Examining Financial Literacy and Financial Decision-Making: Insights from Service Sector Workers in Aizawl, Mizoram

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Abstract

This research examines the financial literacy and personal financial management practices of the service sector workers of Aizawl, Mizoram. The groups covered include government employees, private sector employees, small business owners and self-employed workers. A structured questionnaire which evaluates financial literacy and personal financial management practices, such as periodic savings, health and life insurance holding, and pension scheme enrolment was employed for collecting primary data. The OECD 2022 toolkit, which combines financial knowledge, behaviour and attitudes into a single composite index, was used to measure financial literacy. Statistical techniques, such as descriptive statistics, correlation analysis, and ANOVA, were applied to investigate relationships between financial literacy, demographic factors, and financial decision-making practices. The study shows a moderate level of financial literacy with high disparities across various income groups and employment groups. A positive relationship between financial literacy and active positive financial management practices is also found. These findings confirm the importance of focused financial education programs for improving decision-making capabilities, ensuring financial resilience, and promoting financial inclusion and highlight the usefulness of these insights to policymakers in developing economies.

Keywords: Financial literacy, Financial knowledge, Financial behaviour and Financial attitude

Introduction

Financial literacy is an essential ability that enables individuals to make sound financial choices and prepare for long-term financial well-being. The OECD (2022) defines financial literacy as a blend of financial knowledge, behaviour, and attitudes, which together define an individual's capacity to manage financial problems. Measuring these elements gives a complete picture of financial capability and its contribution to decision-making.

Financial product diversification is a major concern for a person who wants to have good financial stability. Investing in products like fixed-term deposits, mutual funds and recurring deposits helps in the accumulation of wealth. Pensions, health insurance and life insurance will ensure the reduction of risks and protection against unexpected financial challenges. Modigliani’s life-cycle hypothesis emphasizes the importance of savings and sound personal

financial management during the working years of an individual for long-term financial stability (Modigliani & Brumberg, 1954). By diversifying their portfolios, individuals can better manage uncertainties and achieve a stable standard of living even after retirement.Demographic factors significantly influence financial literacy and diversification. Variables such as age, education, income, and employment type affect financial knowledge and access to resources, shaping financial priorities and behaviour. Mizoram, despite having one of the highest literacy rates in India, paradoxically reports one of the lowest financial literacy levels in the country. This contrast emphasizes the need to explore the socio-economic and demographic dynamics that impact financial literacy in this context.

This paper investigates the financial literacy and financial product diversification of service sector workers in Aizawl, Mizoram. It examines how demographic and financial factors interact to influence financial well-being. By studying these relationships, the research provides insights into improving financial capability in regions with unique socio-economic challenges.

Literature Review

Financial literacy has been accepted globally as a pillar of personal money management and long-term economic security. Lusardi and Mitchell (2014) underscore that people with higher financial literacy are likely to practice good financial behaviours, such as effective risk management and retirement readiness. Behrman et al. (2012) and Van Rooij et al. (2012) indicate how higher financial literacy foretells wealth accumulation and good retirement planning, validating the importance of specific education to cover financial knowledge deficiencies. Bhushan (2015), in research conducted on salaried individuals in Himachal Pradesh, India, pointed out that positive financial attitudes and higher financial knowledge contribute substantially to financial planning. Loke et al. (2015) also observed that people with higher financial literacy tend to practice persistent saving and budgeting habits, while those with lower literacy tend to practice risky financial behaviours such as overspending and debt build-up.

Empirical studies in India provide valuable insights into regional and demographic variations in financial literacy. Lone and Bhat (2022) examined business school faculty in Jammu and Kashmir and found that financial literacy positively impacts financial well-being, with financial self-efficacy acting as a partial mediator. Rawat et al. (2022) examined the financial literacy of women in the service sector of Delhi, finding that income levels, marital status, and household responsibilities significantly improve financial knowledge. Kharkar (2024) discussed the savings and investment habits of salaried people in Wardha City, which is usually restricted by low financial literacy, and this is the reason why people do not adopt modern financial products. Another recent study by Sagar (2024) was about retirement planning in India, which presented evidence that financial literacy explained a significant portion of the variance in retirement planning. Participants with better financial literacy were more likely to make regular savings, contribute to retirement accounts, review strategies annually, and diversify their investments.

