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Financial Literacy and Its Impact on the Indebtedness of Households in Gampaha District, Sri Lanka

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Abstract

Financial markets have become more competitive, and the use of new financial technologies has increased dramatically. The current new and complex financial system has become extremely difficult to navigate, and errors and incompetence can have catastrophic results. Therefore, it is really important to understand the impact of financial literacy on household indebtedness since it could provide solutions for the reasons for debt in households. Sri Lanka is a country recording a higher literacy rate among the South Asia countries. Despite this, household debt continues to grow yearly, making it a major problem in the nation. In this study the survey method is used and primary data was collected using questionnaires. This research focuses on households in Gampaha District with a sample of 100 households by using convenience sampling methods. Financial literacy, with four aspects numeracy, money management, financial knowledge, and attitude was the independent variable, while household indebtedness was the dependent variable. Descriptive statistics, correlation, and regression analysis were used to analyze the collected data using SPSS software. The findings highlighted that the numeracy and indebtedness have no significant impact on the indebtedness of households. Money management and the indebtedness pointed to a significant positive impact and the financial knowledge of households were found to have a significant negative impact on indebtedness of households and the financial attitude and the indebtedness of households emphasized a significant positive impact. The findings of this study are important for utilizing the financial literacy knowledge when dealing with debt providers and the debt agreements.

***Keywords**: Financial Attitude, Financial Knowledge, Household Indebtedness, Money Management, Numeracy*

1. Introduction

1.1. Background of the Study

Financial markets have become more dynamic, and currently there is a vast growth in usage of new financial tools. At present, the modern and complicated financial system has become very difficult to navigate and the effects of mistakes and negligence can be devastating.

Financial literacy is the ability to acquire and use financial information as measured by understanding and performing a financial task. In other words, financial literacy is a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate short-term decision-making and sound, long-range financial planning while mindful of life events and changing economic conditions (Remund, 2010). The current economic downturn has shown that the skills associated with personal financial management are more critical than ever. There is also evidence that the financial activity of individuals leads to their economic and general wellbeing. Those who are financially capable of making sound financial decisions, are numerate and can handle money effectively with planning, they understand how credit and debit are handled (Heenkenda, 2014).

Both developed and developing countries have a serious problem in financial literacy around the world. Sri Lanka is a country that boasts impressive print-literacy rates. As of 2018, the literacy rate for adults is 92percent, making Sri Lanka the most literate country in South Asia. Sri Lanka has a financial literacy rate of 35percent. High levels of print literacy do not automatically equate with financial skills, but the ability to read and write offers the basis from which financial resources can be obtained and used. The use of record books, reading bank statements and even using an ATM machine all require basic literacy levels (Dwoodhoy, 2019).

Haq et al.,(2018) defined, household debt is an obligation or liability, arising from borrowing money or taking goods or services on credit. Herrala (2006) has emphasized that debt is regarded mainly as a useful phenomenon in economic theory. It can fix temporary cash deficits by borrowing from non-financial corporations. Moreover, smaller everyday purchases are also often paid for with a credit card. Debt can support economic growth and promote households' welfare, yet the borrowing decision requires due consideration. Moreover, the factors which affect the resulting situation are not easy to control.

Income and lower savings are the main two reasons for households to borrow (Prinsloo, 2002). People borrow because of transitory fluctuations in their income while some researchers argue that people borrow because their savings are inadequate (Darmadasa & Gunathilake, 2023). Mitchell and Lusardi, (2015) finds that low levels of financial literacy are linked with poor borrowing, saving, and spending patterns, and shows how literacy helps people make better financial decisions. Heenkenda (2014) contended that although the local investor population was composed of highly educated and clever persons, their lack of financial literacy was a major factor in the failure of Sri Lankan financing businesses.

It is really important to understand the relationship between financial literacy and household indebtedness since it could provide solutions for the reasons for debt in households. Finally, suggestions would be made on some strategies on how to overcome the household indebtedness.

