

# Financial Literacy and Money Management of Lower Income Households: A Study in Ernakulam, Kerala.

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## ABSTRACT

Financial literacy is a vital component of economic empowerment, especially for lower-income households that often struggle to make sound financial decisions due to limited resources. This study examines the financial literacy and money management practices of lower-income households in Vaduthala ward, Ernakulam district, Kerala, where the overall literacy rate is high, but financial awareness and informed decision-making remain challenges. The research aims to evaluate household consumption behaviour, saving and investment patterns, and how financial literacy affects their economic stability. Findings show that most respondents prioritise essential goods over luxury items, indicating cautious financial behaviour, yet their awareness of formal financial services and modern investment options is limited. Structural issues such as irregular income, lack of job security, and limited access to reliable financial institutions hinder their ability to build long-term financial stability. Despite these obstacles, respondents expressed interest in financial literacy programs, underscoring the importance of targeted awareness efforts to improve decision-making and enhance money management skills. The study highlights the significance of financial education, community-based saving initiatives, and accessible banking services in empowering low-income households to strengthen financial resilience and work toward sustainable economic well-being.

**Keywords:** Consumption Behaviour, Economic Empowerment, Economic Stability, Financial Awareness, Financial Literacy, Lower-Income Households, Money Management.

## 1. Introduction

Financial literacy is a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being." In other words, it is knowing how people spend and save the earned money wisely and their skills in money management. Financial literacy mainly includes three attributes like financial behaviour, financial attitude and financial knowledge. Financial behaviour is the capability to capture the overall impact of financial decisions on one's circumstances and to make the right decisions for budget planning. Financial attitude is the individual characteristics that take the form of tendencies towards a financial practice or action. Financial knowledge is the awareness of the financial concepts and procedures to solve financial problems. For making successful use of financial services, people need to be literate enough to understand the basics of good financial practices.

This study is an attempt to understand the financial literacy among lower-income groups in Ernakulam district, Kerala, with special reference to Vaduthala ward. Ernakulam is always in the forefront in literacy and education, and as of January 28, 2025, the literacy rate in the district was 97.05%. So, it is important to study the level of financial literacy of low-income earners. Mostly in developing countries, lower-income populations are often struggling to make financial decisions. They need to be empowered in this regard, and this is possible with appropriate financial education targeted at the right people at the right time.

## 2. Significance of the Study

The study “Financial Literacy and Money Management of Lower Income Groups” aims to understand the financial literacy of the lower-income segment in a ward. Through a detailed study using secondary data sources and primary data collection, it seeks to expand the scope of the research and enhance financial knowledge. Additionally, by examining factors affecting each household's consumption patterns, predictions about their future consumption can be made based on their current living conditions. Besides income, other factors such as area of residence, marital status, peer group influence, age, and gender are considered important for a person's financial stability. Besides studying the characteristics of the lower-income group, it is crucial to focus on making them aware of strategies that help them make better decisions regarding the effective use of their money. The attitudes of individuals towards the latest saving and investment options can be understood from their opinions on their investment and saving motives.

## 3. Review of Literature

(Mahima et al., 2024) identified that lower levels of financial literacy is a burden that a country can face, even if they are middle or highly developed. It will negatively affect those countries that are least concerned about their development status. In the absence of financial literacy, individuals would be affected by factors such as gender, age, education and employment as they contribute to the money management standard of living. They also highlight the importance of initiatives focusing on the encouragement of financial decision capabilities, such as financial awareness programs and education.

(Davison, 1982) pointed out that government-initiated policies and programs targeting lower-income individuals are not functioning properly. An economy characterised by a huge population of lower-income groups will be in need of plans and surveys to properly understand each recipient's attitudes and consumption behaviours. Savings and insurance would be a handful in such economies. Like every rational individual, limited-income earners will have countless needs, but their limited income restricts them from purchasing commodities in bulk. Only a few among those with scarce income would be in a quest to access their necessities through proper strategies and planning.

(Jacob, 2019) stated that financial literacy paves the way for the identification and consumption of necessities, which ultimately leads to demand only those commodities and services that require only a small proportion of their household income. Money management measures create an awareness of the importance and benefits of various financial services, which ease the function of financial inclusion.

(Matul et al., 2005) suggests that financial education must aim to develop a scientific attitude towards the management of money. The majority of individuals who seek support from such financial awareness programs often lack efficiency in money management due to their unnecessary spending on luxuries.

(Sovitha and Thavakumar, 2020) revealed the effect of financial knowledge, financial attitude and a psychological concept called external locus of control on money management behaviour. Rather than individual actions in the standard of living, the role of such external factors will be pivotal as they influence the lower-income people to different degrees.

