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Examining the effect of finance literacy on wealth accumulation: Mediation of financial management and financial responsibility

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Abstract

This research examines the role of financial literacy, responsibility, and management in contributing to wealth-building and their interdependent roles in determining financial performance. Financial literacy provides individuals with the basic understanding of financial fundamentals in order to make informed decisions. Financial responsibility denotes habits of frugality like budgeting and saving, while financial management involves forward planning, resource optimization, and risk avoidance to ensure maximum returns on finances. These aspects combined create an integrated concept that is essential in the creation and maintenance of wealth.

By applying a quantitative research design, the data of 113 survey respondents were analyzed using statistical methods such as reliability tests, KMO and Bartlett's test, chi-square analysis, and ANOVA for validity and strength. The research investigates how financial literacy serves as a basis for responsibility and management and thus leads to the accumulation of wealth. It also identifies demographic factors such as age, income, and education that impact these financial behaviors.

Evidence shows that financial literacy highly reinforces responsibility and management, providing a window of successful wealth-building plans. The research also surfaces impediments like financial literacy and resource constraints, emphasizing the need for specific intervention. It also expresses the applicability of emerging themes, such as digital finance and sustainable investment, promoting their incorporation into financial literacy to empower people in a fast-changing economy.

The study offers policy-relevant lessons to policymakers, educators, and financial institutions on how to develop policies that can foster financial awareness, good behavior, and sound management. These policies can help minimize socioeconomic gaps, increase financial independence, and facilitate long-run financial well-being and prosperity. Although worldwide in its implications, the study is of special importance for India's emerging wealth management industry, where increasing prosperity, technology, and responsible investing are transforming the face of finance.

Keyword: Economic and financial crimes commission (EFCC), forensic accounting, access to justice

Introduction

Wealth accumulation is an important sign of financial stability and success, both for individuals and society. Many factors affect a person's ability to build wealth, but financial knowledge, responsibility, and management are key to financial results. Financial knowledge means understanding financial concepts. Financial responsibility involves careful money habits, like budgeting and saving. Financial management includes the skills needed to make smart financial choices, such as investing and managing risks. In today's complex financial world, individuals with a solid understanding of these areas can handle economic challenges better, avoid debt, and ensure their long-term financial health. However, gaps in financial knowledge and poor money management can prevent wealth accumulation and increase social inequalities. This study aims to examine how financial knowledge, responsibility, and management relate to wealth accumulation. By using quantitative analysis to look at these factors, the study hopes to offer insights that can improve financial education programs and influence policies that encourage economic empowerment and financial independence.

A. Definitions

Financial literacy refers to the knowledge and understanding of various financial concepts,

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including budgeting, saving, investing, borrowing, and understanding financial products like loans, insurance, and retirement accounts. It also includes the ability to make informed and effective decisions regarding the use and management of money.

Financial responsibility refers to the behavioural aspect of personal finance, which includes the disciplined handling of money, such as budgeting, avoiding unnecessary debt, and consistently saving or investing over time.

Financial management involves the application of financial knowledge and strategies to make decisions about the effective allocation of financial resources. It includes managing investments, assets, debts, and other financial resources to maximize long-term financial gains.

Wealth accumulation refers to the process of building and increasing one's financial assets and resources over time. This can include savings, investments, property, and other income-generating assets.

Investment is the act of allocating money or resources into assets, such as stocks, bonds, real estate, or businesses, with the expectation of generating income or appreciating in value over time.

Budgeting is the practice of creating a financial plan to allocate income toward expenses, savings, and investments, ensuring efficient resource management and financial discipline.

Risk Management is identification, assessment, and mitigation of financial risks to protect wealth, including diversification of investments, insurance, and strategic decision-making.

Sustainable Investing are investment strategies that consider environmental, social, and governance (ESG) factors, aligning financial goals with broader societal and environmental values.

