacted investment intention. The attitude toward investing and the perception of behavioral control were both positively impacted by financial literacy.

Financial behavior and financial well-being are positively correlated, but financial fragility has a negative impact on financial behavior, according to a study by Shankar et al. (2022) on the financial well-being of Indian Gen Z students regarding financial literacy, financial fragility, financial behavior, and financial technology. Remarkably, it was discovered that financial well-being is not much impacted by financial technology or financial knowledge.

Financial Literacy

As quoted by Castro, R.G. et al (2021), financial literacy and financial education are defined by the Organization for Economic Co-operation & Development (OECD) as “To make wise financial decisions and eventually achieve individual financial well-being, one must possess the combination of financial awareness, knowledge, skills, attitude, and behavior known as financial literacy” (OECD, 2012). On the other hand, financial education is defined as “the process by which financial consumers and investors gain a better understanding of financial products, concepts, and risks and, through information, instruction, and objective advice, gain the skills and confidence to become more aware of financial risks and opportunities, make informed decisions, know where to go for help, and take other effective actions to improve their financial well-being.” (OECD, 2005). Knowing how to handle money, planning for various financial goals, and selecting the right financial avenue are just a few examples of the information, attitude, and behaviour that make up financial literacy.

Worasatepongsa, P., & Deesukanan, C. (2022) observed that Generation Z in Thailand, despite having a great hold on financial management ability, showcased poor investment habits.

Nonetheless, despite its importance, India has the lowest level of financial literacy among all the BRICS countries, according to a 2019 National Center for Financial Education. Similarly, “only 27% of Indians are financially literate”, according to a recent survey by the Securities and Exchange Board of India. Financial literacy is rarely promoted in schools, despite parents often trying to educate kids about managing finances by opening a bank account for them or even by giving them a toy moneybox at home. As a result, India's educational system significantly lacks institutional rigour, which leaves pupils uninformed and unprepared. The youth fall into a deeper hole due to the developmental gap in financial literacy (Bhattacharyya, *Telegraph*, 11 Jul 2022). In this rapidly growing digital AI world, fostering financial literacy from schooling years has become crucial. Furthermore, everyone had to "handle their funds" as a result of the recent pandemic, which emphasizes how important financial literacy is in India. Many mobile and digital personal financial tools have been developed over the past several years to help consumers better organize, streamline, and manage their funds. These apps also offer advice on making investments and creating surpluses. Yet, relying solely on these programs without any background knowledge can be detrimental. Financial "literacy" can be acquired by carefully studying the many facets of the financial world.

Yang et al. (2021) explored strong relationships among “risk tolerance, financial well-being, financial literacy, overconfidence bias, herding behaviour, social interaction, stock market investment intention, and stock market participation.”

According to Burnet (1965), financial literacy is not only about writing or reading but it is also about learning, knowing, choosing, improving, comparing, creating, and achieving basic status in society and human rights.

As per an empirical study by Do, H.L., & Pham, B.L. (2022), financial literacy is most strongly impacted by knowledge about investments and savings. Financial conduct, financial attitude, and financial knowledge are additional internal components that have been recognized as reflecting models influencing financial literacy. In addition, the study looked at the positive impacts of age, income, and education level on financial literacy in contrast to gender's negligible effect.

As per the views of Jackson, literacy is not only about learning or understanding things, but it is also about interpreting and reflecting on the behaviour to make decisions and communication. "Literacy as a socially constructed activity and argues that literacy contributes towards both, constructing the reality in which it operates and is concurrently influenced by reality; each plays a part in the production of the other," Gee (1990) noted.

According to Jacob, Hudson, and Bush (2000), financial knowledge has become an essential skill and survival tool for people. In his study, Hogarth J.M. (2006) stated that “financial education includes: (1) being knowledgeable, educated, and informed on the issues of managing money and assets, banking, investments, credit, insurance, and taxes; (2) understanding the fundamental concepts underpinning the management of money and assets (for example, the time value of money in investments and the pooling of risks in insurance); and (3) using that knowledge and understanding to plan, implement, and evaluate financial strategies.”

According to Coussens (2006), “Financial literacy represents the combination of financial access, education and understanding plus Investors’ interest, attitude and practices that directly affects the financial effectiveness of the investors and will directly or indirectly affect the society at a large~~.~~"

Aryadi (2022) received the conclusive result of the study finding where that financial literacy affected people's investment decisions.

Juwita et al. (2022) show that non-fundamental variables are still important, as seen by herding and heuristics on millennial and Generation Z investors in Indonesia. Another implication is that, in the very volatile environment of the Bitcoin market, many investment decisions are "not yet" sound.