(Joseph et al., 2021) suggests that social status and level of access to financial services are closely related. Education remains one of the crucial personal factors for an individual for being convenient to be financially aware and to be consistent with a proper understanding of financial services, instruments, markets and institutions, which reduces the hurdles of using any investing or managing options of finances, making a person capable of achieving their social goals. Apart from education, the level of income, financial history, influence on higher officials, and availability of collateral also have a significant effect on financial inclusion.

(Rahman et al., 2021) Emphasises the need for financial knowledge to overcome the backwardness of a country and empower the citizens to access basic education, nutrition and job opportunities. The existence of a positive relationship between financial literacy and financial behaviour is the only way to pursue an effective management of their money. Enhancing financial literacy will automatically improve both financial behaviour and the well-being of every low-income community.

(Kuwar et al., 2022) found that the majority of people in rural areas still follow traditional methods for payment purposes. An uneducated population in such regions probably has a very little knowledge to positively react to the developmental initiatives taken for them in terms of a digital system for bringing them forward from economic and social backwardness. The importance of financial inclusion with special reference to the growing digital system should be undoubtedly emphasised.

(Jambulkar and Gupta, 2023) revealed that irregular income earners, such as tailors, taxi drivers, and construction workers, suffer the most as their income frequently fluctuates every month. At the same time, a positive effect on investment is visible among regular-income earners who tend to invest for higher returns through a specific portion of their income allocated for investments.

(Dash and Ranjan, 2023) pointed out that the significant growth of population, especially in cities shown a positive reflection in the level of saving and investment motives. The depth of understanding about money management options is found in urban areas, but in varying degrees. Those cities with a high urban population in the country showed an improving financial literacy rate, stating the influence of population and commercialised destination for utility-generating decisions.

(Contreras-Velsquez et al., 2024) highlighted the importance of proper planning and strategies for those who engage in temporary, irregular income jobs. It states that limitations in saving and poor consumption patterns are sustained due to various other factors, such as social status, culture, and psychology, which further states that income is not the only relevant variable in consumption.

(Juneja, 2024) states that managing personal finance isn't just about paying bills and taxes on time; it's for family success. Motives for saving would be rare among lower-income groups. Due to the risk-averse attitude of Indians, the majority of them prefer traditional savings options like fixed deposits, savings deposits, and post office savings deposits. On the other hand, they would not be in favour of investing in riskier options like stocks, mutual funds, etc.

(Affandi and Malik, 2020) For making informed financial decisions, it is necessary to have financial literacy among low-income individuals. They need to have the capabilities to manage their personal finances, as they are often subjected to a lack of access to financial services due to their low creditworthiness, limited financial history, and struggles to obtain loans due to their financial status. The inabilities of those living on limited incomes can be attributed to the failure of financial institutions to organise financial literacy workshops, where the primary objective should be the effective use of savings.

(Ogori et al., 2013) found that the absence of financial literacy and basic education harms consumption and saving. They highlighted the importance of budgeting for the vulnerable income class rather than that of higher-income groups. Awareness programs, workshops conducted by the economics extension workers always stand as a one-stop solution for serving such low-income families.

#### 4. Objectives of the study

- ❖ To understand the consumption behaviour of lower-income families with respect to their necessities.
- ❖ To examine the living conditions of lower-income groups in the study area.
- ❖ To evaluate the level of financial literacy among households in relation to their saving practices.
- ❖ To assess the savings and investment demands of lower-income groups for future financial stability.

#### 5. Methodology of the Study

The study was conducted among lower-income households in Vaduthala ward, Ernakulam district, focusing on families with both regular and irregular income sources. A mixed approach using both primary and secondary data was adopted. Secondary data were collected from journals, dissertations, research papers, and articles related to the subject. Primary data were gathered through a structured Google Form questionnaire and direct face-to-face interactions with respondents. A total of 65 participants were selected using the purposive sampling method, ensuring that only lower-income families were included. The questionnaire captured demographic details, income and expenditure patterns, saving and investment behaviour, and awareness of financial services. Data were analysed using descriptive statistics to identify patterns in financial behaviour and to evaluate the relationship between literacy levels and money management practices. This methodology enabled a comprehensive understanding of how financial literacy influences consumption choices, saving motives, and financial stability among low-income households.

#### 6. Results and Discussions

The study focuses on consumption behaviour, living conditions, levels of financial literacy, and savings and investment demands of lower-income groups in Ernakulam District, Kerala. The results have been derived from the primary data collected through structured questionnaires and analysed using frequency distributions and percentage methods. By examining the financial practices and constraints of the respondents, this section provides insights into how income limitations, social conditions, and financial awareness shape household decisions and long-term stability.

### Objective 1: To understand the consumption behaviour of lower-income families with respect to their necessities

Consumption behaviour reflects how households allocate their limited income towards essential and non-essential goods. For lower-income groups, studying these patterns is important to understand whether they prioritise necessities, their reliance on loans for survival, and how price sensitivity shapes their purchasing decisions. This objective, therefore, focuses on identifying the nature of household expenditure and decision-making habits among respondents.