1.2 Problem Statement

South Asia has the second lowest literacy rates compared with other regions and Sri Lanka is a country recording the highest literacy rate among the South Asia countries in 2018 also records a financial literacy rate of 35 percent to 45 percent according to S&P Global Finlit Survey (2014) (Dwoodhoy, 2019). Sri Lanka's household debt accounted for 9.4 percent of the country's Nominal GDP in Dec 2019, compared with the ratio of 8.8percent in the previous year. The data reached an all-time high of 9.4 percent in Dec 2019 and a record low of 6.3 percent in Dec 2014. Household Debt includes Consumer Durables, Pawning, Credit Cards, Personal Education, Personal Healthcare and Others (CEIC, 2019). Even though Sri Lanka has a good financial literacy rate, after 2014 the household debt level tends to increase continually (CEIC, 2019). Therefore, there is an unusual relationship between the level of Financial Literacy and the household indebtedness in Sri Lanka.

Research on the real implications of financial literacy is still conflicting, despite the fact that it is commonly promoted as a way to encourage responsible financial actions and lower household debt. According to a number of studies, those who are more financially literate make better financial decisions, have less debt, and avoid expensive borrowing (Lusardi & Tufano, 2009; van et al., 2011). According to these studies, those who are financially literate are more likely to successfully manage their credit, save money, and create a budget. However higher financial literacy does not always translate into less household debt according to some scholars. Rather, it could encourage people to take on more sophisticated borrowing activities with more confidence, which might occasionally lead to higher debt levels (Brown et al., 2016; Disney & Gathergood, 2013). These inconsistencies point to a serious lack of awareness on the true function and boundaries of financial literacy in relation to household debt. Thus, it is essential to look at the circumstances and people for whom financial literacy brings about improved debt management.

Also, the previous researchers have researched this area mostly by using cluster sampling method & snowball sampling methods (Noventi & Danarsari, 2017; Bahovec et al., 2015). Suggestions have been made doing further research on this area by using different sampling methods other than sampling methods used in existing literature to broaden sample representation and improve generalizability (Bahovec et al., 2015). Therefore, this study will be a good effort to reduce the methodological gap within this area. This research will aim to find the Impact of Financial Literacy on the Indebtedness of Households to find solutions to the underlying issues.

1.3 Research Objectives

Research on the real implications of financial literacy is still conflicting, despite the fact that it is commonly promoted as a way to encourage responsible financial actions and lower household debt. According to a number of studies, those who are more financially literate make better financial decisions, have less debt, and avoid expensive borrowing (Lusardi & Tufano, 2009; van et al., 2011). According to this research, those who are financially literate are more likely to successfully manage their credit, save money, and create a budget.

1. To investigate whether there is a significant impact of Numeracy on Household indebtedness.
2. To investigate whether there is a significant impact of Money management on Household indebtedness.

3. To investigate whether there is a significant impact of financial knowledge on Household indebtedness.
4. To investigate whether there is a significan t impact of financial attitude on Household indebtedness.

1.4 Significant of the Study

By examining the direct and indirect impact of financial literacy on household debt, this study expands to the increasing literature of research on this area. Also provide a theoretical awareness of how behavioral (goal-directed action), cognitive (knowledge), and motivational (belief) elements interact with respect to household financial outcomes, especially with regard to debt management and financial resilience.

The outcomes can help guide national financial inclusion plans by determining which groups are more vulnerable to ineffective debt management because of a lack of financial literacy. Moreover, this study will help government, policy-makers, and prospective scholars get an idea about household debt remedies. Also will assist Non Government Organisations (NGOs), banks, and microfinance organizations create better financial services and solutions that suit customers' spending patterns and capacities.

2. Literature Review

2.1. Theoretical Background

2.1.1 Self-efficacy theory

Self-efficacy theory defines how people act, perceive, inspire and behave. Through four major processes, these beliefs generate certain diverse effects. Which include processes of cognitive, emotional, affective, and selection (Bandura, 1994). Self-efficacy is a confidence in the talents; someone can effectively do his job when he looks at the potential to produce outcomes with any of his acts. Individuals with a high degree of self-efficacy can do something faithfully, have less worries and behaviors and search for new tasks (Wood & Bandura, 1989).

In the context of financial literacy, this theory is related to how individuals manage their ability to understand financial products and services, to be well-literate to a variety of financial products and services that are always dynamic and fluctuating. Individuals who have higher levels of self-efficacy believe that they are able to plan and manage their financial activities successfully and better. It is related to managing and planning activities such as managing finances, using credit cards less, and controlling debt (Muizzuddin et al., 2017).

