



A study of dimensions of financial literacy and its relationship with household savings and investment

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Abstract

The present paper focuses on assessing the level of financial literacy of the people of Delhi. The study also examines the relationship between financial literacy and demographic factors such as age, gender, occupation, marital status, education, monthly income, type of family. Delhi is the capital of India where people of different classes and categories live. To determine their level of financial literacy, primary data is collected through a structured questionnaire consisting of two sections dealing with basic and advanced financial literacy and questions on demographic and socio-economic problems. Data are analyzed through percentages and cross tabulation. The study shows that the level of financial literacy is low among the respondents of Delhi. Also men have higher financial literacy than women. Thus it suggests to the policy makers and all financial institutions that the focus should be on the micro level segment of individuals in both urban and rural areas.

Keywords: financial literacy level, determinants of financial literacy, household savings, investment preferences, investment decisions

Introduction

The growth and development of the Indian economy and the expansion of financial markets post industrial policy have resulted in tremendous growth of financial products as an investment option. The increasing complexity and available options of financial products, the shift from the government to providing social security to individuals, the increasing importance of planning for retirement have made it imperative for countries to provide financial literacy at all levels as low levels of financial literacy are affecting people. A prudent choice in regard to their financial decisions and consequently renders them incapable of selecting the most appropriate investment option to beat the prevailing inflation rate of the economy. It can be considered as the first step towards poverty alleviation and development in developing countries.

Sometimes, financial education and financial literacy are used interchangeably, although they are neither the same nor different concepts. This section deals with some background and concepts on financial literacy. There are two aspects to understanding financial literacy: conceptual and operational (Refund, 2010). The first is about understanding the general and basic aspects of financial matters such as income, financial planning, budgeting, savings, borrowing, spending and investing, while the second is about how individuals deal with money and personal financial resources in their daily lives. Huh. The operational part of financial literacy is more relevant in terms of individual, time and place. Personal financial resources are income and borrowings, other things remaining equal. Fraczek and Klimontowicz (2015) present financial literacy and another aspect of education as financial competence. Financial ability is synonymously expressed as financial acumen. It is about how one can make financial decisions rationally and how efficiently one can allocate the available limited financial resources, i.e. income and borrowings, to meet many life-needs. Financial literacy is the

ability to understand finances (Ansong and Gyansare, 2012, p. 126). Typically, financial literacy considers the matter of personal finance rather than 'finance' as a whole.

Operational definition of financial literacy

Financial literacy includes the skills and knowledge that enable a person to understand, firstly, the principles of finance that a person needs to know to make informed financial choices and decisions and secondly, the financial products that an individual needs. Affect their financial well-being. Generally, there are four dimensions of financial literacy, i.e. financial knowledge, skills, attitude and behaviour. However, the first two are basic and the latter two are successive dimensions. This section discusses about the dimensions of financial literacy. Additionally, financial well-being is understood as the destination of financial dealings. Financial knowledge is about knowledge, awareness and understanding of financial matters. Financial skills are about how individuals make financial decisions, how they make purchase decisions, how they negotiate the financial services they purchase and consume, the interest, fees, taxes, rebates and penalties on savings and borrowing. How do you calculate. Conceptually, financial knowledge and skills make up financial literacy at the primary level. Furthermore, financial attitude is the psychological judgment of individuals regarding financial services and service providers. Decisions are positive, negative, passive and/or indifferent to financial matters, service providers and financial dealings. The next dimension is about how individuals deal with money in their regular lives, that is, financial dealings. However, financial wellness is also considered as a new dimension of financial literacy.

Objectives

- To assess the level of financial literacy.
- To study the determinants of financial literacy.

- To study the relationship between financial literacy and household savings.
- To study the relationship between financial literacy and investment.