Financial inclusion research explains the availability and utilization of financial services.

Vanlalmuana and Gupta (2015) examined private school teachers in Aizawl, with high ownership of bank accounts but limited utilization of recurring deposits and insurance schemes. Lalhmingsangi. (2018) measured financial inclusion among unorganized workers in Mizoram and found low coverage in financial schemes with moderate awareness levels. Gupta and Kaur (2014) give a wider view, stressing that financial literacy minimizes financial strain, improves investment choices, and supports long-term stability. Taken together, these papers highlight the critical role of financial literacy in achieving financial resilience and well-being and the need for targeted interventions to close persisting gaps.

Objectives

1. To assess the financial literacy levels of service sector workers in Aizawl and evaluate their impact on financial decision-making practices.
2. To examine the ownership patterns of financial products among service sector workers.
3. To analyze the relationships between financial literacy, demographic characteristics, and financial product diversification.

Methodology

Study Design

This study adopts a quantitative method to examine the relationship between financial literacy and financial decision-making among service sector workers in Aizawl, Mizoram. It focuses on assessing financial literacy levels and their influence on the financial decision-making practices of the respondents.

Data Collection

Primary data were collected through personal interviews using a structured questionnaire designed to measure financial literacy using the OECD (2022) toolkit. Data on participants' ownership of financial products, savings habits, insurance participation and pension scheme enrolment were also collected. Demographic characteristics such as age, income level, employment type, educational qualifications, the number of dependents and years of work experience were also gathered during the interviews.

Sampling Method

The study employed purposive sampling to ensure the representation of diverse subgroups within the service sector. The sample consisted of 52 respondents collected from the Tlangnuam Rural Development (RD) block of Aizawl District. Although the sample size is small, it is appropriate for conducting preliminary statistical analyses and drawing meaningful insights relevant to the research objectives.

Method of Analysis

Descriptive statistics have been used to summarize demographic characteristics, the level

of financial literacy, and financial product diversification. Correlation analysis was performed to assess the relevant relationships between financial literacy, financial product diversification, years of work experience, and the number of dependents. Besides, analysis of variance (ANOVA) was carried out to analyze differences in the level of financial literacy between categorical variables like age, educational qualifications, income, and employment type. The above analytical techniques enabled the investigation into how financial literacy influences financial behaviours and practices in terms of making various decisions among service sector workers**.**

Result and Discussion

This section outlines the study's findings, starting with an overview of the respondents' demographic characteristics, followed by an analysis of financial literacy levels, financial product ownership patterns, and the interrelationships among key variables.

Demographic Profile

The demographic profile gives a complete picture of the respondents' characteristics, such as variables like gender, age, educational qualifications, income level and type of employment providing key context for interpreting differences in financial literacy and diversification of assets.

Table 1: Demographic Profile

		No. of respondents	Percentage (%)
Gender	Male	23	44.23
	Female	29	55.77
	Total	52	100.0
Age	<25	8	15.38
	25-34	23	44.23
	35-44	13	25.0
	45-54	5	9.62
	>54	3	5.77
	Total	52	100.0
Educational Qualification	Higher Secondary	9	17.31
	Graduate	23	44.23
	Postgraduate	20	38.46
	Total	52	100.0
Annual Income	< ₹1,00,000	7	13.46
	₹1,00,000 - ₹2,00,000	8	15.38
	₹2,00,001 - ₹5,00,000	17	32.69
	₹5,00,001 - ₹10,00,000	11	21.15
	> ₹10,00,000	9	17.31
	Total	52	100.0
Employment Type	Government Employee	16	30.77
	Private Employee	20	38.46
	Business Owner	9	17.31
	Self-Employed	7	13.46
	Total	52	100.0

The sample included 52 workers of the service sector in Aizawl, Mizoram, representing a well-balanced mix of genders and assorted age groups, with a majority under the younger and middle-aged age groups. Higher secondary to postgraduate levels were covered under educational qualifications. Annual income levels varied among respondents, and they belonged to government, private, self-employed, and business categories, providing a wide range for analysis.