2.1.2 Goal setting theory of motivation

Motivation is a process that explains the intensity, direction, and persistence of an individual to achieve his goal. In this definition the three main elements are intensity, direction and persistence. Motivation is the determining factor for anyone to do something, including knowing the various factors relevant to financial sector products and services (Muizzuddin et al., 2017).

Mandell and Klein (2007) explained that motivational variables significantly improve the skills of financial literacy and the motivations are able to change the behavior of individuals in managing finances and ultimately improve financial literacy. After reviewing these theories, it is clear that the self-efficacy theory and goal setting theory of motivation have a major influence on the degree of financial literacy of individuals. Therefore, indebtedness also influences these theories indirectly.

2.2 Conceptual Review

2.2.1 Financial literacy

Financial literacy was defined by Chen and Volpe (1998) as the knowledge to manage finances in financial decision making. According to Heenkkenda (2014), Financial literacy is the ability to acquire and use financial information as measured by understanding and performing a financial task. In other words, financial literacy is a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate short-term decision making and sound, long range financial planning while mindful of life events and changing economic conditions (Remund, 2010). Rehman and Mia (2024) found that financial literacy is thought to be a necessary quality for people and companies to make the best decisions. Lusardi and Tufano (2009) focused on debt literacy, an aspect of financial literacy, describing it as the ability to make clear debt contract decisions, in particular how basic interest compounding knowledge, calculated in the sense of daily financial choices, is applied.

Mandell (2008) has described financial literacy as the ability to evaluate and make informed decisions on both the choice of resources and the extent of use of modern and complex financial instruments that would be in their best long-term interests. The study has used numeracy, money management, financial knowledge and financial attitude as indicators to measure financial literacy. Lusardi (2012) highlights the importance of numeracy in financial decision-making and how a lack of numerical skills can result in worse than ideal financial results, particularly for women, the elderly, and those with lower levels of education. In a similar vein, Moll et al.(2017) examine the relationship between financial literacy and both math anxiety and numerical aptitude, showing that although financial literacy is enhanced by increased numeracy, financial activity might be impeded by negative emotional attitudes toward numbers.

Sachitra et al. (2019) explored the money management behaviors of undergraduates in an emerging economy, providing insights into how financial literacy impacts students' financial practices. Asaad (2015) investigates the relationship between financial knowledge and financial behavior, finding that both actual financial knowledge and perceived financial confidence significantly influence financial decisions. This study highlights the interplay between knowledge and confidence in shaping financial literacy. The Organization for Economic Co-operation and Development (OECD, 2013) incorporated financial attitude as one of the three key pillars in its framework for measuring financial literacy, alongside financial knowledge and financial behavior. Its approach underscores the importance of attitudes, such as confidence in financial decision-making and a proactive approach to managing finances, in fostering financial literacy.

2.2.2 Household Indebtedness

Haq et al.,(2018) defined household debt as an obligation or liability, arising from borrowing money or taking goods or services on credit. It refers to a scenario in which households are either consistently in arrears or at a considerable risk of becoming bankrupt (Biyanwila & Anuradha, 2023). According to Greenberg (1980) Indebtedness is a state of obligation to repay another. Debt is generally viewed as a useful concept in economic theory. By borrowing non-financial corporations can fix temporary cash deficits or finance investments. Among families, borrowing is a way of funding major investments, such as houses or cars. In addition, smaller regular transactions are mostly paid for with a credit card as well.

On the other hand, it has been emphasized that the decision to borrow requires due consideration. Moreover, it is not easy to control the factors that affect the resulting situation.Indebted households may, by smoothing consumption over the life cycle, act rationally. Even with a very high ratio of debt to profits. By reducing future consumption or the need to deal with serious adverse income shocks, a high debt burden could represent a strong preference for current consumption (Matthias, 2009). Household debt is operationalized as the dependent variable in this study and is assessed using a small but focused collection of survey questions intended to identify important markers of financial stress. In particular, subjective financial stress and debt repayment difficulty, both of which are widely acknowledged in the research as reliable predictors of excessive indebtedness are reflected in the variables that were chosen (Keese, 2012; Anderloni & Vandone, 2011). Furthermore, prior studies have found that even a few well-designed questions can effectively distinguish between indebted and over-indebted households when they reflect subjective experiences and behavioral indicators (Disney & Gathergood, 2011).

