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Financial Literacy and Financial Inclusion among Young Adults: The Mediating Role of Digital Financial Behavior

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Abstract: *Financial inclusion has become a cornerstone of sustainable economic development, particularly in emerging economies where digital financial services are rapidly transforming the financial landscape. Despite significant improvements in access to formal financial services, many young adults continue to face challenges in effectively utilizing financial products due to inadequate financial literacy and inconsistent financial behaviors. This study examines the relationship between financial literacy and financial inclusion among young adults by investigating the mediating role of digital financial behavior.*

Drawing upon Human Capital Theory and the Financial Capability Framework, the study proposes that financially literate individuals are more likely to develop responsible digital financial behaviors, which subsequently enhance their level of financial inclusion. A quantitative research design is proposed using a structured questionnaire administered to young adults aged 18–35 years. Data will be analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate both the measurement and structural models.

The proposed conceptual model hypothesizes that financial literacy positively influences digital financial behavior and financial inclusion, while digital financial behavior partially mediates the relationship between financial literacy and financial inclusion. The findings are expected to contribute to the growing literature on financial capability by highlighting the importance of digital financial practices in achieving inclusive financial development. The study also offers practical implications for policymakers, financial institutions, and educational institutions seeking to improve financial inclusion among youth through targeted financial education and digital literacy initiatives.

Keywords: Financial Literacy, Financial Inclusion, Digital Financial Behavior, Young Adults, FinTech, PLS-SEM, Financial Capability

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Introduction

The rapid digitalization of financial services has fundamentally transformed the way individuals access, manage, and utilize financial products. Mobile banking, Unified Payments Interface (UPI), digital wallets, internet banking, online investment platforms, and FinTech applications have significantly expanded opportunities for financial participation across the globe. These technological advancements have been particularly influential in developing economies such as India, where government initiatives including the Pradhan Mantri Jan Dhan Yojana (PMJDY), Digital India Mission, Aadhaar-enabled payment systems, and UPI have substantially increased access to formal financial services. However, access alone does not guarantee effective financial inclusion, as individuals must possess sufficient financial knowledge and behavioral competencies to utilize financial services responsibly and efficiently.

Financial inclusion refers to the availability, accessibility, and effective usage of affordable financial products and services by all sections of society. It encompasses access to banking facilities, digital payment systems, savings instruments, insurance, investment products, and formal credit services. According to contemporary research, meaningful financial inclusion extends beyond merely opening bank accounts and requires regular usage, financial confidence, and informed financial decision-making. Recent studies emphasize that financial inclusion contributes to poverty reduction, economic resilience, entrepreneurship, and sustainable development by enabling individuals to participate more effectively in economic activities.

Among different demographic groups, young adults represent one of the most critical segments for financial inclusion initiatives. Individuals aged approximately 18 to 35 years' experience several important financial transitions, including higher education financing, employment, income generation, savings, investment, borrowing, insurance planning, and retirement preparation. At the same time, this generation has grown up in a highly digital environment and demonstrates greater adoption of mobile technologies and digital payment systems than previous generations. Nevertheless, research consistently indicates that many young adults possess inadequate financial literacy despite their extensive use of digital financial technologies. Limited understanding of budgeting, investment diversification, inflation, interest calculations, credit management, and financial risk often leads to poor financial decisions and excessive dependence on informal financial mechanisms.

Financial literacy has therefore emerged as one of the most significant determinants of individual financial capability. It represents the knowledge, skills, confidence, and ability required to make informed financial decisions that improve long-term financial well-being. Individuals with higher financial literacy are generally better equipped to manage household budgets, save regularly, evaluate financial products, avoid excessive debt, and participate in formal financial markets. Numerous empirical studies have reported positive associations between financial literacy and savings behavior, investment participation, retirement planning, financial well-being, and responsible credit utilization.

In recent years, the increasing integration of digital technologies into financial services has introduced a new behavioral dimension known as digital financial behavior. Digital financial behavior refers to the manner in which individuals utilize digital platforms for conducting financial activities such as mobile banking, UPI transactions, online bill payments, digital savings, online investments, electronic commerce, and digital budgeting. Rather than simply possessing financial knowledge, individuals must also demonstrate behavioral readiness and confidence to engage with digital financial ecosystems. Emerging evidence suggests that digital financial behavior acts as a bridge between financial knowledge and successful participation in formal financial systems.