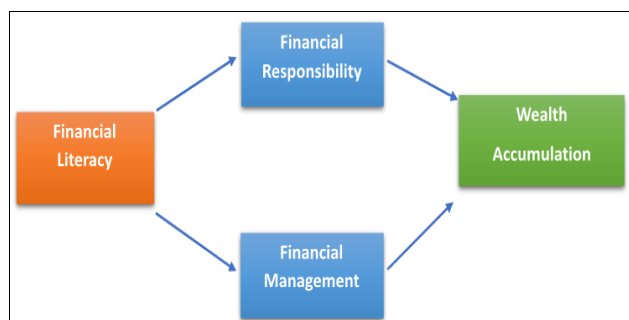
Demographic Factors are Characteristics such as age, gender, income, education, and occupation, which influence financial behaviours and decision-making patterns.

Financial Independence is the state of having sufficient income or assets to cover living expenses without relying on external financial support, allowing individuals to achieve personal and financial goals.

Financial Goals are specific, measurable objectives related to financial well-being, such as saving for retirement, buying a home, or creating an investment portfolio.

Emergency Fund is a financial reserve set aside to cover unexpected expenses, such as medical emergencies, job loss, or major repairs, providing a safety net for financial stability.

B. Research Framework



C. Problem Statement

The study looks at the challenges people encounter in building wealth. These include a lack of financial knowledge, poor money management, and limited access to wealth management services. These problems affect informed decision-making, responsible financial habits, and efficient resource management. As a result, they lead to financial instability and social inequalities. By exploring the connections between financial literacy, responsibility, and management, the research aims to identify gaps and suggest practical solutions. The goal is to boost financial education, encourage responsible financial habits, and improve equitable access to resources that help in building wealth.

Specific Research Questions:

- How does financial literacy influence financial responsibility and financial management?
- What is the relationship between financial literacy and wealth accumulation?
- How do demographic factors such as age, gender, income, and education impact financial literacy, financial responsibility, and wealth accumulation?
- What role do responsible financial behaviours like budgeting, saving, and investing play in long-term wealth accumulation?

Expected Outcomes

- Financial literacy would positively influence financial responsibility and management, as individuals with greater financial knowledge are likely to adopt responsible behaviours such as budgeting, saving, and effective financial planning.
- Higher levels of financial literacy would correlate with increased wealth accumulation, as financial knowledge enables better investment decisions and long-term planning.
- Demographic factors would show varying levels of influence, with younger, educated individuals possibly exhibiting higher financial literacy, while income and gender might affect financial responsibility and investment behaviours.

Responsible financial behaviours would be significant contributors to wealth accumulation, with consistent saving and investing linked to better financial outcomes and long-term stability.

D. Objectives of the study

Primary Objective

The primary objective of the study is to analyse the influence level of financial literacy on individuals' ability to accumulate wealth.

Secondary objective

- To Identify how financial literacy influence financial management and financial responsibility leading to wealth accumulation.
- To analyse how demographic factors impact financial literacy, responsibility, and wealth accumulation.
- To identify how responsible financial habits like budgeting, saving, and careful spending contribute to

building wealth and long-term financial success.

Hypothesis of the Study

- **H1:** Higher financial literacy positively influences financial responsibility, leading individuals to make more responsible financial decisions.
- **H2:** Enhanced financial literacy contributes to improved financial management skills, enabling individuals to effectively manage their resources and investments.
- **H3:** Increased financial responsibility has a positive impact on wealth accumulation, as responsible financial behaviours lead to better savings and investment strategies.
- **H4:** Improved financial management directly leads to greater wealth accumulation, as better resource allocation and investment decisions promote long-term financial.

Literature Review

A total of 24 literature reviews were conducted. Some of them are listed down below:-

GM Moore and RJP Hall (2014) ^[1] review the connections between financial literacy, financial management practices, and wealth accumulation. They find that financial literacy is positively linked to effective financial management behaviors, such as budgeting and investing. These behaviors contribute to wealth growth. The paper highlights the importance of financial education in giving individuals the skills they need to manage their finances well. The authors advocate for a more unified approach to financial literacy programs, emphasizing practical skills that improve individuals' financial abilities and lead to greater wealth accumulation.

Financial literacy, schooling, and wealth accumulation. Financial literacy and education levels are related to household wealth accumulation.

However, earlier findings may be skewed due to unreliable measures of financial literacy and education, along with unobserved factors like ability, intelligence, and motivation. These factors can enhance financial literacy and education while also influencing wealth accumulation directly. We use a new household dataset and an instrumental variables method to identify the causal effects of financial literacy and education on wealth accumulation. While both financial literacy and education levels show a strong positive relationship with wealth outcomes in linear regression models, our method reveals even greater effects of financial literacy on wealth. The estimated impacts are significant enough to indicate that investing in financial literacy could greatly benefit household wealth accumulation.