2.3 Empirical Review

2.3.1 Numeracy and Indebtedness

Numeracy is defined as the ability to understand and use numerical information (Estrada et al.,2016). People's numerical skills contribute positively to raising their level of financial literacy (Cole et al., 2016). Disney and Gathergood (2011) researched on financial literacy and household indebtedness and emphasized a relationship on numeracy and net worth of the households in the UK. The results indicated that their variant of numeracy significantly affects net worth in a general sample of UK households. That emphasized there is a significant relationship with numeracy and the indebtedness of households. McKillop (2016) conducted a study on the relationship between financial literacy and household debt by using five Northern Irish credit unions as the sample. Within the study used numeracy as an independent variable. The findings interpreted that the coefficient on numeracy is statistically insignificant. These findings support the inclusion of numeracy as a key dimension in understanding financial literacy.

2.3.2 Money Management and Indebtedness

Money management is the process of budgeting, organizing, investing, using or otherwise supervising the capital use of an individual or group. The concept is widely used in capital markets by investment managers who make investment decisions on large pools of assets, such as mutual funds or pension plans (Chen, 2019). According to Raijas (2011) Money management is the realistic realization of the financial resources of the entity or family, including a mechanism that involves planning, knowledge search, decision-making, execution and control.

McKillop (2016) conducted a study on the relationship between financial literacy and household debt by using Five Northern Irish credit unions as the sample. Within that study the researcher used Money management as one of the independent variables. The study found that those with superior money management skills have reduced debt-to-income levels; are less likely to borrow from high-cost lenders such as internet money lenders and high street loan shops; and are likely to have used fewer lenders in the last three years. Additionally, the research highlights that money management skills contributed significantly positively to household net worth. Finally, they pointed out money management and indebtedness can have negative relationships. These findings support the inclusion of money management as a key dimension in understanding financial literacy.

2.3.3 Financial Knowledge and Household Indebtedness

A financially literate person should have a certain basic knowledge of key financial principles and the ability to apply numeracy skills in financial situations (Atkinson & Messy, 2012). Well-informed, financially educated consumers are better able to make good decisions for their families and thus are in a position to increase their economic security and well-being. And also, knowledgeable customers making educated decisions are essential to a productive and competitive marketplace also in classical economics, informed consumers provide the checks and balances that keep unscrupulous sellers out of the market (Hilgert & Hogarth, 2003).

Chawla & Uppal (2012) conducted research on Household debt in Canada. For this research they used the data of 2009 Canadian Financial Capability Survey (CFCS), they stressed that those who were more likely to correctly answer questions relating to financial literacy had higher levels of financial knowledge and were therefore more likely to have higher levels of debt. In this research they pointed out a significant positive relationship with financial knowledge and the Household debt. Robb (2007) has done a study of survey data from a large Midwestern University with 6,520 students and concluded that financial knowledge is an important factor in college students' credit card decisions.

Although the relationship between the two does not behave entirely as expected. The findings of a double hurdle study show, contrary to expectations, that students with higher levels of financial knowledge had significantly higher credit card balance. Therefore, the study has pointed out a significant positive relationship with financial literacy and indebtedness. These findings support the inclusion of financial knowledge as a key dimension in understanding financial literacy.

2.3.4 Financial Attitude and Household Indebtedness

Financial Attitude is a response in the form of a statement of “like” or “dislike” or “useful” or “not useful” related to the individual's financial behavior (Potrich et al.,2016). Furnham (1984) described that financial attitudes will also shape the way someone spends, hoards, and spends money wastefully. Financial behavior is an attitude that can influence the way people practice financial management, such as investing, saving, and even spending money.

When reviewing suggested financial management activities with some degree of agreement or disagreement, financial attitude can be regarded as the psychological tendency expressed (Mien & Thao, 2015). Ibrahim and Alqaydi (2013) examined financial literacy among a sample of individuals residing in the United Arab Emirates (UAE) and its relation to different forms of personal debt. The findings show that a strong negative statistical relationship exists between personal financial attitudes and credit card borrowing. Davies and Lea (1995) investigated the relationship with Attitude and debt, to analyze the relationship between attitudes and debt, a pseudo-longitudinal design was used. The results showed a significant positive relationship with attitude and debt, and the regression analysis also showed that there was a very strong link between debt and attitudes. These findings support the inclusion of financial attitude as a key dimension in understanding financial literacy.