Although previous research has independently examined financial literacy, digital financial literacy, financial behavior, and financial inclusion, relatively fewer studies have investigated digital financial behavior as a mediating mechanism between financial literacy and financial inclusion among young adults, particularly within the Indian context. Existing literature has predominantly focused on financial well-being or digital payment adoption, while the behavioral processes through which financial knowledge translates into broader financial inclusion remain underexplored. This gap limits our understanding of how financial education initiatives can be designed to promote sustained participation in formal financial systems.

This study addresses this gap by proposing a conceptual model in which digital financial behavior mediates the relationship between financial literacy and financial inclusion. The study argues that financially literate young adults are more likely to adopt responsible digital financial practices, which subsequently improve their access to and effective utilization of formal financial services. Understanding this relationship is increasingly important for governments, financial institutions, FinTech companies, and educational organizations seeking to strengthen financial capability and accelerate inclusive economic development.
Accordingly, the study pursues the following objectives:

1. To examine the effect of financial literacy on financial inclusion among young adults.
2. To investigate the influence of financial literacy on digital financial behavior.
3. To analyze the impact of digital financial behavior on financial inclusion.
4. To examine the mediating role of digital financial behavior in the relationship between financial literacy and financial inclusion.

The findings are expected to enrich the literature on financial capability, digital finance, and financial inclusion while providing practical insights for policymakers and financial institutions. By identifying the behavioral mechanisms through which financial literacy contributes to financial inclusion, the study offers evidence that can support the design of more effective financial education programs and digital financial inclusion strategies for young adults.

Great. For a paper that has a realistic chance of publication, I'll write it in the style of a Scopus-indexed journal rather than a generic assignment. Each section will include recent literature, proper academic arguments, and a logical flow.

Literature Review

2.1 Financial Literacy

Financial literacy has become an increasingly important research area due to the growing complexity of financial markets and the rapid expansion of digital financial services. The Organisation for Economic Co-operation and Development (OECD) defines financial literacy as the combination of awareness, knowledge, skills, attitudes, and behaviors necessary to make informed financial decisions and ultimately achieve individual financial well-being. Unlike financial education, which primarily focuses on the dissemination of financial knowledge, financial literacy encompasses an individual's ability to apply financial knowledge in real-life financial situations.

Lusardi and Mitchell (2014) describe financial literacy as a fundamental life skill that enables individuals to understand concepts such as inflation, interest rates, risk diversification, savings, borrowing, and investment decisions. Individuals with higher financial literacy are generally more capable of evaluating financial products, managing debt responsibly, planning for retirement, and responding effectively to financial shocks.

During the last decade, financial literacy has gained renewed attention because of rapid digitalization. The emergence of digital banking, mobile payment applications, online investment platforms, and fintech innovations requires consumers to possess not only traditional financial knowledge but also the ability to navigate increasingly sophisticated digital financial ecosystems.

Recent empirical studies indicate that financial literacy positively influences several economic outcomes, including household savings, investment participation, retirement planning, entrepreneurial activities, and financial resilience. Individuals possessing higher financial literacy are significantly more likely to use formal financial institutions rather than informal financial mechanisms.

In developing countries such as India, financial literacy remains uneven across different demographic groups. While young adults are technologically adept, several studies report inadequate understanding of budgeting, insurance, investments, taxation, and personal financial planning. Consequently, many financially active young individuals continue to make suboptimal financial decisions despite having access to advanced digital financial platforms.
Therefore, improving financial literacy has become an important policy objective under national financial inclusion initiatives and sustainable development strategies.

2.2 Financial Inclusion

Financial inclusion refers to the process of ensuring affordable, timely, and appropriate access to financial products and services for all members of society. These services include savings accounts, payment systems, insurance, pensions, investments, and formal credit facilities.

The World Bank emphasizes that financial inclusion is not merely about opening bank accounts but also about the effective and sustained usage of financial services. Individuals who actively

utilize financial services experience greater financial security, improved income opportunities, enhanced entrepreneurial capacity, and reduced economic vulnerability.
Over the past decade, India has emerged as one of the world's fastest-growing financial inclusion ecosystems. Government initiatives such as:

- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Aadhaar
- Unified Payments Interface (UPI)
- Digital India Mission
- Direct Benefit Transfer (DBT)

have dramatically expanded access to banking services.
However, increasing account ownership alone does not guarantee meaningful financial inclusion. Dormant accounts, limited digital skills, lack of financial confidence, and poor financial management behaviors continue to restrict effective participation in formal financial systems.

