

ASSESSMENT OF FACTORS AFFECTING FINANCIAL LITERACY LEVELS OF INDIAN INVESTORS

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ABSTRACT

Financial Literacy is a fundamental knowledge that people need in order to attain their financial wellbeing. The financial literacy level can be measured by evaluating different investment decisions in relation with demographic and socio-economic factors. The subject matter of financial literacy is relatively new, and not much of research is accessible particularly with respect to India. The main thrust of the study is to summarize the influencing forces in the field of financial literacy. An attempt has been made to understand the meaning of financial literacy and identify the factors which influencing it taking into consideration the previous research and literature as back ground. The study reveals that financial literacy levels across the nation are far from the needed level. Income, education, workplace and gender affects it the most. The study attempts to establish the relationship between financial literacy and investment decisions. The study can be useful for policy makers to work out strategies in order to improve financial literacy level.

Keywords: *Financial Literacy, Investment decisions, Demographic factors*

1. INTRODUCTION

The growth and development of the Indian economy and the expansion of financial markets through liberalization, privatization and globalization have given a way to a plethora of financial products either as an investment alternative or a credit one, which arises the imperative need of financial literacy in the country. Financial literacy is the ability to understand finance. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions through their understanding of finances. Financial literacy is mainly used in relation with personal finance matters. It generally entails the knowledge of properly making decisions pertaining to certain personal finance areas like real estate, insurance, investing, saving, tax planning and retirement and involves intimate knowledge of financial concepts like compound interest, financial planning, the mechanics of a credit card, advantageous savings methods, consumer rights, time

value of money, etc. Thus, it can be rightly stated that financial education is increasingly important, and not just for investors. It is becoming essential for the average family trying to decide how to balance its budget, buy a home, fund the children's education and ensure an income when the people retire and they are aged.

Financial illiteracy or low level of financial literacy prevents the individuals from making a judicious choice with regard to his/her financial decisions. As a result, the individuals are not able to choose the most suitable investment alternative which can beat the rate of inflation prevailing in the economy and give them a net positive return. So here we see the importance of Financial Literacy.

The increased complexity of financial products and services has meant that it is annoying for an average person to be asked to take financial decision. Perhaps the confusion has arisen not only because of the speed at which financial markets and new financial instruments have emerged or more number of institutions providing more complex financial products, but also because of the inability to understand basic financial concepts. The combination of financial need priorities and resource availability at different stages of household's life cycle influences the sequence in which financial services are acquired by the household. Nuclear family structure requires an individual to make number of financial decisions related to spending, saving, investments, credit etc. not only for himself but also for his family. People also need to assume more responsibility for funding personal or family healthcare needs. Moreover, increasing education costs make it important for parents to plan and invest adequately for their children's education.

Different researchers have conducted studies and revealed the following observations:

Hira and Mugenda (2000) carried out a study in order to establish gender differences in financial perceptions, behaviours and satisfaction. The results of the study suggest significant gender differences in spending behaviour, perception of financial situation and satisfaction with various aspects of their finances. The results of the study found that women are more likely than men to i) buy without need or buy things they

know don't need ii) be satisfied with their level of savings iii) dissatisfied with their current financial situation whereas men are far more likely than women to i) feel that their financial situation is better than that of others at the same socio-economic level ii) to be satisfied with their ability to handle financial emergencies and to be satisfied with their ability to meet long term goals. Thus overall results suggest that men are much more satisfied than women as far as their finances are concerned.

Henry et al. (2001) surveyed 126 undergraduate education majors at the University of Louisiana at Lafayette using a 13-item questionnaire on income, debt, and budgeting practices. They found that majority of the students were unaware about the basic concepts of financial planning. They also found that majority of the students did not have or use a written budget, of those who use a written budget, women, married students, and older students were most likely to follow their budgets.

Palmer et al. (2001) measured financial knowledge of 1500 high school seniors and found that students answered correctly only 57.3% of 31 items measuring financial knowledge such as money management, income, credit, and savings and spending. Also 10.2% of the students got a C or better grade suggesting a low degree of financial literacy among the youth.

Hogarth and Hilgert (2002) explored the financial literacy of adults in the U.S using 28 true/false type questions on topics related to personal finance. The study showed that in general, less financially knowledgeable respondents were more likely to be single, relatively uneducated relatively low income, minority, and either young or old (nor middle aged).

Volpe et al. (2002) examined investment literacy of 530 online investors. They found that level of investment literacy varied with people's education, experience, age, income and gender. Women had much lower investment literacy than men and older participants performed better than young participants.

Klatt Martha (2009) surveyed 300 women of different demographic profiles and concluded that women's knowledge and confidence regarding money management and investment programs impacted their ability to reach their financial potential, but they face some barriers in this regards, so it arises a need to conduct workshops and seminars on financial matters.