3. Methodology

3.1 Conceptual Framework

The conceptual framework has been built on the basis of the literature review as presented in the figure 1.

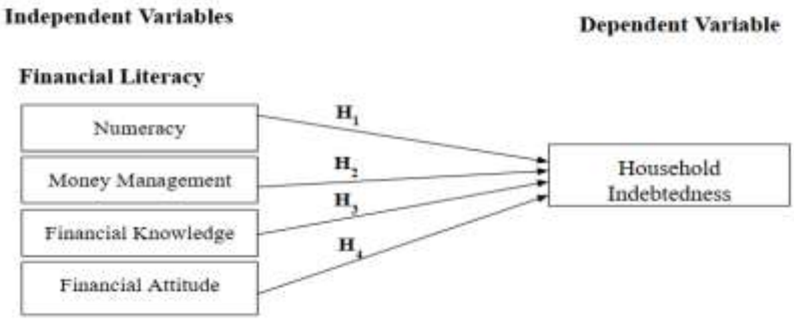

Figure 1. Conceptual Framework

Source: Developed by the Authors

3.2 Hypotheses

Hypotheses are the tentative statements which should be testable. The development of hypotheses is very important since the significance of the research is demonstrated by acceptance or rejection of the hypotheses. Therefore, following hypotheses developed based on theoretical framework and literature review.

H_1- There is a significant impact of Numeracy on Household indebtedness.

H_2- There is a significant impact of Money management on Household indebtedness.

H_3- There is a significant impact of financial knowledge on Household indebtedness.

H_4- There is a significant impact of financial attitude and Household indebtedness.

3.3 Research Design

This research was conducted as basic research. This form of study is used to create a body of information by trying to understand how it is possible to address such issues that exist in households. The aim of this research was to analyze the impact of financial literacy on indebtedness of households in Sri Lanka. This analysis can be defined as an explanatory study that establishes the relationship of cause and effect between various factors. As the study location Gampaha district has been selected. The special reason for selecting Gampaha as the study location, because Gampaha district has been identified as the district which has the highest print literacy rate when compared with the other districts in Sri Lanka. It records the highest literacy rate of 96.9percent (Department of Census & Statistics, 2017).

To achieve the objective the data was collected through the owner of the households. Therefore the unit of study is considered as individual. The population of this research was the households in Gampaha district of Sri Lanka. In this study 100 households have been selected as a sample and the sample was selected through convenience sampling method. Within this research the survey method has been used and the primary data was collected from original sources using methods such as questionnaires in Sinhala and English. Standard structured questionnaires have been forwarded to the target household sample in Gampaha district. A questionnaire is a research tool consisting of a series of questions for the purpose of collecting respondent information. It is possible to recognize questionnaires as a kind of written interview. Questionnaires offer a relatively inexpensive, easy and reliable way for a large sample of people to collect large quantities of information (McLeod, 2018).

3.4 Methods of Data Analysis

In this research quantitative analyzing methods were used to analyze gathered data. Therefore, SPSS data analysis software has been used. To analyze the quantitative nature of the data, this research used descriptive statistics tests of frequency distribution, central tendency measurements and dispersion. All the personal data and classification variables have been measured by using frequency distribution, maximum, minimum, mean, standard deviation and the variance. To measure the strength of the relationship between both independent and dependent variables, correlation coefficient has been measured. To determine how the changes of the financial literacy are associated with the changes in the household indebtedness, measured by using regression analysis.

4. Results

4.1. Reliability Analysis

Reliability makes sure that the methods used in the study actually calculate the variables they are intended to measure and that they measure them accurately. The researcher has assessed the reliability of the key variables of the analysis before further review. For that intention Cronbach's alpha test was performed. Table 1 shows the outcomes of evaluation.

Table 1. Reliability analysis

Variable type	Scale	Cronbach's Alpha
Independent	Numeracy	0.894
	Money management	0.668
	Financial Knowledge	0.756
	Financial Attitude	0.737
Dependent	Indebtedness	0.809

Source: Survey data

According to Table 1 all values are greater and closer to the 0.7 that interprets the existence of the reliability of the selected variables. Therefore, the collected data for the selected variables can be used for further analysis.

4.2. Descriptive Analysis

To classify the basic essence of this research and to explain the study's data distribution, descriptive statistics were measured. In this section the researcher has used Maximum value, Minimum value, Mean and Standard Deviation to interpret this study. Central tendency of the values of a variable could be identified through mean. Value close to 0.5 for standard deviation is a good position.