Furthermore, information on the number of financial dependents of the respondents and their years of work experience was also recorded.

Financial literacy

Financial literacy, as it is quantified with the OECD 2022 toolkit, combines financial knowledge, behaviour, and attitudes into a composite measure. It is formally tested across all demographic groups, including gender, age, education, income, and employment type, to explore differences in financial decision-making capability.

The OECD 2022 toolkit evaluates three core dimensions: Financial Knowledge (FK), Financial Behaviour (FB), and Financial Attitude (FA). These dimensions are measured separately, with FK scored out of 7, FB out of 9, and FA out of 4, culminating in a composite Financial Literacy (FL) score with a maximum of 20 points.

Table 2: Financial literacy

		Financial Knowledge (FK)	Financial Behaviour (FB)	Financial Attitude (FA)	Financial Literacy (FL)
All Respondents		5.26	6.86	2.73	14.86
Gender	Male	5.39	7.09	2.83	15.30
	Female	5.17	6.69	2.66	14.52
Age	<25	5.00	6.62	2.56	14.19
	25-34	5.17	6.57	2.63	14.37
	35-44	5.38	7.15	2.88	15.42
	45-54	5.40	7.40	2.90	15.70
	>54	6.00	7.67	3.00	16.67
Educational Qualification	Higher Secondary	5.22	6.22	2.56	14.00
	Graduate	5.09	6.87	2.89	14.85
	Postgraduate	5.50	7.15	2.62	15.28
Annual Income	< ₹1,00,000	4.71	5.14	2.43	12.29
	₹1,00,000-₹2,00,000	4.00	6.62	2.69	13.31
	₹2,00,001-₹5,00,000	5.29	7.24	2.74	15.26
	₹5,00,001-₹10,00,000	5.91	7.00	2.73	15.64
	> ₹10,00,000	6.00	7.56	3.00	16.56
Employment Type	Government Employee	5.80	7.00	2.90	15.70
	Private Employee	5.40	6.80	2.80	15.00
	Business Owner	5.20	6.60	2.70	14.50

	Self-Employed	5.00	6.40	2.60	14.00

The mean financial literacy score among the respondents was 14.9, and significant differences were noted across demographic and income levels. Greater financial literacy was correlated with higher income levels, while lower-income respondents with lower annual incomes showed the lowest scores. The older age cohorts, especially those 55 years and older, showed the greatest financial literacy, underscoring the influence of experience and long-term exposure to making financial decisions in developing financial knowledge.

Ownership of Financial Products

Financial product diversification (FPD) is assessed based on ownership of specific financial instruments, with a scoring system to reflect the extent of diversification. Each respondent earns 1 point for owning either a fixed-term deposit, mutual fund, or recurring deposit (considered collectively as savings instruments). Additionally, 1 point is awarded for ownership of health insurance, 1 point for life insurance, and 1 point for participation in a pension scheme. The total potential score ranges from 0 to 4, where 4 represents complete diversification across these essential financial products. This scoring method provides a structured way to evaluate financial planning and risk management.

The proportion of each financial product within different demographic segments is shown in the table below, providing insights into diversification patterns and demographic differences. This methodology identifies the nexus between financial literacy and diversification of financial product ownership.

