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A Comparative Study of Financial Literacy Level of Generation Z and Millennial

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Abstract

Financial literacy is the first step towards building an investment attitude. Broadly, the financial literacy of a country contributes significantly in the capital formation for its economy. This study investigates empirically about the financial literacy level of the generation Z and millennials. Generation Z represents people who are born between 1997 to 2012 and millennials represent the people who are born between 1981 to 1996. It is apparent in the existing literature that the generation Z has better literacy and are more vigilant to invest. This study is empirical in nature in which data were collected from 140 respondents (70 from generation Z and 70 from millennials). Results of these studies show that there is a noticeable difference between the level of financial literacy between millennial and generation Z.

Keywords: *Millennial, Generation Z, Financial Literacy, Financial Inclusion*

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Introduction:

Financial Literacy leads to the investment and investment help the economies in the Each and every generation has its own influence on the economy. But millennial or the Generation “Y” have grown up at a time when rapid economic changes are happening. This has given them higher expectations for career as compared to the previous generations. In fact, millennial is poised for reshaping the economy. They are entering the workforce at such a time when the economic instability is high. They are approaching the crucial point of the process of taking financial decisions. Millennials are also often known as instant gratification generation. This generation has very high expectations from the personal and professional lives. High optimism and supreme confidence are some of the most significant characteristics of this generation. It indicates about the level of professional achievement they have. With high and unrealistic aspirations, the millennial are even prone to higher than the average level of disappointment. According to research millennial are dissatisfied the most with the current earnings as compared to their ability to have a desirable lifestyle. They also belong to the generation which is completely digital. It has been raised amidst laptops and computers and cell phones and the other rapidly advancing technologies which is completely changing way individuals are interacting and conducting business **(Annamaria and Tufano, 2015).**

Amongst all the other things, technology is also altering where and the way millennial receive the information with internet, displacing the newspapers as well as television as a source of news. Global interconnectedness has made millennial completely dependent on their peers for motivation and information too. Very soon millennial would make up biggest share of labour force too. It has been projected that approximately by 2025, 3 out of every 4 workers across the globe would be millennial. Their financial planning would affect global economy as compared to the financial planning of their proceeding generations. For understanding the way millennial are prepared for handling the process of taking financial decisions, some studies have been done. These studies examine the extent of financial literacy that young generations have across the globe. Also the factors related to financial knowledge of the millennial are important here. Talking about generation Z, it is facilitated enough for making sound financial planning (**Cwynar, 2020)**. Generation Z belongs to the people who are born after 1990s. the are the most tech savvy people and are keen to learn more in the shorter span of time. Being well connected with the various types of media channels digital and others, and social media, they have more exposure and are the active participants of the information Dissemination. Gen Z members may be considered as the children of the Gen X. It is not necessary that the Gen Z has adequate and mandatory knowledge of digital mediums but as compared with all other generations they are more connected.

Literature Review:

Generation Y is the generation of millennial or the millennial generation. This generation uses a lot of communication that happens instantly. It includes instant messaging, SMS, emails, etc. It's mainly because generation Y is the generation which grew up in such an era when internet is on a boom. Further, it has been revealed that talking about the characteristics of the generation Y, it is different for every individual on the basis of where they grew up, the economic and the social strata of their family, the pattern of communication they followed, etc. All these are quite open as compared to the previous generations, and the fanatical social media platforms users. Their lives are mainly influenced by the technological advancements, they are more open to economic and political views. Thus, they seem to be reactive to the changes happening in the surroundings and they have better attention towards wealth. The generation Z on the other hand is youngest generation which has just made its way into the workforce.

This particular generation is generally known as the regeneration or the "Internet Generation" (**Aboagye and Ji, 2018)**.

This research study objective is to survey the effect of financial literacy and savings motivation on financial management behaviours of millennial students. Research defines information about effect of various strategies that can encourage financial well-being of millennials and to inform policymakers, various education groups and financial institutions in providing more effective financial literacy initiatives for this age of people.(**Amaria, N. P., & Rahmawati, S. D. 2024).**

Gen Z is excessively social through the cyberspace. The generation Z has certain similarities with the Generation However, the generation Z can simply do a lot of activities together. In simple words we can say that they can multi task like run social media through their cell phones, browse the PC and listen to music all at once. Whatever they do is done mostly through cyberspace. Since their childhood only, this generation recognises technology and it's also familiar with the sophisticated gadgets which affect their personality indirectly. According to a survey done by the Forbes magazine on the Generation Z, about 50 thousand kids were surveyed. On the basis of the results of the survey it may be said that the generation Z is one of the first real global generations (**Allgood and Walstad, 2016)**.