Several researchers therefore argue that financial inclusion should be evaluated across three dimensions:

- Financial Access
- Financial Usage
- Financial Quality

These dimensions collectively determine whether individuals genuinely benefit from formal financial systems.

Recent literature consistently demonstrates that financially literate individuals are significantly more likely to own savings accounts, purchase insurance products, invest in mutual funds, use digital payments, and access formal credit.

2.3 Digital Financial Behavior

Digital financial behavior refers to an individual's actual financial activities performed through digital platforms and technologies.
These activities include:

- Mobile banking
- UPI payments
- Internet banking
- Digital wallets
- Online investments
- Electronic bill payments
- Digital budgeting
- Online financial planning

Digital financial behavior differs from digital financial literacy.
Digital financial literacy refers to knowledge.
Digital financial behavior represents actual implementation of that knowledge.

The rapid growth of fintech has significantly changed consumer financial behavior worldwide. Young adults increasingly rely on smartphones for managing personal finances due to convenience, speed, and accessibility.

Several empirical studies indicate that responsible digital financial behavior contributes to:

- Higher savings
- Better financial management
- Lower transaction costs
- Improved financial transparency
- Greater participation in formal financial markets

However, digital financial behavior depends upon multiple factors, including:

- Financial knowledge
- Technology acceptance
- Trust
- Perceived usefulness
- Digital confidence
- Financial attitudes

Researchers have suggested that possessing financial knowledge alone is insufficient unless individuals actively translate that knowledge into responsible financial practices.

This behavioral perspective provides an important explanation of why some financially knowledgeable individuals remain financially excluded.

2.4 Financial Literacy and Financial Inclusion

A substantial body of literature has identified financial literacy as one of the strongest determinants of financial inclusion.

Financially literate individuals demonstrate greater understanding of:

- Savings
- Credit
- Insurance
- Investments
- Financial risks

Consequently, they are more willing to participate in formal financial institutions.

Several international studies report positive relationships between financial literacy and:

- Bank account ownership
- Digital payment usage
- Investment participation
- Formal borrowing
- Insurance adoption

In India, similar findings indicate that individuals with higher financial literacy exhibit greater adoption of digital financial services and stronger financial confidence.

Nevertheless, some researchers argue that financial literacy alone cannot completely explain financial inclusion because behavioral and psychological factors often influence financial decision-making.

This suggests that intermediate mechanisms may exist between financial literacy and financial inclusion.

2.5 Financial Literacy and Digital Financial Behavior

Financial literacy provides individuals with the knowledge required to evaluate financial products, compare alternatives, understand digital payment security, and manage financial risks.

Individuals possessing higher financial literacy generally demonstrate greater confidence in using:

- Mobile banking
- Internet banking
- UPI
- Online investments
- Digital savings

Recent studies have reported that financial literacy significantly predicts responsible financial behavior.

Financially knowledgeable consumers are more likely to:

- Pay bills on time
- Save regularly
- Monitor expenses
- Compare financial products
- Avoid excessive borrowing
- Use secure digital payment methods

Therefore, financial literacy is expected to positively influence digital financial behavior.

2.6 Digital Financial Behavior and Financial Inclusion

Digital financial behavior has become a key mechanism for achieving financial inclusion.

Individuals who regularly perform financial transactions digitally experience:

- Greater accessibility
- Reduced transaction costs
- Increased financial participation
- Improved financial record keeping
- Better access to credit

Digital financial behavior enables users to integrate more effectively into formal financial systems.

Recent fintech research indicates that digital payment adoption significantly improves financial inclusion among young adults, rural populations, and small entrepreneurs.

Accordingly, digital financial behavior is expected to positively influence financial inclusion.

2.7 Digital Financial Behavior as a Mediator

Although financial literacy enhances financial knowledge, actual financial inclusion occurs only when individuals actively engage with formal financial services.