Table 2 provides descriptive statistics of respondents' responses related to dependent research variables and independent research variables. According to Table 2 the mean values of Numeracy, Financial Knowledge, Money Management and financial attitude are significantly high, that means most of the respondents of the population are literate. Mean value for Indebtedness is also high which means most of the respondents are indebted. As per the table 2 standard deviation results are close to the 0.5 level which is a good level.

Table 2. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Standard Deviation
Numeracy	3.500	5.000	4.125	0.493
Financial Knowledge	3.330	5.000	4.026	0.475
Money Management	3.330	4.670	3.920	0.414
Financial Attitude	3.330	5.000	3.866	0.501
Indebtedness	2.400	4.800	3.740	0.610

Source: Survey data

4.3. Test of Normlity

The values of skewness and kurtosis were all within the recommended limit of -2 to +2, which indicates the normal distribution of all the constructs of the study (Ebenehi, et al., 2019). According to Table 3 it interprets -0.559 of skewness value and 0.496 value of kurtosis for the dependent variable. For the numeracy it has 0.806 skewness and -0.577 of kurtosis. The financial knowledge variable has 0.390 skewness value and -0.345 kurtosis value which interpret the normal distribution. Money management and financial attitude interpret a 0.397 and -0.678 value of skewness and 0.894 and 0.208 values of kurtosis accordingly. Therefore, this sample has a normal distribution and the sample can be used to do a regression analysis.

Table 3. Skewness and Kurtosis Analysis (Normality)

Variable	Skewness	Kurtosis
Numeracy	0.806	-0.577
Financial Knowledge	0.390	-0.345
Money Management	0.397	-0.678
Financial Attitude	0.894	0.208
Indebtedness	-0.559	0.496

Source: Survey data

4.4 Test of Multicollinearity

When an independent variable in a multiple regression equation is highly correlated with one or more of the other independent variables, multicollinearity occurs. Multicollinearity is a concern since it eliminates an independent variable's statistical significance (Editor, 2013). If the value inflation factor (VIF) values lie between 1-10, then there is no multicollinearity issue. Table 4 presents VIF values of the variables. According to the table all the VIF values are below 10 and it is indicating the no issue of multicollinearity issues. Therefore, the values can be taken to further analysis.

Table 4. Results of value inflation factor (VIF) values

Variable	VIF Value
Numeracy	2.920
Financial Knowledge	5.415
Money Management	3.129
Financial Attitude	5.601

Source: Survey data

4.5 Correlation Analyses

Correlation will indicate the direction, strength, and significance of the bivariate relationships among all the variables that were measured at an interval or ratio level. The correlation is derived by assessing the variations in one variable as another variable also varies. In the study of correlation, the direction and strength of the linear relationship between the independent and dependent variable is quantified between -1 and +1. If the values are in between 0.8 & +1 identified as very strong correlation also the values are in between 0.6-0.8 identified as strong correlation and the values in between 0.4 & 0.6 identified as moderate correlation also the values in between 0.2 to 0.4 identified as weak correlation finally 0-0.2 values are recognized as very weak correlation (Melania et al., 2018).

Table 5. Pearson Correlation Results

	Numeracy	Financial Knowledge	Money Management	Financial Attitude
Financial Knowledge	.675**			
Money Management	.745**	.762**		
Financial Attitude	.749**	.881**	.720**	
Indebtedness	.697**	.688**	.787**	.766**

**. Correlation is significant at the 0.01 level (2-tailed). N = 100;
Source: Survey data

According to Table 5 there is a significant strong positive relationship between numeracy and financial knowledge, where the correlation is 0.675 and it is significant at 0.01 level. The correlation value of 0.745 emphasized the strong and positive relationship between numeracy and money management and it has a 0.000 significant level which is significant at 0.01 level. The correlation between numeracy and financial attitude emphasized a strong positive relationship which has a 0.749 of correlation at the 0.01 significance level. Correlation of 0.697 value implies that strong positive relationship between numeracy and indebtedness and it is significant at 0.01 level.