According to OECD(Organisation for Economic Cooperation and Development), financial literacy maybe defined as the combination of skill, knowledge, awareness, behaviour and attitude which is important for making sound financial planning and ultimately for achieving financial wellbeing of the individual. From the definition, it may be seen that financial knowledge isn't that simple and it is not possible to measure it so easily. According to the suggestion given by OECD, its measurement is done particularly by 3 dimensions including financial behaviour, financial attitude and the financial knowledge (**Lekhnath and Anong, 2017)**.

For having an effective financial attitude, it means possessing favourable state of mind, judgement and opinion regarding the economic beliefs of the person. Once actualised, it becomes the financial behaviour that is the way through which an individual acts and behaves on her or his finances. Meanwhile, an individual having financial knowledge comprehends some of the major financial concepts. The 5 main concepts which have been included in financial knowledge dimensions are compound interest, simple interest, effect of inflation on the price, time value for money and effect of inflation on the investment return (**Cwynaret.al. 2019)**.

It has also been proposed that people who are literatefinancially are more likely to have a prudent financial plan. They would express it through their investment and savings behaviour. Also, low financial literacy influences their ability to have good savings and also that ignorance regarding the basic financial planning concepts are related to insufficient wealth. Improving the financial literacy of an individual might be the solution for the issue. It has also been seen that financial literacy helps

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in improving the compulsive behaviour of buying. Lastly, on the macro level, financial education has been seen to ameliorate the financial inclusion at the country level (**Finke, Howe and Huston, 2017)**.

Materialism has also been studied widely from different viewpoints like education, marketing, psychology, social anthropology, etc. Regarding the behavioural finance, it's been seen that the people who have better and high materialistic values have high financial worries as well as a good amount of debts too. Further, it has been explained that materialism also influences the issue of credit card, thereby increasing propensity to do impulsive buying (**Terri and West, 2016)**.

In case of children, materialism causes excessiveconsumption as well as impulsive buying. It is the predictor for compulsive buying pattern amongst the adolescents. The students who have a high level of materialism have low level of academic achievement and engagement.

The empirical findings show how materialism helps in altering behaviour of individuals specifically concerning their spending pattern. The materialistic individuals give high significance on and they also spend more for materialistic goods for achieving the goals of their life and the desired state. Excess spending would mean lesser savings since savings are the main difference between consumption and income (**Gambleet.al. 2015)**.

However, some researchers also give a very interesting and contrasting view about materialism. It has been argued that materialism is a very important part of collectivistic culture and it might even benefit the entire society. It might even happen that the people having very high materialistic value would be diligent for obtaining money for consumptive requirements.

On the basis of the significance of financial education for determining the wellbeing, prevalence of social networks amongst the generation Z and potentially negative impact of materialism, researchers have tried to assess the impact of financial education and materialism on the decision of savings of the generation Z (**Karakurumet.al. 2019)**.

In the past few decades, the employers and the governments have transferred responsibility for savings and investment to the individuals. For instance, a reduction in the state sponsored pension scheme in some of the countries signifies that individuals should save for having financial security post retirement. Reducing generosity of the welfare system and an increasing expectancy of life have also contributed towards an environment wherein it becomes difficult to attain financial security post retirement. Expectancy of life is high and it is continuously increasing. This means that younger generation today will have to support itself for a longer time as compared to their previous generations**(Tae, Anderson and Seay, 2019)**.

Also, the financial commodities have now become quite complex. They are also widely accessible because of digital technologies and globalisation. Financial education is considered to be important for financial and economic stability for the economy of a nation as well as for an individual. A wide range of developments in financial marketplace make contributions to the rising issues regarding financial education amongst the citizens of nations. The current financial crisis has proved that ill-informed financial decision happens often because of lack of proper financial education which might have some severe negative consequences.

Financial literacy is extremely important to millennials because they have witnessed many financial decisions that can have a significant impact on their lives. Compared to the options faced by older generations, the financial options faced by younger generations are more challenging. Today, people must take greater responsibility for decision-making, such as investing in additional education or planning for retirement. When making such an important decision, financial education is crucial.

Financial ignorance might prove to be costly. The consumers who are not able to understand that interest compounding can incur more fee for transactions, end up with bigger debts. They also engage themselves in loans which have a higher rate of interest. They also borrow more and save less (**Kobler, Hauber and Ernst, 2015**).

Objective of the study

1. To measure the level of literacy of generation Z and millennials
2. To compare the financial literacy level among generation Z and millennials.

Research methodology

The present study was conducted through survey method in which a sample of 140 respondents (70 from generation Z and 70 from millennial) were considered to compare the financial literacy level among generation Z and millennial. The respondents were chosen based on convenience sampling, they were approached online through google forms. Further, the respondents were clearly informed that if they belong to Generation Z or Millennial, then only they should participate in this survey. Statistical tools like comparative mean and independent sample t-test were applied to get the results.