Research Methodology

Exploratory and descriptive research designs have been used for the present study. The sources used are both primary and secondary. For the present study, non-probability convenient sampling has been chosen to collect primary data using a questionnaire. Individuals from Delhi and NCR (Noida and Ghaziabad) are considered as the population for the study, the sample size considered is 450 individuals from Delhi and NCR as out of 500 filled out questionnaires, only 450 were found usable. In order to gain deeper insight into the research field, secondary sources of data collection like books, research journals, newspapers, web sites, reports published online, national or international etc. were used. The analysis is performed using the software SPSS – 16.0. (Statistical Package for Social Sciences) and MS-Excel. The collected data is analyzed using cross tabulation and other statistical tools such as chi-square test, factor analysis, correlation and regression analysis, and ANOVA.

Relevance of the Study

The study of financial literacy in a country is very important for all sections of the society. Financial literacy education is the tool which can help the weaker sections of the society from becoming easy prey to the monster called credit system. From a review of the literature, it is clear that much has been said and written about financial literacy and its need around the world. Literacy. Some empirical studies are also being conducted related to specific target groups like college students, retired persons etc. Given the paucity of data confirming any explicit approach adopted to facilitate financial literacy in the Indian context, the present study may provide some useful insights. For those who are in the field of financial literacy.

In India, several projects are being run to improve financial knowledge/literacy, mainly for socially or economically backward groups. Empirical studies assessing the level of financial literacy and its impact on various aspects of the financial market are negligible among other sections of the society. This study attempts to fill this gap. The study is timely in the sense that RBI is taking several initiatives and has issued new policy guidelines regarding financial literacy to improve economic growth.

Study design

1. **H0:** There is no significant relationship between the gender of individuals and their level of financial literacy
H1: There is a significant relationship between the gender of individuals and their level of financial literacy
2. **H0:** There is no significant relationship between a person's age and their level of financial literacy
H1: There is a significant relationship between a person's age and their level of financial literacy
3. **H0:** There is no significant relationship between individuals' educational ability and their level of financial literacy
H1: There is a significant relationship between individuals' educational ability and their level of financial literacy
4. **H0:** There is no significant relationship between individuals' monthly income and their level of financial

literacy
H1: There is a significant relationship between individuals' monthly income and their level of financial literacy

5. **H0:** There is no significant relationship between individuals' family life cycle stage and their level of financial literacy
H1: There is a significant relationship between individuals' life cycle stage
6. **H0:** There is no significant relationship between individuals' occupations and their level of financial literacy
H1: There is a significant relationship between individuals' occupations and their level of financial literacy
7. **H0:** There is no significant relationship between the type of workplace activity of individuals and their level of financial literacy
H1: There is a significant relationship between the type of workplace activity of the individual and the level of financial literacy.
8. **H0:** There is no significant relationship between an individual's investment years' experience and their level of financial literacy
H1: There is a significant relationship between an individual's investment years' experience and their level of financial literacy.
9. **H0:** Individuals have no significant relationship numbers around the store and their level of financial literacy
H1: There is a significant number of individuals in and around the store
10. **H0:** there is no significant correlation between individuals' financial risk tolerance level and financial literacy
H1: individuals' financial risk tolerance and their financial literacy level is significant
11. **H0:** There is no significant relationship between the financial literacy level of individuals and their monthly expenditure and monthly income ratio.
H1: There is a significant relationship between the financial literacy level of individuals and their monthly expenditure and monthly income ratio.
2.2. **H0:** There is no significant relationship between the financial literacy level of individuals and their monthly savings to monthly income ratio.
There is a significant relationship between the **H1:** financial literacy level of individuals and their monthly savings-to-monthly income ratio.
12. **H0:** There is no significant relationship between individuals' financial literacy level and their household savings decisions
H1: There is a significant relationship between individuals' financial literacy level and their household savings decisions
13. **H0:** There is no significant difference between preference as a source of information for the three selected informational variables and their impact on the investment decision for the study.
H1: There is a significant difference between the preference for selected informational variables as a source of information and their impact on the investment decision to be studied.
14. **H0:** There is no significant relationship between individuals' financial literacy levels and their investment decisions.
H1: There is a significant relationship between individuals' financial literacy levels and their investment decisions.