That means numeracy and indebtedness have a significantly positive relationship. There is a strong positive relationship between financial knowledge and money management with a 0.762 correlation value which is significant at the 0.01 level. Correlation value of 0.881 implies that the very strong Positive relationship between Financial knowledge and financial attitude is significant at 0.01 level. According to the financial nnowledge and indebtedness there is a strong positive relationship and it implies 0.688 correlation that is significant at 0.01

level. Therefore, financial knowledge has a significant strong positive relationship with Indebtedness.

In between money management and financial attitude there is a strong positive relationship which has 0.720 of correlation at the 0.01 confidence level. The correlation value of 0.787 implies a very strong positive correlation value in between money management and indebtedness which is significant at the 0.01 confidence level. Finally, between indebtedness and financial attitude has 0.766 of strong positive correlation at the 0.01 confidence level.

4.6 Regression Analysis

The impact of independent variables (numeracy, financial knowledge, money management, and financial attitude) on dependent variable (indebtedness) was identified by multiple linear regression analysis. The regression coefficients indicate the relative importance of each of the independent variables in the prediction of the dependent variable. To measure the influence and the impact of independent variables on dependent variable the researcher has developed regression models as follows:

$$IN = \beta_0 + \beta_1 N + \beta_2 MM + \beta_3 FK + \beta_4 FA + e_i$$

Where: IN-Indebtedness of households; NU-Numeracy; MM-Money management; FK-Financial Knowledge; FA-Financial Attitude; β_0- Constant; β_1, β_2, β_3, β_4 = Coefficients of Independent Variables and e_1-Error term.

Table 6. Model Summary of the Multiple Regression Analysis

R	R square	Adjusted R square	Std. Error of the estimate	Significance	F value
0.846	0.716	0.704	0.332	0.000	59.817

Dependent variable: Indebtedness; Predictors: (Constant), FA, NU, MM, And FK
Source: Survey data

The relation between the variables is indicated by the R value of the regression analysis. According to Table 6, the R value is 0.846, which is at a beneficial stage. The square of R (R^2) which is also known as the determination coefficient. It states the explanatory power of the independent variables. In this analysis, the value of R Square is 0.716, which indicates that the projections of numeracy, money management, financial knowledge and financial attitude will explain 71.6 percent of household indebtedness. As per the Table 6 the F value is 59.817and generally it should be more than 2.00. As a result, the model fitness is favorable and the variables within the model can be accepted. The significance value of the model is 0.000, therefore the model is significant and it can be used to measure the impact of financial literacy on Indebtedness of households. Table 7 indicates the values of coefficient of regression of dependent variable (indebtedness) and the other independent variables. According to the beta values numeracy and the indebtedness indicate a positive relationship (β = 0.043). But according to the measurements of confidence level shows an insignificant relationship between numeracy and indebtedness which has the 0.713 level of confidence that is above the 0.01and 0.05 level of confidence that is considered. Therefore, the positive relationship cannot be interpreted due to unavailability of the sufficient confidence level. The beta value of financial knowledge and indebtedness indicate a significant negative relationship which has a -0.327-beta value and it is significant under 0.05 confidence which has a significant value of 0.048 that means if one unit increases the household indebtedness will reduce by 0.327. Money management and indebtedness emphasize a positive relationship which has a 0.798 of beta value and it is significant (0.000) at the 0.01 level of confidence level. It indicates if the money management increases by one unit, the household indebtedness also increases by 0.798.

Table 7. Coefficient of Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients		
	Beta	Std. Error	Beta	t statistics	P vlue
Constant	-0.949	0.329		-2.881	0.005
NU	0.043	0.116	0.035	0.369	0.713
FK	-0.327	0.163	-0.255	-2.002	0.048
MM	0.798	0.142	0.542	5.605	0.000
FA	0.699	0.157	0.574	4.438	0.000

Source: Survey data

According to the beta value of financial attitude it represents a significant positive relationship which has 0.699 beta with 0.000 significant which is significant under 0.01 level of significance. It indicates if one unit increased in the financial attitude the indebtedness will increase by 0.699 of units.

4.7. Hypotheses Testing

In the following section the researcher has discussed the hypotheses which have been established in this research by taking results of multiple regression analysis into account. The significance of the study can be determined by the acceptance or rejection of the hypotheses of the study. In this research four hypotheses were raised and tested at 0.01 and 0.05 significant levels.

H_1: There is a significant impact of numeracy on household indebtedness.

According to Table 7, numeracy and indebtedness has no impact (β =0.043 and P = 0.713) on indebtedness of households. Since the result is insignificant, Therefore H_1 is rejected.