Source: National bureau of economic research

Conscientiousness, financial literacy, and asset accumulation of young adults. This study uses the 1997 National Longitudinal Survey of Youth to explore the connection between financial literacy, conscientiousness, and asset accumulation in young adults. The findings show that both conscientiousness and financial literacy predict asset accumulation among young Americans. A one-standard-deviation increase in conscientiousness is linked to a 40% rise in net worth, a 53% rise in illiquid assets, and a

33% rise in liquid assets. A one-standard-deviation increase in financial literacy is connected to a 60% rise in illiquid assets and a 30% rise in liquid assets. Financial literacy influences how conscientiousness affects net worth. These results indicate that conscientiousness and financial literacy are key factors. Policies that focus on improving both conscientiousness and financial literacy may positively affect consumer saving and asset building.

Religion and wealth

The role of religious affiliation and participation in early adult asset accumulation. Researchers have reported stark inequalities in ownership of wealth, but little is known about processes that produce them. One such significant contributing factor, which goes unnoticed, is religion. This research examines religious participation, religious affiliation, and trends in the accumulation of wealth. I contend that religion indirectly influences wealth ownership by influencing demographic behaviors. I also contend that religion directly affects wealth accumulation by recognizing valuable objectives, by creating a repertoire of skills that guide actions, and by participating in social relationships that pass on information and opportunities that can enrich property ownership. The results indicate that Jews have outstanding returns in property ownership, while conservative Protestants acquire comparatively little wealth. By contrast, mainline Protestants and Catholics cannot be distinguished from one another or from the broader population. The findings show the significance of family processes in modeling wealth accumulation, and they highlight the significance of culture in modeling economic conduct and finally in producing social inequality.

Financial literacy and portfolio diversification

We employ a survey of private investors released by the Portuguese Securities Commission (CMVM) in May 2005 to examine the effect of levels of financial literacy among investors on diversification of portfolios. We examine different facets of financial literacy, and condition on socio-economic and behavioural heterogeneity between private groups of investors. Our findings indicate that educational attainment and financial literacy of investors positively contribute to investor diversification. The sources of information that are utilized by retail investors in order to obtain information about markets and financial products also play an important role in determining the variety of different assets present in a portfolio.

Source-CISEP, ISEG, Technical University of Lisbon, Rua Miguel Lupi 20, 1200-725 Lisboa, Portugal

Arthur C (2012) ^[22], Financial literacy education for citizens: what kind of responsibility, equality and Engagement? *Citizenship, Social and Economic*

Financial literacy training is widely presumed to constitute a type of technical and/or hermeneutic instruction which helps citizens as well as consumers to make prudent financial choices. As a mode of civic literacy education, financial literacy training is widely positioned as encouraging civic responsibility, equality and participation. This article questions the apparently common-sense framing of financial literacy as individual money management for consumers and citizens and accuses a number of the prevalent financial

literacy education programs of actually reinforcing civic irresponsibility, inequality and disengagement. From a critical theory and pedagogically-informed perspective, the article's first three parts critique the nature of the civic duty, equality and political participation appealed to in mainstream financial literacy education literature and offer critical alternatives to each. The argument of these sections lends support to the assertion made in the fourth and last section of this article that an emancipatory, critical civic financial literacy is required for a responsible, active citizenry capable of extending and defending more robust conceptions of freedom and democracy.

Financial literacy and financial behaviour among young adults: evidence and implications. This paper employs data from the 2009 National Financial Capability Study to analyze financial literacy and financial conduct in a sample of around 4,500 young adults aged 25-34. The paper concludes that the majority of young adults have limited basic financial knowledge. Financial literacy is particularly poor among particular demographic groups, including women, minorities, and lower-income or less-educated individuals. A high educational level, nonetheless, is no assurance of financial literacy. As many as 49% of the young respondents with a college level and 60% of the young respondents with a postgraduate level were able to get three basic questions right meant to determine financial literacy. Findings indicate that those participants who exhibit greater financial literacy or greater confidence in math or personal finance skills have improved finances: they are less likely to employ high-cost borrowing strategies, and they are more likely to save for retirement or to have established savings for unexpected expenses.

