



Research Article

## Role of Financial Literacy in Shaping Financial Decisions in Rural Areas: Evidence from Mandi, Himachal Pradesh

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### Abstract

Financial literacy is very important for economic development and financial accessibility, especially in rural areas where access to financial knowledge and services is still limited. This study looks at the level of financial literacy among rural households in the district of Mandi, Himachal Pradesh and how it affects their financial decision-making. The study focuses on important areas like awareness of banking services, saving habits, investment choices, and the use of insurance and digital financial tools.

The study relies on primary and secondary data gathered through a structured questionnaire and taken from reports and previous studies of rural respondents. It examines how demographic factors such as age, education, and income level impact financial awareness. The findings indicate that while basic banking knowledge exists among rural people, understanding of more complex financial products and digital services is lacking. It is also noted that individuals with greater financial literacy are more likely to make informed and effective financial decisions, which include better saving and investment practices.

Additionally, the study points out the gap between financial inclusion initiatives and actual financial understanding in rural communities. It stresses the need for targeted financial education programs to improve awareness and encourage responsible financial behaviour among these populations. The study concludes that improving financial literacy can significantly enhance the financial well-being and economic stability of rural households in Himachal Pradesh.

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**KEYWORDS:** Financial Literacy, Rural Households, Financial Decision-Making, Financial awareness.

## 1. INTRODUCTION

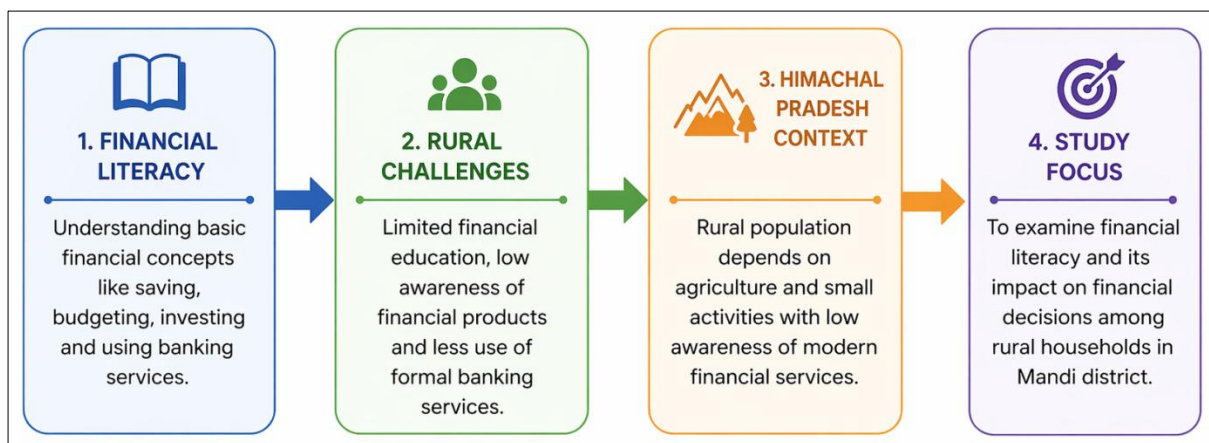
Financial literacy is important for improving the economic well-being of individuals, especially in developing countries like India. It means having the ability to understand basic financial ideas such as saving, budgeting, investing, and using banking and financial services. In today's fast-changing financial world, individuals need to make informed decisions about their income, expenses, and future financial plans.

In rural areas, financial literacy is vital for ensuring financial stability and inclusion. However, people living in these regions often face challenges. They have limited access to financial education, lack awareness of financial products, and use formal banking services less often. As a result, many individuals rely on traditional ways of saving and borrowing, which may not always be safe or beneficial.

Himachal Pradesh is a state with a large rural population where agriculture and small-scale activities are the main sources of

income. Although the state has made progress in literacy and banking infrastructure, gaps still exist in financial awareness among rural households. Many people are not fully aware of modern financial services like digital payments, insurance, and investment options. This lack of knowledge can directly affect their financial decision-making and long-term financial security.

This study focuses on examining the level of financial literacy among rural households in the district of Mandi, Himachal Pradesh, and how it influences their financial decisions. It also aims to identify the factors that impact financial awareness and stress the need for better financial education in rural areas. By understanding these elements, the study helps promote improved financial practices and supports overall economic development in rural communities.



## 2. OBJECTIVE OF THE STUDY

- To analyse the awareness of banking services, savings, investment, and insurance among rural households
- To study the level of financial literacy among rural households in Himachal Pradesh
- To find out the challenges faced by rural people in accessing financial knowledge and services.