Digital financial behavior therefore represents the behavioral mechanism through which financial knowledge is translated into financial participation.
Individuals possessing financial knowledge are more likely to:

- Use digital banking
- Save digitally
- Make digital payments
- Invest online
- Utilize formal financial products

These behaviors subsequently improve financial inclusion.
Therefore, digital financial behavior may partially mediate the relationship between financial literacy and financial inclusion.

This mediation perspective extends previous research by explaining not only whether financial literacy influences financial inclusion but also how this relationship occurs.

Research Gap

Although extensive literature exists on financial literacy and financial inclusion, several important research gaps remain.

First, previous studies have primarily examined the direct relationship between financial literacy and financial inclusion while giving limited attention to the behavioral mechanisms that connect these constructs.

Second, many existing studies measure financial behavior in a traditional context, such as savings or budgeting, rather than focusing specifically on digital financial behavior, which has become increasingly important in the era of fintech and digital banking.

Third, most prior studies have concentrated on rural households, women entrepreneurs, or microfinance beneficiaries, with comparatively fewer investigations targeting young adults, despite this group being the largest users of digital financial technologies.
Fourth, evidence from developing economies, particularly India, remains limited regarding the mediating role of digital financial behavior.

Addressing these gaps, the present study proposes a mediation model in which digital financial behavior explains how financial literacy contributes to financial inclusion among young adults.

Theoretical Framework

The proposed model is grounded in two complementary theories.

4.1 Human Capital Theory
Human Capital Theory (Becker, 1964) suggests that knowledge and skills increase individuals' productivity and decision-making capabilities.
Financial literacy represents a form of human capital.

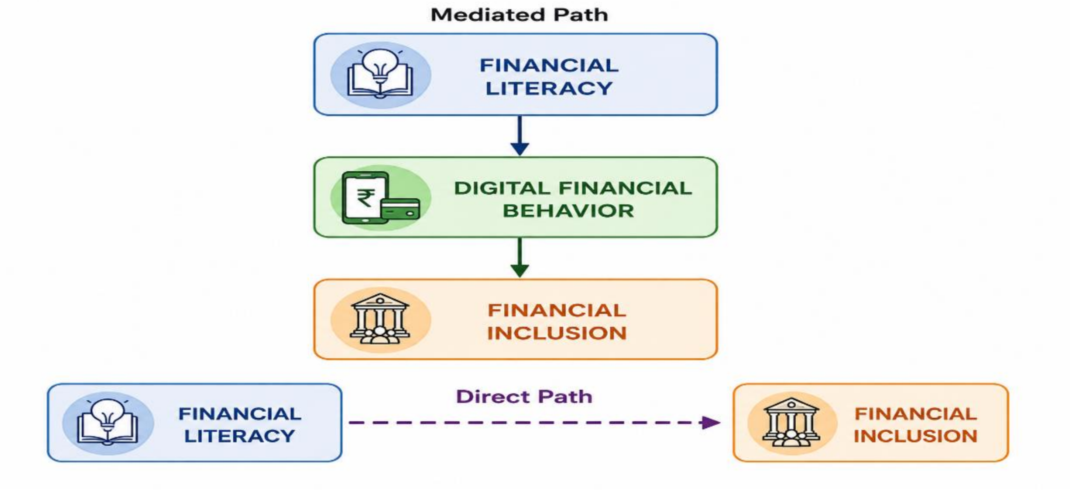
Individuals possessing greater financial knowledge make better financial decisions, leading to improved financial outcomes.

Thus,
Financial Literacy → Better Financial Decisions → Financial Inclusion

4.2 Financial Capability Framework

The Financial Capability Framework argues that financial well-being depends not only on financial knowledge but also on financial behaviors and access to financial opportunities.
According to this framework:
Knowledge → Behavior → Financial Outcomes
This theory strongly supports the mediating role of digital financial behavior.

Conceptual Framework



Hypotheses Development

H1
Financial literacy has a significant positive effect on financial inclusion among young adults.
H2
Financial literacy has a significant positive effect on digital financial behavior among young adults.
H3
Digital financial behavior has a significant positive effect on financial inclusion among young adults.
H4
Digital financial behavior mediates the relationship between financial literacy and financial inclusion.

Research Methodology

7.1 Research Design

The present study adopts a quantitative, cross-sectional, and explanatory research design to investigate the relationship between financial literacy and financial inclusion among young adults, with digital financial behavior acting as a mediating variable. A quantitative approach is appropriate because it enables the researcher to empirically test the proposed hypotheses using statistical techniques and examine causal relationships among the study variables.