**Table 1: Consumption behaviour of lower-income families with respect to their necessities**

Variable	Categories	Percentage (%)
Frequency of food purchase	Daily	33.8
	Weekly	44.6
	Monthly	21.6
Priority for essentials	Always prioritize	63.1
	Sometimes	20
	Do not prioritise	16.9
Interest in luxury commodities	Not interested	55.4
	Selective (price-dependent)	36.9
	Mixed opinion	7.7
Loan usage for necessities	Yes	41.5
	No	58.5
Shopping considerations	Price, quality & guarantee	78.4
	Sometimes	10.8
	Rarely	10.8

Source: Primary Data

The analysis of consumption behaviour reveals that lower-income households are highly dependent on regular purchase cycles, with 44.6% buying essentials weekly and 33.8% daily, showing that they operate on a hand-to-mouth basis rather than long-term planning. A majority (63.1%) consistently prioritise essential goods over non-essentials, which highlights the dominance of necessity-driven consumption. Luxury consumption is minimal, as 55.4% reported no interest and 36.9% only show selective interest depending on price. However, financial vulnerability is evident, with 41.5% relying on loans, including from informal money lenders, to meet basic needs. At the same time, 78.4% place strong emphasis on price, quality, and guarantee, demonstrating cautiousness in spending decisions. Overall, this objective indicates that lower-income families practice rational, necessity-driven, and cautious consumption patterns, though loan dependency underscores their fragile financial condition.

### Objective 2: To examine the living conditions of lower-income groups in the study area

Living conditions represent an important socio-economic indicator that directly influences financial stability and quality of life. For lower-income families, factors such as housing, family size, and access to healthcare often determine their ability to manage financial challenges. This objective explores the housing situation, household composition, healthcare budgeting, and overall improvement in living standards to assess the socio-economic well-being of respondents.

**Table 2: The living conditions of lower-income groups in the study area**

Variable	Categories	Percentage (%)
Housing situation	Own house	70.8

	Rented house	24.6
	Shared house	4.6
<b>Household size</b>	2 members	6.2
	3 members	26.9
	4 members	37.6
	5 members	23.1
	More than 5 members	6.2
<b>Healthcare budgeting</b>	No separate budget	63.1
	Separate budget	26.2
	Conditional (health-based)	10.7
<b>Improvement in living</b>	Yes	50.8
	No	49.2

Source: Primary Data

The findings on living conditions indicate a mixed picture. Housing ownership is relatively high, with 70.8% having their own houses, which may reflect inherited property or government housing schemes, while 24.6% live in rented homes and 4.6% in shared housing. Household sizes tend to be medium to large, with 37.6% reporting four members and 23.1% reporting five members, adding pressure on limited incomes. A significant concern is healthcare management, as 63.1% of households lack a separate medical budget, leaving them vulnerable to financial shocks during health emergencies. Perceptions of improvement in living standards are divided, with 50.8% reporting progress while 49.2% see no improvement, reflecting stagnation among nearly half of respondents. These results show that while physical housing is stable, healthcare planning and quality-of-life improvements remain weak, limiting overall economic resilience.

### Objective 3: To evaluate the level of financial literacy among households in relation to their saving practices

Financial literacy is a key driver of money management and long-term stability. For lower-income families, the ability to save and familiarity with financial concepts play a vital role in shaping their financial behaviour. This objective assesses the saving habits of households, their understanding of financial concepts, confidence in income management, and their willingness to participate in financial literacy programmes.

Table 3: The level of financial literacy among households in relation to their saving practices

Variable	Categories	Percentage (%)
<b>Monthly savings</b>	Save regularly	63.1
	Do not save	36.9
<b>Familiarity with financial terms</b>	Familiar	53.8
	Not familiar	46.2
<b>Confidence in income management</b>	Confident	76.9
	Uncertain	12.3
	Not confident	10.8
<b>Interest in financial literacy sessions</b>	Highly interested	36.9
	Moderately interested	32.4
	Not interested	16.9

	Least interested	13.8
<b>Social media influence</b>	No influence	41.5
	Influence present	36.9
	Sometimes	21.6

**Source: Primary Data**

The study highlights both strengths and gaps in financial literacy. About 63.1% of respondents save some portion of their income, while 36.9% do not save, pointing to irregular saving habits. A slight majority (53.8%) are familiar with basic financial concepts such as saving and investment, but 46.2% remain unaware, underscoring the need for targeted financial education. Encouragingly, 76.9% of respondents feel confident about managing their income, though confidence may not always correspond to informed practices. Interest in financial literacy sessions is high, with 36.9% highly interested and 32.4% moderately interested, suggesting strong demand for financial training. However, the role of social media in influencing decisions is limited, with 41.5% reporting no influence. Collectively, these results indicate that while many lower-income households exhibit positive attitudes toward saving and financial learning, knowledge gaps and inconsistent saving patterns hinder the full realisation of financial literacy benefits.