H_2: There is a significant impact of money management on household indebtedness.

According to Table 7, money management has a significant positive impact (β= 0.798 and p=0.000) on indebtedness. That is significant under 0.01 significant level. Therefore, H_2 is accepted.

H_3: There is a significant impact of financial knowledge on household indebtedness.

According to Table 7, financial knowledge has a significant negative impact (β= 0.327 and P=0.048) on indebtedness. That is significant under 0.05 significant level. Therefore, H_3 is accepted.

H_4 - There is a significant impact on financial attitude on Household indebtedness.

According to Table 7, Financial attitude has a significant positive impact (β= 0.699 and P=0.000) on indebtedness. That is significant under 0.01 significant level. Therefore, H_4 is accepted.

5. Discussion

This study's objective is to determine the extent to which indebtedness of the households were affected by financial literacy, and it did so by researching deeply into the complex impact on the both and employing rigorous analytical techniques to uncover important patterns. The results offered compelling insights. According to the regression analysis results Numeracy and Indebtedness of households has positive impact but due to non-availability of the required confidence level the positive impact cannot be interpreted. Therefore, Numeracy has no significant impact on the indebtedness of households.

This finding is compatible with the findings of McKillop (2016) which interpreted the non-significant impact of Numeracy on indebtedness of households. However, this result was contradictory with the previous study of (Disney & Gathergood, 2011). It was found that the financial knowledge and indebtedness of households have a significant negative impact. The results were contradictory with the previous studies of (Chawla & Uppal, 2012; Rob, 2007). According to the regression results, money management and indebtedness has a significant positive impact but the results were varying with the previous studies findings of Davies and Lea (1995) and McKillop (2016) which interpreted a negative impact with both variables. The results of this study revealed that there is a significant positive impact on the financial attitude and the indebtedness of households the results were consistent with the findings of the Davies and Lea (1995) which pointed out the same impact on the both variables. The regression results were contradictory with the results of (Ibrahim & Alqaydi, 2013).

6. Conclusion

This study examined a significant impact on financial literacy of household debt in the Gampaha District with a sample of 100 households by using convenience sampling methods, illuminating the complex impact on indebtedness levels and financial literacy. Through the use of a survey-based method and primary data analysis, the study revealed significant findings on how varying financial literacy levels affect debt levels. The primary data was collected using questionnaires in English and Sinhala medium. From the results of the multiple regression model, indicates that the projections of numeracy, money management, financial knowledge and financial attitude will explain 71.6 percent of financial literacy. This means that the other variables which are not in this research explain only 28.4 percent.

The study concluded that the numeracy and indebtedness have no significant impact on the indebtedness of households. Money management and the indebtedness pointed to a significant positive impact on indebtedness of households. The financial knowledge of households was found to have a significant negative impact on indebtedness of households and the financial attitude and the indebtedness of households emphasized a significant positive impact. Therefore, under this study out of 4 hypotheses only 3 hypotheses were accepted and that concluded that there is a significant impact of financial literacy on indebtedness of households. The main objective of this study has been achieved by identifying the Impact of financial literacy on the indebtedness of households in the Gampaha District, Sri Lanka. Therefore, researchers can conclude that there is a significant impact of financial literacy on indebtedness of households in Sri Lanka.

6.1 Recommendation and Suggestions for Future Research

Indebtedness is a growing problem in Sri Lanka; it keeps on increasing each year. According to the research findings there is a significant impact of financial literacy on indebtedness, therefore financial literacy can significantly influence the indebtedness level of households. Considering the two variables' impact the researcher has suggestions to improve the ability in people to apply their financial knowledge practically and this in return would reduce the indebtedness in Sri Lanka. The researcher recommends including financial education into primary and secondary education, so that the next generations would have much better understanding on how to handle debt agreements and they don't end up in unbearable debt. The researcher suggests that the government should conduct yearly workshops on spreading awareness on how to practically apply financial literacy and the workshop should be provided to selected candidates based on their level of indebtedness. This research's sample was 100 households and only one sampling method had been used due to the lack of time, lack of resources and accessible limitations. Therefore, a further study could be done by considering more districts with much higher samples to get more accurate results. Also, this study has only used convenience sampling methods, a further study could be done by using other sampling methods such as simple random sampling.

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