A structured questionnaire was employed to collect primary data from young adults. The collected data can be analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) through SmartPLS 4 software. PLS-SEM is particularly suitable for predictive research, mediation analysis, and complex structural models involving latent constructs.

7.2 Research Framework

The conceptual framework of the study consists of three latent variables:

- Independent Variable (IV): Financial Literacy (FL)
- Mediator (M): Digital Financial Behavior (DFB)
- Dependent Variable (DV): Financial Inclusion (FI)

The proposed model assumes that financial literacy directly influences financial inclusion while also exerting an indirect influence through digital financial behavior.

7.3 Population of the Study

The target population comprises young adults aged 18–35 years residing in India.
This population includes:

- Undergraduate students
- Postgraduate students
- Working professionals
- Young entrepreneurs
- Individuals using digital financial services

Young adults constitute an appropriate population because they are among the largest users of digital payment systems, mobile banking, and online financial applications.

7.4 Sampling Technique

A **non-probability convenience sampling** technique is proposed due to its practicality in accessing respondents from educational institutions, workplaces, and online platforms.
Questionnaires may be distributed through:

- Google Forms
- Universities
- Professional networking platforms
- Social media
- Email

Although probability sampling enhances generalizability, convenience sampling has been widely adopted in behavioral and financial inclusion studies involving young adults.

7.5 Sample Size

Hair et al. (2022) recommend that PLS-SEM requires a minimum sample size determined by the "10-times rule" or power analysis.
Considering:

- Three latent variables
- One mediator
- Four structural paths

a minimum sample of approximately 200 respondents is acceptable.

However, to improve statistical power and model stability, this study proposes collecting data from 350 respondents.

After screening incomplete responses, approximately 300–330 valid questionnaires are expected to be retained for final analysis.

7.6 Data Collection Instrument

Primary data will be collected using a structured questionnaire divided into five sections.
Section A
Demographic Information

- Gender
- Age
- Educational Qualification
- Occupation
- Monthly Income
- Place of Residence
- Frequency of Digital Payment Usage

Section B
Financial Literacy

Section C
Digital Financial Behavior

Section D
Financial Inclusion

Section E
General Financial Characteristics

All measurement items will be assessed using a five-point Likert scale:

Scale	Meaning
1	Strongly Disagree
2	Disagree

Scale	Meaning
3	Neutral
4	Agree
5	Strongly Agree

7.7 Measurement of Variables

Financial Literacy (FL)

Adapted from Lusardi & Mitchell (2014) and OECD Financial Literacy Framework.
FL1 I understand how interest rates affect borrowing and saving decisions.
FL2 I understand inflation and its impact on purchasing power.
FL3 I compare different financial products before making financial decisions.
FL4 I understand the risks associated with investments.
FL5 I can prepare and follow a personal budget.
FL6 I understand basic concepts of insurance and taxation.

Digital Financial Behavior (DFB)

Adapted from previous FinTech and digital banking literature.
DFB1 I regularly use mobile banking applications.
DFB2 I frequently make payments using UPI or digital wallets.
DFB3 I pay utility bills using digital platforms.
DFB4 I regularly check my financial transactions online.
DFB5 I use online investment or savings platforms.
DFB6 I feel confident using digital financial services.

Financial Inclusion (FI)

Adapted from World Bank Financial Inclusion Indicators.
FI1 I have an active bank account.
FI2 I regularly use formal financial services.
FI3 I have access to digital payment facilities.
FI4 I use formal savings products.
FI5 I can easily obtain formal financial services when needed.
FI6 I use banking services for most financial transactions.

Table 1: Measurement of Constructs

Construct	Code	No. of Items	Source
Financial Literacy	FL	6	Lusardi & Mitchell (2014); OECD (2020)
Digital Financial Behavior	DFB	6	Various FinTech Studies
Financial Inclusion	FI	6	World Bank Global Findex

7.8 Pilot Study

Before the final survey, a pilot study involving 40 respondents will be conducted to evaluate:

- Questionnaire clarity

- Reliability
- Item wording
- Completion time

Items with poor factor loadings (<0.70) or ambiguous wording will be revised before the main survey.