Tamimi and Kalli (2009) assessed the financial literacy of the individual investors of UAE. . They found that financial literacy is dependent upon gender, income, education and workplace activity Nga. et al. (2010) through their study investigated the level of general product awareness among young adults studying in a private higher educational institute in Malaysia. They tried to find out that how demographic factors influence financial awareness of the youth and whether studying a course in business affects financial and product awareness amongst the youth or not. Their findings suggest that males have higher level of Financial awareness as compared

to females. They also found that education level as well as course taken in business has an influence on general and financial product awareness.

Agarwal et al. (2010) surveyed select group of Indians in Hyderabad. The findings of this study were that the participants are generally financially literate based on their responses to the survey questions. The results also suggest that probability of getting all survey questions correct was higher for male respondents and it increases with education level and the aggressiveness of the investors.

Pillai et al. (2010) explored the magnitude of financial literacy among youth focusing on expenditure and savings trend. This study attempted to uncover financial preparedness of graduate students who are prospective and entrants into job, market and young working adults within the age group of 20-30 years of age. This study used a comprehensive questionnaire designed to cover major aspects of personal financial prudence. The questions were divided into four categories namely financial literacy, savings and spending habits, credit card usage and borrowing and financial planning. The questions comprised of MCQs, attitudinal rating questions and semi-closed ended questions. From this study it was found that it is not the question of financial literacy that matters, but rather the practical application of such knowledge to real life situations.

Almenberg and Soderbergh (2011) examined the relationship between financial literacy and retirement planning of Swedish adults. They found significant differences in financial literacy between planners and non-planners. Financial literacy levels were found lower among older people, women and those with low education or earnings.

Lusardi and Mitchell (2011) observed that financial illiteracy is widespread even in the developed economies and is not related to stage of economic development. They identified facilitators of financial literacy like (1) good at mathematics, (2) experiences, (3) age, (4) gender, (5) occupation, (6) education, (7) ethnicity, and (8) urbanization. Apart from this, different patterns were observed on the basis of self assessment of financial literacy. Older people rate themselves higher and self-assessment of younger population is near to the actual. So also, Americans rate themselves higher whereas Japanese tend to rate themselves low.

Bindhu P.K. (2013), observed that women investors are more familiar and have gained high financial literacy in compared to their male counter parts. Similarly, the study reveals that young investors in the age category of 25-35 years are more interested in investing in financial market products, than the adult investors in age grouping of 40 years and above.

Joseph Job (2012), analyzed the data collected from 300 family heads of economically marginalised households of kerela and concluded that financial literacy or financial behaviour of the marginalised people is unique in the sense that they save, spend, borrow and invest in their

own way even in the presence of smaller, more irregular, and often more unreliable incomes.

Kumari and Viz (2013) conducted a study to understand the meaning of financial literacy and findings indicate that Reserve Bank of India, Securities Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA) are working actively towards promoting financial literacy.

Bhushan Puneet (2014) measured financial literacy by combining its three probable dimensions i.e. financial knowledge, financial attitude and financial behaviour. The study provides evidence of low awareness of respondents towards new financial products. It also contributed to the scant literature available on tax literacy. Tax literacy of salaried individuals has been assessed by using its all probable dimensions i.e. tax knowledge, tax attitude and tax behaviour.

Mathivathani and Velumani (2014) conducted a study which measured the level of financial literacy by examining the factors influencing it and barriers to acquire financial knowledge for women in Tamil Nadu. They found that Financial literacy of marginalized rural women is very low. Further, they suggested that the participation of the women in economy contributes to their own wellbeing as well as nation's economic growth.

Singh (2014) conducted an exploratory study and used secondary data to analyze financial literacy as a tool which enhances the ability to effectively monitor financial resources for developing the economic security of a person. Financial stability of economy is based on these terms and currently it is necessary for developing and developed country. Currently most of countries are adopting various programmes for financial education. India is having large population, growing economy with national focus on inclusive growth and an urgent requirement to develop a vibrant and stable financial system. RBI has developed various strategies and adopted programmes to develop a smooth process of financial literacy. He focussed on some important aspects which are necessary for financial literacy to effective financial and economic stability. He also discussed about the role of RBI for improving financial knowledge of individuals.

Leora et al. (2014) investigated financial literacy based on questions added to the Gallup World Poll survey. More than 150,000 nationally representative and randomly selected adults in more than 140 economies were interviewed during the 2014. The surveys were conducted face-to-face in economies where less than 80 percent of the population has access to a telephone. The target population consists of the entire population aged 15 and above. Financial literacy was measured using questions assessing basic knowledge of four fundamental concepts in financial decision-making: knowledge of interest rates, interest compounding, inflation, and risk diversification. The S&P Global FinLit Survey findings are sobering. Worldwide, only 1-in-3 adults are financially literate. Not only is financial illiteracy widespread, but there are big variations among countries

and groups. For example, women, the poor, and lower educated respondents are more likely to suffer from gaps in financial knowledge. This is true not only in developing economies but also in countries with well-developed financial markets. Country-level financial literacy ranges from 71 percent to 13 percent. Many users of financial products lack financial skills.