Table 3: Ownership of Financial Products

Variable	Category	Fixed/Term Deposit (%)	Mutual Fund (%)	Recurring Deposit (%)	Health Insurance (%)	Life Insurance (%)	Pension (%)	FPD
All Respondents		44.23	17.3	40.38	73.07	48.07	57.69	
Gender	Male	43.5	13.0	39.1	69.6	65.2	52.2	2.40
	Female	44.8	20.7	41.4	75.9	72.4	62.1	2.50
Age	< 25	37.5	25.0	37.5	75.0	62.5	50.0	2.50
	25-34	30.4	8.7	21.7	60.9	52.2	39.1	1.80
	35-44	53.8	15.4	69.2	76.9	69.2	76.9	2.90
	45-54	80.0	20.0	20.0	100.0	90.0	80.0	3.20
	> 54	66.7	66.7	100.0	100.0	100.0	100.0	4.00
Educational Qualification	Higher Secondary	22.2	11.1	22.2	77.8	55.6	33.3	2.00
	Graduate	34.8	17.4	47.8	69.6	60.9	47.8	2.20
	Postgraduate	65.0	20.0	40.0	75.0	85.0	80.0	2.90
	< ₹1,00,000	28.6	14.3	14.3	57.1	50.0	42.9	1.40

	₹1,00,000-₹2,00,000	25.0	0.0	25.0	62.5	37.5	62.5	2.00
Annual Income	₹2,00,001-₹5,00,000	35.3	23.5	58.8	64.7	58.8	47.1	2.50
	₹5,00,001-₹10,00,000	72.7	9.1	27.3	81.8	72.7	63.6	2.60
	> ₹10,00,000	55.6	33.3	55.6	100.0	88.9	77.8	3.30
Employment Type	Government Employee	62.5	12.5	37.5	93.8	87.5	93.8	3.20
	Private Employee	30.0	25.0	45.0	55.0	45.0	55.0	2.00
	Business Owner	44.4	22.2	55.6	77.8	55.6	22.2	2.20

The analysis of financial product ownership across demographics reveals key patterns. Older age groups, particularly those above 45 years, exhibit higher diversification, reflecting greater ownership of financial products such as pensions, health insurance, and life insurance. Higher educational qualifications are associated with broader diversification, with postgraduates displaying the most diversified ownership. Income plays a significant role, with higher-income groups showing extensive ownership across all product categories, highlighting the impact of financial capacity. Among employment types, government employees demonstrate the highest diversification, likely due to better access to pensions and insurance. These findings underscore the influence of demographics on financial decision-making and diversification.

Correlation Analysis

Correlation analysis was conducted to examine the relationships between financial literacy, financial product diversification and the demographic variables among the service sector workers in Aizawl. This analysis helps understand whether financial knowledge influences investment choices and diversification patterns. Pearson correlation analysis was employed to assess linear relationships between continuous variables.

Correlation between Financial Literacy and Financial Product Diversification

This study examines the relationship between Financial Literacy (FL) and Financial Product Diversification (FPD) using Pearson's correlation. It investigates whether higher financial literacy levels are correlated with higher diversification of financial products which aids in gradual wealth accumulation and provides protection against unexpected financial challenges.

Table 4: Correlation between FL and FPD

Variables	Correlation Coefficient (r)	P-value	Significance
Financial Literacy (FL) and Financial Product Diversification (FPD)	0.41	0.0028	Significant at 0.01 level

This indicates a moderate positive correlation, and the p-value suggests that the relationship is statistically significant at the 0.01 level. This supports the conclusion that higher financial literacy is associated with greater asset diversification among the respondents.

Correlation Analysis Between Financial Literacy and Working Experience

The correlation analysis investigates the relationship between Financial Literacy (FL) and Working Experience. Working experience is collected in years, representing the duration of an individual's professional engagement in their respective fields. This metric serves as a proxy for exposure to financial decision-making over time. Pearson correlation was used to evaluate the linear relationship between these continuous variables, making it an ideal choice for assessing how professional experience influences financial literacy levels.

Table 5: Correlation Analysis between FL and Working Experience

Variables	Correlation Coefficient (r)	P-value	Significance
Financial Literacy (FL) and Work Experience	0.34	0.0139	Significant at 0.05 level

The correlation analysis between Financial Literacy (FL) and Working Experience reveals a positive relationship, with a Pearson correlation coefficient of 0.34. This indicates a moderate association, suggesting that as years of professional engagement increase, financial literacy levels tend to improve. The statistically significant p-value of 0.0139 supports this finding, highlighting that prolonged exposure to workplace environments and financial decision-making processes enhances financial knowledge, behaviour, and attitudes. These results emphasize the role of accumulated professional experience in fostering better financial literacy.