The globalization period has increased the significance of having a sound financial understanding for long-term money management. Every person has a basic level of knowledge necessary to manage their resources for future requirements. The ability to manage money has long been a crucial life skill for people engaged in economic activity. Financial literacy is defined by Sarega (2017) as information, skills, and beliefs that have the power to change attitudes and behaviour to enhance the accuracy of processing and financial decision-making for obtaining wealth.

According to Tustin (2010), financial literacy fosters people's cognitive and financial abilities and encourages them to budget and manage their finances appropriately. As a result, those who are financially literate are conscious enough to use financial goods like stock, insurance, and others. People must be financially literate to maximize their return on investment.

There are certain dangers when it comes to investment and the financial well-being of Indians. According to a recent poll globally, over 70 percent of Indian respondents can hardly manage their personal finances for a quarter since they underinvest in emergency savings. This was found evident during the times of the Covid-19 pandemic. Many families are left without any survivable funds in the case of huge hospitalization bills and loss of jobs. The VISA survey also found surprising results such as "Indian parents do not talk to their kids about money management as often as they should." The nation averaged 10 days in a year as compared to the average of 19 days globally when it comes to conversations between parents and their kids about budgeting, saving, and responsible spending.

According to a global poll conducted by Streak, a teen-focused Neobank, only 27 percent of adults in India hold basic financial literacy, which is lower than the rates in the US (57 percent), the UK (67 percent), and Singapore (59 percent). Up to 45 percent of students have no idea how to make a budget, and 60 percent of students have no idea what investments are, how risk and reward work, or how much money is worth over time. On the other hand, students' comprehension of concepts like interest computation, financial products, and the fundamentals of inflation was only slightly better.

NEP 2020

In 2020, the Indian government unveiled its new education strategy- The National Education Policy 2020 (NEP 2020) was envisaged in response to the recommendations made by a panel of experts led by Dr. Kasturirangan, a former chief of the Indian Space Research Agency (ISRO). It was created to modernize the present educational system and establish a guideline for a better and more inclusive India. On July 29, 2020, the Indian cabinet gave their approval. Looking back to the development of the education policy framework, India enacted the first NEP in 1968 and the second one, following a long pause, in 1986. The incumbent Bhartiya Janta Party (BJP) committed to implementing radical reform in the Indian educational sector in its election campaign for the 2014 parliamentary elections (Saha Mushkan, 2020). The Draft NEP proposes decreasing course content to improve critical thinking, experiential learning, and more all-encompassing learning that encourages peer discussion and logical thinking. Additionally, it proposes changing the course curricula and teaching framework from a *ten plus two* system to a five plus three plus three plus four system design to enhance student understanding based on young children's intellectual growth. A new National Education Policy was adopted by the government on July 29, 2020, to revamp the current Indian educational system.

The gap between public and private institutions has been reduced thanks to tendencies toward liberalizing educational systems. The likelihood of choosing a degree that will lead to better career options in the future has risen significantly in recent times (Hiremath, S. S., 2020). In this common situation, NEP 2020 is introduced to give the Indian educational system a boost and advance it to the next level.

As found in the empirical study by Kalyani, P. (2020), NEP 2020 is beneficial to larger groups of stakeholders, including students, parents, teachers, the education system, employers, and the economy, by impacting employability and opportunities for self-employment.

According to a practitioner-based study by Kumar~~,~~ K. et al. (2020), there are several significant gaps and problems on the ground level that must be fixed to encourage “excellent education for all” and achieve NEP 2020's goal of benefiting the entire world. Generally, the age-old Indian educational system has been uprooted by this new NEP 2020. “Additionally, it offers the urgently required structural and institutional adjustments that are completely consistent with the government's massive nation-building initiatives and the SDGs' objectives.” The study by Jorasia and Kumar (2022) shared some constructive observations on the dual degree program proposed under NEP 2020.

Aithal, P. S., & Aithal, S. (2019, 2020) analyzed the NEP 2020 extensively in their two consecutive studies on NEP 2020 regarding implementation strategies. The study listed the merits of NEP 2020 and provided several constructive suggestions for the successful implementation of the NEP agenda. It was determined that the reforms would begin in the academic year 2021–2022 and last through 2030 when the first stage of the transformation would likely become apparent.

Gaur, A. (2022) views NEP 2020 as an advanced document that recognizes the current socioeconomic situation and can address future challenges. He also hopes that by 2030, India might be the world leader in education if properly implemented.

Research Gap

Based on the available literature, it has been observed a lag of conclusive results about the financial habits of Gen Z. Certain salient factors instrument the investment and spending decisions of Gen Z. After a detailed survey of the literature, it has been found to look at the level of financial literacy and its impact on the investment and spending habits of Gen Z.