#### **Objective 4: To assess the savings and investment demand of lower-income groups for future financial stability**

Savings and investment decisions reflect how households plan for both short-term security and long-term financial goals. For lower-income groups, these choices are often limited by income constraints and risk perceptions. This objective examines the motives for saving and investment, participation in formal investment avenues, perceived ability to save within a year, and the overall importance attributed to savings and investment by respondents.

**Table 4: The savings and investment demand of lower-income groups for future financial stability**

Variable	Categories	Percentage (%)
<b>Investment motives</b>	Future emergencies	47.7
	Housing	26.2
	Education	13.8
	Retirement benefits	12.3
<b>Investment in stocks/mutual funds</b>	No investment	80
	Invested (mostly MF)	20
<b>Ability to save annually</b>	Yes	35.4
	No	29.2
	Uncertain	35.4
<b>Perception of savings</b>	Important	69.2
	Not sure	18.5
	Not important	12.3

**Source: Primary Data**

The analysis shows that saving and investment motives among lower-income families are largely security-oriented. Nearly half (47.7%) save primarily for emergencies, while 26.2% save for housing, 13.8% for education, and 12.3% for retirement, reflecting a short-term and needs-based orientation. Formal investments remain minimal, as 80% of respondents reported no investment in stocks or mutual funds, with only a small fraction participating in mutual funds. Regarding saving capacity, 35.4% believe they can save within a year, 29.2% cannot, and 35.4% are uncertain, indicating income instability. Nevertheless, a majority (69.2%) recognise savings and investments as essential for financial stability, despite limited ability to act on this belief. This suggests that



while awareness of the importance of saving is strong, financial constraints, risk aversion, and lack of investment knowledge prevent households from engaging in structured long-term financial planning.

## 7. Suggestions and Recommendations

- Implement financial education programmes through schools, NGOs, and online platforms to improve financial literacy and equip low-income households with money management skills.
- Promote the use of formal banking services, such as microfinance schemes and savings accounts, to build a sustainable savings culture among low-income earners.
- Encourage the adoption of digital financial platforms to provide easy and flexible access to banking services, especially for rural and underserved communities.
- Facilitate community-based savings initiatives through NGOs and local governments, offering safe and secure avenues for saving and investment.
- Strengthen budgeting and expense management skills among households to ensure effective utilisation of limited income.
- Create awareness about different savings and investment vehicles (savings accounts, fixed deposits, retirement plans, insurance, etc.) through workshops and social media campaigns.
- Conduct regular surveys and interviews to assess the financial needs of low-income families and understand factors influencing their consumption patterns.
- Encourage income diversification by promoting part-time jobs and skill development for youth and family members above 15 years.
- Increase focus on education and healthcare support, as they directly influence long-term financial stability and quality of life.
- Investigate the accessibility and effectiveness of financial literacy programmes in influencing savings, investments, and trust in financial institutions.

## 8. Conclusion

The study focused on the living conditions and consumption style of the lower-income group explaining the significance of having proper financial knowledge, as an ability of a person to become stable, if they are stuck in an insecure life due to a limited income. In such a situation, financial literacy not only means having the ability to make proper financial decisions but also means economic empowerment for people. This study revealed the perception of the people on saving and investment, and the role of financial institutions, as well as society, in shaping such motives among people. Further, this study was an exploration to state whether there exists a rationality among the lower-income families from a selected ward, to study their living condition, their type of job, whether it's a regular or non-regular income job and the income they are earning. Not surprisingly, it was found that participants prioritise essential commodities over luxuries, thereby providing a thorough understanding of the sensible approach of individuals towards the management of their earnings. Persisting issues of financial instability due to single-income households will always pose difficulties in their consumption patterns. Despite this, they are always concerned about the importance of a proper spending pattern for an improved financial situation. An inability to meet such needs shatters their financial progress. The majority of participants in the survey positively responded to their interest in attending financial literacy sessions, as a potential for strategic financial management, and it emphasised the value of such initiatives for achieving financial stability. Also, peer group influence shows its significance in shaping financial awareness, decisions, and advising on personal finances. Lack of knowledge and trust issues persist towards various investment and savings options due to the various risks and difficulties associated with spending their limited income in such options. Moreover, the findings suggest that financial literacy sessions can help create a strategic mindset in individuals, enabling them to manage their finances effectively and make informed decisions about savings and investments. Finally, this study underscores the importance of holistic financial literacy programs, tailored to address the unique challenges faced by households, to empower individuals and households to navigate financial challenges effectively, achieve financial stability, and secure their financial futures.

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