Findings of the study

Table 1 demonstrated the general details of the people that were surveyed to conduct the present study. The table shows that there are total 140 respondents in which 62.1% are male and rest 37.8%

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are female. 50% of the respondents are from generation Z age group and 50% are millennial. Among them 56.4% are students and 43.6% are working professionals in which 33.6% are having a family monthly income of 50,000-1, 00,000/month, family of 42.1% respondents are having a monthly income of 1, 00,000/month and rest are having monthly income above 2, 00,000/month.

Table 1: General details of the respondents

Variables	Respondents	Total Percentage
Gender		
Male	87	62.1
Female	53	37.8
Total	**140**	**100**
Age group		
Generation Z	70	50.0
Millennial	70	50.0
Total	**140**	**100**
Occupation		
Students	79	56.4
Working professionals	61	43.6
Total	**140**	**100**
Family Income		
50,000-1,00,000/month	47	33.6
1,00,000-2,00,00/month	59	42.1
Above 2,00,000/month	34	24.3
Total	**140**	**100**

Table 2 Comparative Mean Values for Financial Literacy (Generation Z and Millennial)

SL. No.	Financial Literacy	Generation Z	Millennial
1	I am aware of the investment avenues available	4.29	3.61
2	I know my risk profile	4.25	3.40

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3	I know about the concepts like Power of Compounding and Rupee cost averaging	4.39	3.51
4	I understand the difference between risky and risk-free investments	4.51	3.14
5	I have done a formal assessment of my future financial needs	3.49	3.01
6	I am aware of matching my investments with my risk profile	4.19	3.09
7	I regularly take advise from financial advisor or experts regarding investments	4.33	3.13
8	I show interest in understanding the new financial products	4.37	3.21

Table 2 is demonstrating the comparative mean values for Financial Literacy between Generation Z and Millennial. It is found from the table that generation Z group are more aware of the investment avenues available as they are showing higher mean value (4.29) as compared to millennial with the mean value 3.61. Generation Z is showing higher mean value (4.25) when they say that I know my risk profile as compared to millennial with the mean value 3.40, generation Z says that I know about the concepts like Power of Compounding and Rupee cost averaging with higher mean value (4.39) as compared to millennial with the mean value 3.51. Generation Z group shows higher mean value (4.51) and (3.49) for the statements I understand the difference between risky and risk-free investments and I have done a formal assessment of my future financial needs as compared to millennial with the mean value 3.14 and 3.01 respectively. Generation Z group is showing higher mean value (4.19) when they that I am aware of matching my investments with my risk profile as compared to millennial with mean value 3.09 and similar results are shown when generation Z group says that I regularly take advise from financial advisor or experts regarding investments with higher mean value (4.33) as compared to millennial with mean value 3.13. The table also shows that generation Z shows higher mean value (4.37) and say that I show interest in understanding the new financial products as compared to millennial with mean value 3.21. Further, in the study independent sample t-test was applied to test the difference between the level of financial literacy between millennial and generation Z.

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. **Table 3 Independent sample t-test for financial literacy (Generation Z and Millennial)**

SI. No.	Statements	df	t value	Sig.
1.	I am aware of the investment avenues available	138	3.121	0.00
2.	I know my risk profile	138	3.919	0.00
3.	I know about the concepts like Power of Compounding and Rupee cost averaging	138	3.950	0.00
4.	I understand the difference between risky and risk-free investments	138	6.913	0.00
5.	I have done a formal assessment of my future financial needs	138	2.288	0.02
6.	I am aware of matching my investments with my risk profile	138	5.548	0.00
7.	I regularly take advise from financial advisor or experts regarding investments	138	5.474	0.00
8.	I show interest in understanding the new financial products	138	5.028	0.00

Table 3 is showing independent sample t-test to test the difference between the levels of financial literacy between millennial and generation Z. It was from the table that the value in the significance column for all the statements is significant (below 0.05). Hence, there is a significant difference between the level of financial literacy between millennial and generation Z.

Conclusion

On the basis of the results of the researches that have been done, it could be concluded that the financial skills and the financial attitude both have correlation with the behaviour of financial management. The millennialhaving better financial skills and attitude would demonstrate efficient financial behaviour for managing the money. The results of the studies are consistent as well as significant which show that there is a very strong relation between the financial behaviour and the financial attitude. Even though the financial knowledge doesn't have any prominent correlation with the financial behaviour, characteristics of the categories show some proximity. However, it has also been argued that improved financial understanding is considered to be a significant component for fostering efficient financial management pattern. The financially educated individuals of the millennial generation are able to depict a better financial behaviour for the economic security as well as well-being. Financially, these people can boost the economic development of their community.

The study concludes that there is a significant difference between the level of financial literacy between millennial and generation Z. Generation Z was found better with respect to all the aspects of Financial Awareness discussed in this study such as awareness of investment avenues, risk profile, power of compounding and rupee cost averaging, knowing about risky and risk free assets. Similar results were observed regarding the other aspects also. However little less difference was observed between generation Z and Millennials regarding formal assessment of future needs but the difference was found to be significant.

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