Further, there aren’t any studies looking at NEP 2020 and its execution for the better financial well-being of Gen Z and future generations. In the draft document, it has been mentioned to incorporate financial literacy as a part of the curriculum. There is still a lot to be contemplated compared to these suggestions toward the implementation level.

While browsing through the existing subjects offered from class VII onwards, there is no subject or content in a subject introduced so far in India’s current education system. The chapter on Money is getting introduced in class X. Hence, it is recommended to include basic financial education starting from class VI, if possible, as the next generation will be far more rapid in terms of understanding and using monetary transactions than Gen Z.

At present this article creates a conceptual framework and will lead to empirical testing in the coming times.

Research Objective

Core Objective: To understand the role of financial literacy in instrumenting investment and spending habits of Gen Z with the help of NEP 2020 implementation.

Sub-Objectives:

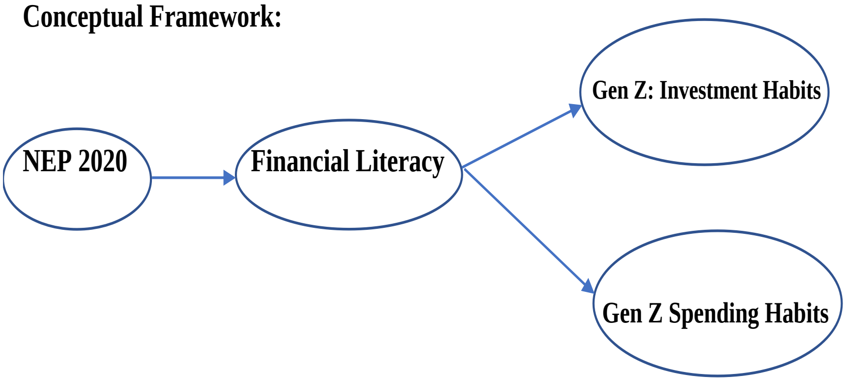
To explore the investment habits of Gen Z.

To explore the spending habits of Gen Z.

To check the available level of financial literacy of Gen Z.

To assess the impact of financial literacy on the investment and spending habits of Gen Z.

Conceptual Framework:



Methodology

This article is purely based on secondary data. It is exploratory in nature. The data sources are academic journals, web resources, consultancy reports, and published reports from government authorities.

This article is based on the conceptual discussion on the characteristics of Gen Z, exploring the overall level of financial literacy scenario in India, identifying specific differences in terms of investment and spending habits of Gen Z and Millennials, and highlighting the gist of the NEP 2020 framework. The measurement scales for investment and spending habits have been identified. Further, there are several reliable scales available for gauging financial literacy. In the subsequent study, the survey will be conducted, and results will be concluded with the help of statistical methods.

Implications of the Study

We recommend initiating the inclusion of basic financial literacy courses starting from a single chapter while implementing NEP 2020 in the new pattern of reform beginning from secondary school education. As per the NEP 2020, the new segment of secondary school is designed to provide multidisciplinary subjects including Liberal Arts education. Apart from schooling, students opting for non-commerce fields such as humanities, science, fine arts, technology, and engineering should also have at least a single course during their overall curriculum.

We also observed that several families suffer from limited or loss of financial well-being and are heavily trapped from generation to generation in the web of loan sharks and private lenders. This is a generational curse that can be reduced and eliminated if the future generation of those have a basic understanding of managing their financing.

From the study of available secondary resources, it is found that two distinct entities namely, the financial education section of NSFE and NEP 2020 of Higher Education that deal with financial literacy must be connected. According to the NSFE's implementation plan for 2020–25, content must be created targeting specific audiences ranging from teachers, schoolchildren, young adults, women, new employees, entrepreneurs, senior citizens, and illiterate people separately and be delivered via multiple mediums in regional language for better spread and adaptability. For pupils in Grades VI through X, the financial education curriculum has to be updated. Accessibility for people with impairments should be improved for financial literacy content (Divyangjan, etc.). By using co-curricular methods and promoting financial literacy as a crucial component of vocational programmes such as ITI and Poly-Technical courses and developing courses on basic financial literacy for students in higher school classes (Classes XI-XII).

A thorough assessment of the literature was done by Goyal et al. (2021), taking into account a variety of factors that affect personal financial management behaviour (PFMB). Financial literacy (FL), technical components, psychological characteristics, social and cultural dimensions, financial experience, and socioeconomic level were these categories. Some of the primary outcomes of PFMB are financial well-being, quality of life, financial success, happiness, financial vulnerability/resilience, and financial pleasure. Further research is needed to evaluate the independent impacts of these antecedents and determinants on variables such as financial literacy, financial decision-making, and financial well-being.