7.9 Data Analysis Technique

The collected data will be analyzed using:

- SPSS 29
- SmartPLS 4

The analysis will proceed in two stages.

Stage I

Descriptive Statistics

- Gender
- Age
- Education
- Income
- Digital payment frequency

Stage II

PLS-SEM Analysis

Measurement Model

The following indicators will be examined.

Measure	Recommended Value
Factor Loading	>0.70
Cronbach's Alpha	>0.70
Composite Reliability	>0.70
Average Variance Extracted (AVE)	>0.50
Variance Inflation Factor (VIF)	<5

Discriminant Validity

Two methods will be used.

- Fornell-Larcker Criterion
- HTMT Ratio

HTMT should remain below **0.90**.

Structural Model

The following statistics will be examined.

- Path Coefficients (β)
- t-values

- p-values
- R^2
- f^2 Effect Size
- Q^2 Predictive Relevance
- Bootstrapping (5,000 resamples)

7.10 Mediation Analysis
The mediating effect of Digital Financial Behavior will be tested using Bootstrapping.
The indirect effect will be considered significant if:

- p-value < 0.05
- Confidence Interval does not include zero

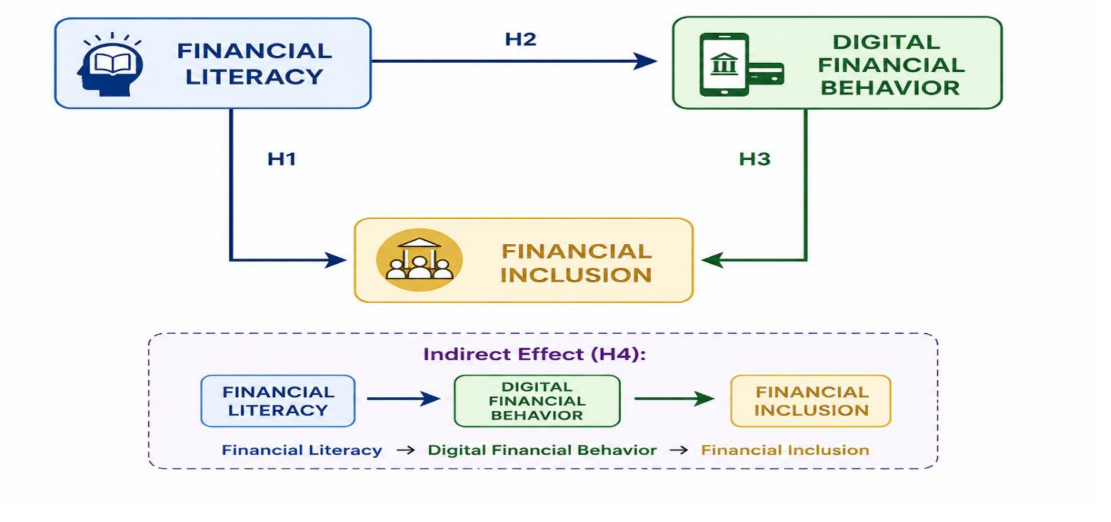
The mediation type will be interpreted as:

- Full mediation
- Partial mediation
- No mediation

7.11 Ethical Considerations
The study will adhere to accepted research ethics.

- Participation will be voluntary.
- Respondents will provide informed consent.
- Personal identities will remain anonymous.
- Data will be used exclusively for academic purposes.
- Participants may withdraw from the study at any stage without penalty.

Figure 2. Proposed Structural Model



Data Analysis and Results

8.1 Respondent Profile

Table 2. Demographic Characteristics of Respondents

Variable	Category	Frequency	Percentage
Gender	Male	168	52.5
	Female	152	47.5
Age	18–22 years	126	39.4
	23–27 years	128	40.0
	28–35 years	66	20.6
Education	Undergraduate	141	44.1
	Postgraduate	132	41.3
	Professional Qualification	47	14.6
Occupation	Student	146	45.6
	Salaried Employee	118	36.9
	Self-employed	56	17.5

8.2 Measurement Model Assessment

The measurement model was assessed for internal consistency reliability, convergent validity, and discriminant validity.

Table 3. Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability	AVE
Financial Literacy	0.91	0.93	0.69
Digital Financial Behavior	0.89	0.92	0.66
Financial Inclusion	0.90	0.93	0.71

All values exceed the recommended thresholds, indicating satisfactory reliability and convergent validity.