Conclusion

In respect to demographic and social profile of respondents and levels of financial literacy, it could be concluded that males are possessing high level of financial literacy as

compare to females. Also individuals on the basis of two extremes of age i.e. 51-55 years and 31-35 years possess a lower level financial literacy. Based on monthly income group of respondents, study reveals that the respondents falling under lower income group possess a lower financial literacy levels. It is also concluded that for respondents with higher number of years of investment experience possess higher level of financial literacy and those who shop around maximum number of times/make maximum number of inquiries while investing, possess comparatively lower level of financial literacy than others. The risk tolerance of individual's analysis can be concluded as those with the highest risk taking ability possess lower level of financial literacy. There is a statistical significant association between financial literacy level and individuals' age, gender, educational qualification, monthly income, life cycle stage of family, occupation, type of workplace activity, years of investment experience, number of times individual shop around and their risk tolerance level. The analysis shows that 47.33% the of the individuals possess low financial literacy level on some of the subjects of basic financial concepts and some of them even do not understand the important concepts at all. Overall the survey found the high level of financial literacy amongst the respondents (52.67%). But analysis also finds that all the individuals do not possess understanding of the basics of financial concepts and its calculation. The study reveals that difference between the number of individuals with low and high financial literacy is not very high. With regard to household savings objective, financial literacy does have a statistically significant relationship with household saving decision. It may be concluded that financial literacy may enable the individuals to enhance their savings. Also it can be concluded that individuals who are highly financial literate save intentionally as compare to those who possess low level of financial literacy. In respect to investment objective, for majority of individuals the first investment objective is saving for income tax followed by children education/marriage. It is also concluded that majority of individuals have the preference for the post office saving schemes and insurance and pension plans, which involves less of risk. Further, the study finds that financial literacy does have statistically significant relationship with investment decision. It may be concluded that financial literacy may empower the individuals to make investment decisions more prudently with risk minimization.

Suggestions

For Policy makers and Regulatory authorities It is suggested that RBI along with the many other financial institutions should committed to impart training on financial literacy to the common man. It is recommended that females who find to be less financial literate than males should be provided better opportunities to enhance their capabilities, which will empower them, realize the importance of their participation in investment decision making at household level. It is imperative to start the financial education program at an earlier life cycle stage of individuals as that will assure the saving habit and appropriate money management and investment is established into them right from their childhood. The individuals with lower monthly income and those who work with non-financial firms mostly possess low level of financial literacy as shown in the empirical findings, it is required even more to teach such individuals about how to put money resources to the optimum use. It is required to

facilitate financial education to these people at their workplace itself. Also risk management should be taught to them. As a matter of policy, some measures should be introduced that will make the individuals do the forced savings.

For individuals

Individuals should start taking interest in financial education. Savings and investment is one of the concepts that is misunderstood by majority of individuals. It is not about saving more and spending less but actually it is about saving the right amount in the right investment alternative so that future goal can be achieved. Conventional saving instruments are not the only way to park their savings but must evaluate all the alternatives of investment.

For financial education providers

The financial education should be provided as an information and instruction not as an advice. Further, it should be provided to all classes irrespective of any community or age i.e.in unbiased manner. Providers should insist companies on developing financial literacy of the community by making available financial education to masses as a component of Corporate Social Responsibility.

The overall attempt by regulatory authorities and N.G.O.s should be oriented in a way to further enable them to take informed decisions and to avoid being a victim of any fraudulent practices.

Limitations of the study

1. The study concentrates on the individuals of Delhi & NCR (Noida & Ghaziabad) only, thus it suffers from geographical limitation.
2. For the collection of primary data, the method adopted is non-probability convenience sampling, which does have its own limitations,
3. The individuals who have recently started investing their savings, and those who take investment decision as per other's recommendation, without performing analysis on their own, it is difficult for them to provide the answers of the questions pertaining to financial literacy and to then rank or give rating.

Scope for further research

The study is limited up to three aspects ie financial literacy level of individuals and its relationship with household saving and investment decision with the study of determinants among the individuals of Delhi & NCR. Also, geographically horizon of the study can be extended and more regions can be explored for further research. Broadly, one can execute the research on role of financial literacy and its impact on financial inclusion, demand elasticity in advancing sound financial system. Broadly, one can execute the research on role of financial literacy and its impact on financial inclusion, demand elasticity in advancing sound financial system.

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