Correlation analysis between No of dependents and Financial Product Diversification (FPD)

This analysis examines the relationship between the Number of Dependents and

Financial Product Diversification (FPD). The number of dependents refers to individuals financially reliant on the respondent. Pearson correlation is used to measure the strength and direction of this linear relationship, as both variables are continuous, making it ideal for providing precise statistical insights into their association.

Table 6: *Correlation analysis between No of dependents and FPD*

Variables	Correlation Coefficient (r)	P-value	Significance
No. of Dependents and Financial Product Diversification (FPD)	0.49	0.0002	Significant at 0.01 level

The correlation analysis between the Number of Dependents and Asset Diversification (AD) shows a positive relationship, with a Pearson correlation coefficient of 0.49 and a statistically significant p-value of 0.0002. This suggests that individuals with more financial dependents are likely to adopt broader asset diversification strategies. Such behaviour reflects the need to manage financial risks, ensure stability, and secure long-term resources for dependents, highlighting the influence of family responsibilities on financial decision-making.

ANOVA

The ANOVA analysis explores the relationship between Financial Literacy (FL) and demographic variables, including Age, Educational Qualification, Income, and Employment Type. This analysis examines whether these factors significantly influence financial literacy levels, providing insights into the interplay between demographic characteristics and financial knowledge, behaviour, and attitudes.

Table 7: ANOVA

Variable	Sum of Squares (SS)	Degrees of Freedom (df)	Mean Square (MS)	F-statistic	P-value	Significance
Age	26.59	4	6.65	1.5	0.2178	Not Significant
Education Qualification	10.1	2	5.05	1.1	0.3409	Not Significant
Income	100.83	4	25.21	8.83	0.0	Significant
Employment Type	62.83	3	20.94	5.84	0.0018	Significant

The analysis revealed significant differences in financial literacy based on Income and Employment Type, with higher-income groups and government employees displaying higher financial literacy levels. Conversely, Age and Educational Qualification did not exhibit statistically significant differences in financial literacy. These findings suggest that financial literacy may be more closely tied to economic and professional factors than to educational background or age, highlighting the importance of targeted financial literacy interventions in these domains.

Conclusion

The study delivers rich insights into financial literacy and financial decision-making practices among workers in Aizawl's service sector in Mizoram with emphasis on habits of savings, adoption of insurance, and planning for retirement. Moderate financial literacy levels,

based on the OECD (2022) toolkit emerged as findings from the study. The average level of financial literacy of 14.9 implies areas of potential improvement, more so among those from lower incomes and younger segments. Statistically significant demographic group differences appeared for financial literacy based on income and type of employment, including better financial literacy among higher-income groups and those in government sectors.

Ownership of financial products showed diverse patterns, with older respondents and individuals in higher income brackets displaying greater asset diversification. This was reflected in higher ownership rates of fixed-term deposits, pensions, health insurance, and life insurance among these groups. Gender-wise differences were observed, with women reporting slightly higher financial product diversification than men. These patterns suggest that financial capacity and life experience significantly influence financial decision-making.

Correlation analysis identified a positive correlation between financial literacy and diversification of financial products, work experience, and the number of dependents. The statistically significant correlation between financial literacy and diversification of financial products highlights the contribution of financial knowledge to improved investment and risk management practices. In the same way, work experience had a positive impact on financial literacy, reinforcing the cumulative impact of professional experience. The significant correlation between the number of dependents and the diversification of financial products shows that family obligations influence diversification choices.

ANOVA results showed significant variations in financial literacy levels by income and type of work but not by age or educational qualification. The findings indicate that financial literacy is more dependent on economic and occupational realities than on education level or age.

In summary, this research emphasizes the importance of financial literacy in influencing financial decision-making among service sector employees. The results emphasize the necessity of specific financial education programs, especially for low-income groups and young workers, to increase financial resilience, encourage informed decision-making, and enhance financial inclusion. Policymakers need to prioritize policies that combine financial literacy with affordable financial services to promote economic empowerment and stability in emerging economies such as Mizoram.

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