Research Methodology

A. Research Design

The study employs a descriptive research design that sets out to offer a detailed examination of the associations between financial responsibility, management, literacy, and wealth accumulation. Descriptive research is concerned with observation, analysis, and description of phenomena without manipulating variables, where the researcher gets to document real-world situations. This design is ideal in determining demographic groups' characteristics and behaviors, including income, age, and level of education, with respect to accumulating wealth.

B. Sampling Methodology

- **Population:** The research targeted employees and individuals knowledgeable about financial practices within Chennai and the UK, with a total estimated

population of approximately 1000 individuals.

- **Method:** Purposive sampling was utilized, selecting respondents based on their relevance to the study's objectives.
- **Sample Size:** A total of 113 respondents were included in the study, determined using appropriate statistical formulas to ensure representativeness.

C. Data Collection Methodology

- **Data Collection Methods:** Both primary and secondary data sources were employed.
- **Sources of Data:**
 - **Primary Data:** Collected through structured questionnaires distributed among the respondents.
 - **Secondary Data:** Derived from academic articles, industry reports, and other credible published materials.
- **Data Collection Instrument:** A well-structured questionnaire served as the primary instrument, featuring a mix of open-ended, dichotomous, ranking, and multiple-choice questions. The questionnaire was designed to gather targeted insights aligned with the research objectives.

D. Statistical Tools & Tests

Statistical Tools: SPSS (Statistical Package for the Social Sciences) is a statistical software package developed by IBM. It is widely used in academia and industry for statistical analysis of data.

Smart PLS: Smart PLS is a software with graphical user interface for variance-based structural equation modelling using the partial least squares path modelling method. Users can estimate models with their data by using basic PLSSEM, weighted PLS-SEM, consistent PLS-SEM, and sum scores regression algorithms.