## 3. RESEARCH METHODOLOGY

This study follows a structured methodology to examine financial awareness, financial literacy, and the challenges faced in using financial services. The study is based on both primary and secondary data. Primary data was collected through a structured questionnaire designed with closed-ended questions to gather information about respondents' demographic profile, awareness of financial services, financial literacy level, and challenges faced. Secondary data was collected from research papers, journals, and reliable online sources to support the study. A convenience sampling method was used to select respondents based on their availability and accessibility. The

total sample size for the study is 50 respondents from rural areas of the Mandi region in Himachal Pradesh.

For data analysis, simple statistical tools such as the percentage method and tabular representation were used. These tools helped in organising the data and making it easy to interpret.

## 4. RESEARCH DESIGN

The research design of this study is descriptive in nature. It aims to describe the current level of financial awareness, financial literacy, and the issues faced by respondents without manipulating any variables.

The study focuses on understanding real-life behaviour and opinions of individuals regarding financial services such as banking, investment, insurance, and digital payments. A cross-sectional design has been used, where data were collected at a single point in time from different respondents.

This design is suitable for the study as it helps in presenting a clear picture of the existing situation and identifying key gaps in financial knowledge and usage.

Table 1: Demographic profile

Profile	Variable	Count	Percentage
Age	Below 25	34	68%
	25-40	13	26%
	40-60	3	6%
	Above 60	0	0%
Gender	Male	24	52%
	Female	26	48%
Education Level	Illiterate	3	6%
	School level	15	30%
	Graduate	24	48%
	Post graduate	8	16%
Occupation	Farmer	5	10%
	Self employed	13	26%
	Govt. Job	14	28%
	Private Job	6	12%
	Others	12	24%
Monthly Income	Below Rs 10000	14	28%
	10000-25000	15	30%
	25000-35000	4	8%
	35000-50000	3	6%
	Above 50000	9	18%
	Not Specified	5	10%

Section B: Awareness of financial services

Profile	Variable	Count	Percentage
Have a bank account.	Yes	50	100%
	No	-	-
Bank service used	Saving account	24	48%
	ATM/Debit Card	12	24%
	Mobile banking	10	20%
	None	4	8%
Aware of investment options (FD, Mutual Funds, Shares)	Yes	40	80%
	No	10	20%
Do you invest money	Yes	29	58.3%
	No	21	41.7%
Are you aware of insurance (Life/Health)	Yes	39	78%
	No	11	22%
Have you taken any insurance policy	Yes	32	63.3%
	No	18	36.7%

Section C: Financial literacy level

Do you understand basic financial concepts? (Saving, interest, investment)	Yes	35	70%
	No	15	30%
Do you prepare a monthly budget?	Yes	28	55%
	No	22	45%
Do you keep track of your income and expenses	Yes	41	82%
	No	9	18%
Do you know how interest works on loans/savings	Yes	29	58%
	No	21	42%

Section D: Challenges

Profile	Variable	Count	Percentage
The main problem in using financial services	Lack of knowledge	32	64%
	Lack of trust	11	22%
	Distance from the bank	6	12%
	Technical issues	1	2%
Faced difficulty in using digital payments (UPI, mobile banking)	Yes	31	62%
	No	19	38%
Financial education is needed in rural areas	Yes	39	78%
	No	11	22%
Source of financial information	Friends/family	24	48%
	Bank staff	11	22%
	internet	11	22%

	others	4	8%
Like to learn more about financial services	Yes	47	94%
	No	3	6%

## 5. CONCLUSION

The study highlights that most respondents are young, educated, and belong to different occupational and income groups, showing a varied demographic profile. A large number of respondents have bank accounts and are aware of financial services such as investment options and insurance. However, actual use of these services is lower than awareness, which suggests that people may know about financial products but do not always use them in practice.

The findings also show that the financial literacy level of respondents is moderate. Many respondents understand basic financial concepts, keep track of income and expenses, and to some extent manage their finances responsibly. At the same time, fewer respondents prepare monthly budgets or clearly understand how interest works on loans and savings, which indicates gaps in practical financial knowledge.

The study further reveals that lack of knowledge is the biggest challenge in using financial services, followed by lack of trust, distance from banks, and technical issues. Many respondents also face difficulties in using digital payment systems. Most respondents believe that financial education is necessary in rural areas, and a very high percentage expressed interest in learning more about financial services.

Overall, the study concludes that although financial awareness and inclusion are increasing, there is still a strong need to improve financial literacy, practical usage, and digital understanding. Therefore, proper financial education, awareness programs, and support for digital financial services are essential for improving financial empowerment in rural areas.

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