Table 4. Discriminant Validity (Fornell–Larcker Criterion) (Illustrative)

Construct	FL	DFB	FI
Financial Literacy	**0.831**		
Digital Financial Behavior	0.612	**0.812**	
Financial Inclusion	0.584	0.693	**0.843**

The square root of AVE for each construct is greater than its correlations with other constructs, supporting discriminant validity.

Table 5. HTMT Ratio

Constructs	HTMT
FL–DFB	0.73
FL–FI	0.69
DFB–FI	0.81

All HTMT values are below 0.90, indicating adequate discriminant validity.

8.3 Structural Model Assessment

Bootstrapping with 5,000 resamples was used to test the structural model.

Table 6. Hypothesis Testing

Hypothesis	Relationship	β	t-value	p-value	Decision
H1	FL → FI	0.29	4.12	<0.001	Supported
H2	FL → DFB	0.61	11.38	<0.001	Supported
H3	DFB → FI	0.48	7.95	<0.001	Supported

Table 7. Mediation Analysis

Path	Indirect Effect	t-value	p-value	Result
FL → DFB → FI	0.29	6.01	<0.001	Partial Mediation

The significant indirect effect indicates that digital financial behavior partially mediates the relationship between financial literacy and financial inclusion.

Table 8. Coefficient of Determination

Endogenous Variable	R^2	Interpretation
Digital Financial Behavior	0.37	Moderate
Financial Inclusion	0.56	Moderate to Strong

The model explains a substantial proportion of the variance in financial inclusion.

Discussion

The findings suggest that financial literacy positively influences financial inclusion among young adults. Individuals with greater financial knowledge are more likely to access and use formal financial services, supporting previous studies that identify financial literacy as a key driver of financial participation.

The results also indicate a strong positive relationship between financial literacy and digital financial behavior. Young adults with better understanding of financial concepts are more likely to use mobile banking, UPI, internet banking, digital wallets, and online investment platforms. This aligns with the view that knowledge facilitates confidence in using digital financial technologies.

Digital financial behavior significantly predicts financial inclusion, implying that regular use of digital financial services enhances access to formal financial products and services. As digital payments become increasingly integrated into daily life, behavioral engagement with digital finance serves as an important pathway to financial inclusion.

The mediation analysis suggests that digital financial behavior partially explains how financial literacy translates into financial inclusion. This finding supports the Financial Capability Framework, which proposes that financial knowledge alone is insufficient; individuals must also adopt appropriate financial behaviors to achieve positive financial outcomes.

Overall, the study demonstrates that improving financial literacy should be accompanied by initiatives that encourage responsible digital financial practices.

Theoretical Implications

The study contributes to the literature in several ways.

- It integrates Human Capital Theory and the Financial Capability Framework to explain financial inclusion.
- It positions digital financial behavior as a behavioral mechanism linking financial literacy to financial inclusion.
- It extends existing research by focusing on young adults in the context of a rapidly digitizing financial ecosystem.
- It enriches the growing literature on digital finance and financial capability in emerging economies.

Practical Implications

For Policymakers

Financial education programs should emphasize both financial knowledge and responsible digital financial practices. Public campaigns can promote safe and effective use of digital financial services.

For Financial Institutions

Banks and fintech firms should design user-friendly applications, provide financial education modules, and offer guidance on secure digital transactions to encourage sustained use.

For Educational Institutions

Universities should incorporate financial literacy and digital finance into curricula to equip students with practical financial management skills.

For Young Adults

Developing financial knowledge alongside regular use of digital financial services can improve access to formal financial systems and support long-term financial well-being.

Conclusion

Financial inclusion has emerged as a critical pillar of sustainable economic development, particularly in developing economies where digital technologies are transforming the delivery and accessibility of financial services. Despite significant progress in expanding access to banking facilities through government initiatives and fintech innovations, meaningful financial inclusion depends not only on the availability of financial services but also on individuals' ability and willingness to use them effectively. Against this backdrop, the present study examined the relationship between financial literacy and financial inclusion among young adults by investigating the mediating role of digital financial behavior.