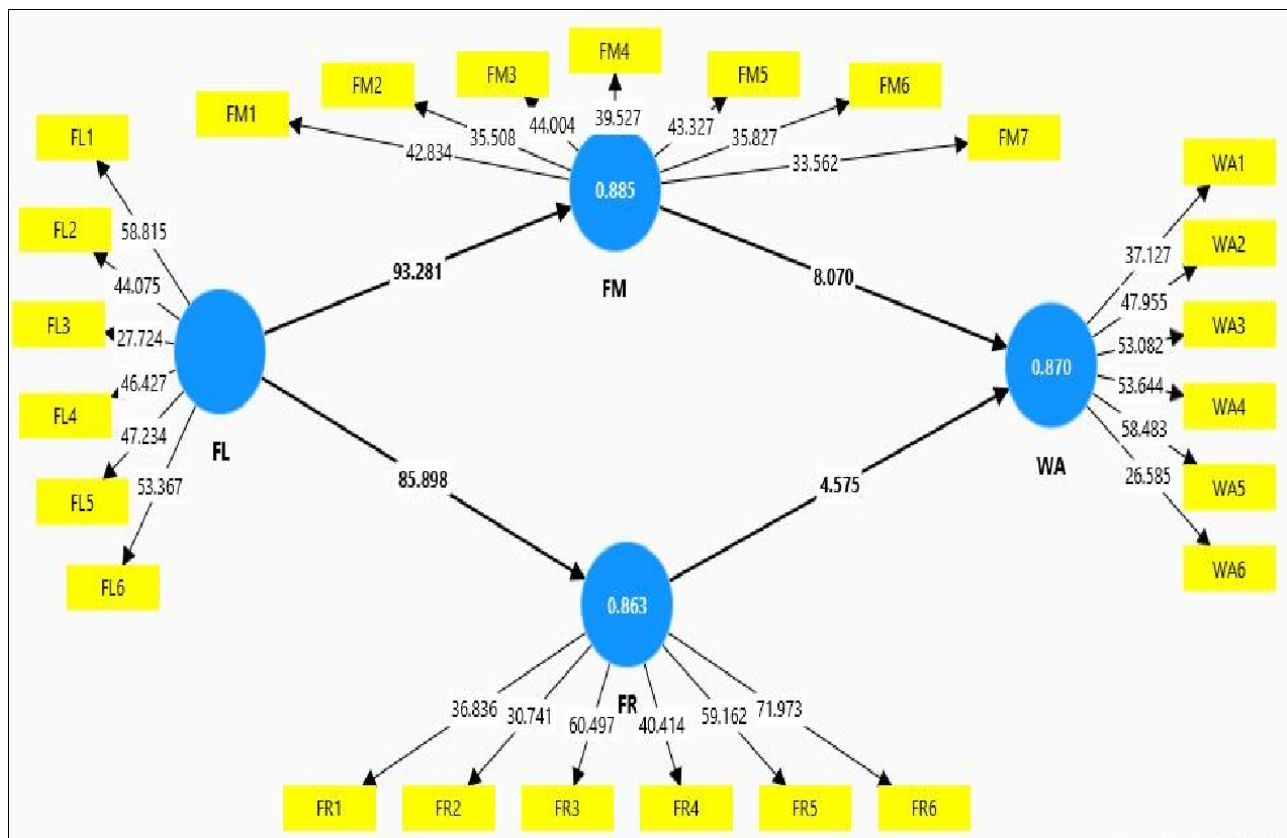
Statistical Tests

- Reliability Test
- Independent Sample T-Test
- KMO and Bartlett's Test
- One-way ANOVA
- Chi-Square Test
- Friedman Test

Data Analysis

A. Findings Based On Model (Smart PLS)

FL-Financial Literacy, FM-Financial Management, FR-Financial Responsibility, WA-Wealth Accumulation



B. Findings based on hypothesis

Table 1: Consolidated Results of Independent Sample T-Test with Respect to Gender

Hypothesis	Demographic Factor	Independent Variable	Result
H ₀ : There is no statistically significant difference in Financial Literacy (FL) scores between males and females.	Male vs. Female	Financial Literacy	No significant difference based on gender (P=0.485)

Table 2: Consolidated Results of Chi-Square Test for Gender and Civil Status

Hypothesis	Demographic Factor	Independent Variable	Result
H ₀ : There is no statistically significant association between gender and civil status (single or married).	Male vs. Female	Civil Status	Significant association based on gender (P=0.004)

Table 3: Consolidated Results of Chi-Square Test for Occupation and Annual Income

Hypothesis	Independent Variable	Result
H ₀ : There is no statistically significant association between occupation and annual income.	Occupation and Annual Income	Significant association between occupation and income (P=0.000)

Table 4: Consolidated Results of One-Way ANOVA Test for Financial Literacy

Hypothesis	Independent Variable	Result
H ₀ : There is no statistically significant difference in Financial Literacy (FL) scores between the different groups.	Financial Literacy	No significant difference between groups (P=0.135)

Table 5: Consolidated Results of One-Way ANOVA Test for Wealth Accumulation

Hypothesis	Independent Variable	Result
H ₀ : There is no statistically significant difference in Wealth Accumulation between the different groups.	Wealth Accumulation	No significant difference between groups at 1% level (P=0.036)

Conclusion

The research emphasizes the importance of financial responsibility, literacy, and management to build wealth. People with greater financial literacy also exhibit improved

financial behaviors like saving, budgeting, and investing that play a critical role in wealth building. Differences in financial behaviors among demographic groups emphasize the need for targeted approaches to reduce disparities in

financial education and access. The conclusions underscore that financial literacy and the means of doing sound financial management are necessary to empower individuals to attain sustained financial independence and well-being.

Encouraging financial literacy through special education programs and incorporating financial training into workplaces and schools can provide people with the basic knowledge. Gender-sensitive financial strategies, like specially designed advisory services for women, can assist in relieving behavioural imbalances and urge more participation in financial planning.

Enhanced access to financial instruments such as budgeting applications and investment sites, particularly in disadvantaged communities, has the potential to bridge financial management gaps. Policies that promote financial literacy programs and ensure sustainable investment habits are essential to ensure that private financial goals meet broader societal goals.

Lastly, using technology in the form of digital platforms and gamified learning can make financial education more exciting, especially for the younger generation. Demographic-specific solutions that take age, income, and educational levels into consideration can make it inclusive, allowing all segments to transcend their financial obstacles and find wealth-building success.

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