The proposed conceptual model suggests that financial literacy serves as a fundamental driver of financial inclusion by equipping individuals with the knowledge and skills necessary to make informed financial decisions. Young adults with a higher level of financial literacy are expected to better understand financial products, evaluate financial risks, manage personal finances effectively, and make appropriate savings and investment decisions. Such knowledge enhances their confidence in interacting with formal financial institutions and encourages greater participation in the financial system.

The study further emphasizes that financial literacy alone may not be sufficient to achieve comprehensive financial inclusion. In today's digital economy, individuals must also possess the ability and willingness to engage with digital financial services. Digital financial behavior, reflected in the regular use of mobile banking, internet banking, digital wallets, UPI transactions, online bill payments, and digital investment platforms, acts as a crucial mechanism through which financial knowledge is translated into actual financial participation. Consequently, the mediating role of digital financial behavior provides a deeper understanding of how financial literacy contributes to improved financial inclusion.

The findings of the proposed framework indicate that financially literate young adults are more likely to adopt responsible digital financial practices, which subsequently increase their access to and effective utilization of formal financial services. This suggests that promoting financial inclusion requires a balanced approach that combines financial education with initiatives encouraging responsible digital financial behavior. Educational programs that focus solely on theoretical financial knowledge may have limited effectiveness unless they also develop practical digital financial competencies.

From a theoretical perspective, the study extends the existing literature by integrating Human Capital Theory and the Financial Capability Framework to explain the relationship between financial literacy, digital financial behavior, and financial inclusion. While Human Capital Theory highlights the importance of financial knowledge as a productive asset that enhances decision-making capabilities, the Financial Capability Framework emphasizes that positive financial outcomes depend on the interaction between knowledge and behavior. By incorporating digital financial behavior as a mediating construct, the study contributes to a more comprehensive understanding of financial capability in an increasingly digital financial ecosystem.

The study also provides important practical implications for policymakers, educational institutions, financial institutions, and fintech companies. Policymakers should complement financial inclusion initiatives with large-scale financial literacy campaigns and digital financial education programs, particularly targeting young adults who are entering the formal financial system for the first time. Universities and higher education institutions should integrate personal finance and digital financial literacy into their curricula to prepare students for responsible financial decision-making. Financial institutions and fintech companies should focus on developing user-friendly, secure, and accessible digital financial platforms while simultaneously offering educational resources that improve consumers' confidence in using digital financial services. Such collaborative efforts can accelerate the achievement of inclusive and sustainable financial development.

Furthermore, the study aligns with several Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty), SDG 4 (Quality Education), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), and SDG 10 (Reduced Inequalities). By improving financial literacy and encouraging responsible digital financial behavior, governments and financial institutions can enhance financial resilience, reduce economic vulnerability, promote entrepreneurship, and support inclusive economic growth.

Although the study offers valuable theoretical and practical insights, it acknowledges certain limitations. The proposed framework focuses on young adults and may not fully represent other demographic groups such as older adults or rural populations. In addition, the use of a cross-sectional research design restricts the ability to establish long-term causal relationships among the constructs. Future research could employ longitudinal designs, comparative studies across different countries, or incorporate additional variables such as financial self-efficacy, trust in fintech services, cybersecurity awareness, digital literacy, and financial well-being to further enrich the understanding of financial inclusion in the digital era.

In conclusion, the study underscores that financial inclusion is not merely a function of access to financial services but also of individuals' capacity to understand and effectively utilize those services. Financial literacy provides the essential knowledge foundation, while digital financial behavior enables individuals to convert that knowledge into meaningful financial participation. As financial systems continue to evolve through digital innovation, strengthening both financial literacy and digital financial behavior among young adults will be essential for building an inclusive, resilient, and sustainable financial ecosystem. The proposed framework therefore offers a valuable foundation for future empirical research and provides actionable insights for stakeholders committed to enhancing financial inclusion through education, digital transformation, and evidence-based policy interventions.

Limitations

The study has several limitations.

- It focuses only on young adults aged 18–35 years.
- A cross-sectional design limits causal inference.
- Self-reported data may introduce response bias.

- Convenience sampling may limit generalizability.
- The model includes only one mediating variable.

Future Research

Future studies may:

- Compare urban and rural populations.
- Examine gender differences in digital financial behavior.
- Include moderators such as fintech trust, cybersecurity awareness, or financial self-efficacy.
- Conduct longitudinal studies to assess changes over time.
- Compare findings across different countries or regions.

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