Bhabha et al (2014) assessed the financial literacy and its impact on saving-investment behaviour of working women in Pakistan and revealed that people are financially illiterate; only one third people possess knowledge about financial services and products. It is concluded that working-women in Pakistan are financially illiterate; female workers in Pakistan only know that they are depositing money in various institutions in order to get more wealth in name of profit but they don't know what exactly they are doing and they are ignorant about the functions and existence of financial markets.

Bahadur Lavanya Rekha (2015) conducted a study of 202 individuals varies in nature of occupation residing in Mumbai city and provides evidence that the levels of financial literacy in the area were very low. It concluded that financial literacy and financial education should be on the agendas of educators, businesses, government agencies, policy makers, NGOs and the issues should be dealt with policy reforms at the national level.

2. IMPORTANCE OF THE STUDY

In the recent years financial literacy has become a much talked about phenomena. It is attracting the attention of not only central and state government, central bank and commercial banks but also the common man trying to meet his financial needs on a daily basis and planning for a safe future. A number of countries have now carried out financial literacy surveys of their adult populations, which provide insights into savings –related knowledge, attitudes and behaviour.

According to numerous studies conducted to measure the financial literacy, it is found that the financial literacy level of the country is less than acceptable level. India stands in the 23rd position out of 27 countries in the recent survey conducted by Visa. Government and other agencies have taken various steps to improve this which includes addition of Financial literacy concepts in school curriculum, establishment of Financial literacy centres, conduction of workshops and seminars on various related aspects of investments decisions.

The topic of financial literacy is relatively new, and not much of research is available particularly with respect to India. In India, some researchers have conducted surveys to measure financial literacy rate of different regions and mention few demographic factors which effect financial literacy, but the current study exceptionally focussed on summarizing all the demographic and socio economic variable factors which influence financial education level of Indian investors mainly and how this is reflected upon their investment decisions. The current study has taken

consideration previous research and literature as back ground.

3. RESULTS

Demographic and Socio-Economic Factors influencing Financial Literacy

Gender : Many studies on Financial Literacy provides indication that gender importantly effects investment decisions. The outcomes of mainly of the studies show that males are more financially literate as compared with females (Agarwal et al 2010; Jariwala Harsha Vijaykumar 2013). Studies conducted in different colleges also revealed that male students are more knowledgeable on financial matters (Dilip et al 2015; Agarwal & Gupta 2014). it is also observed that male investors are more risk seekers in comparison with female investors (Girdhari and Satya 2011). Further it can be noticed that the participation of females in financial matters importantly contributes to nation's economy (Mathivathani and Velumani 2014).

Income-Level : The previous literature provides evidence that Income level of the individual positively correlated with financial literacy and shows an impact on his investments decisions. It can be observed that high income individuals are more aware about the different financial products and scores high in financial literacy level (Chaturvedi & khare 2012). The financial literacy of marginalised people is very low and their way to park their small saving are very informal (Joseph Job 2012). Higher income group individuals show relatively high inclination towards investment in share market (Das 2011).

Educational Qualification: Education is also one of the important demographic factor which influences investments decisions of the investors. Different researches indicate that education qualification is positively correlated with financial awareness. Highly qualified investors are more financially knowledgeable. It was surveyed that higher the education qualification, higher the level of comprehension of complexities involved in investment decisions. Graduates and above in qualification preferred to invest in share-market (Verma 2008). Income level affects the awareness level of investors towards financial matters (Chaturvedi & Khare 2012).

Nature of Occupation: Different studies give impressions that work activity also have an influence on investment decisions of an individual. White collar employees and self employed individuals have better financial literacy levels in comparison with lower level employees (Bindu P.K. 2013). The occupation of the investors have an important role in increasing financial knowledge of investors (Chaturvedi & Khare 2012; Girdhari & Satya)

Age: Most of the researchers found age as a significant demographic factor which affects financial literacy level. Different age-groups have different behaviour towards

investment decisions. It was also observed that investors of two extremes of age i.e. 18 to 35 years and 56 years and above possess a lower level financial literacy. (Jariwala Harsha Vijaykumar (2013). It is also observed that young people are attracted more towards risky investment alternatives and want to invest but they are indecisive due to lack of resources and awareness (Bashir et al 2013). A study reveals that young investors in the age category of 25-35 years are more interested in investing in financial market products, than the adult investors in age grouping of 40 years and above (Bindu P.K. 2013). Despite having sensible attitude towards managing their funds, youngsters tend to behave in a proximate manner which therefore gives rise to the observed negative association between attitude and behaviour (Agarwalla et al 2013).

Region: The elaborate data analysis of research studies also reveals the fact that the urban households inhabited in the city, prefer to save or invest their money for meeting more of social obligation like: wards marriage, self's marriage, or for repaying debts etc.. Thus it can be stated that urban people have more financial literacy levels in comparison with rural people (Bindu P.K. 2013).

Marital status: The marital status of an investor have an influence on his investments decisions (Jain and Mandot 2012). Young married couples are found to more financially literate and knowledgeable in comparison to unmarried single household individuals (Bindu P.K. 2013). Cole et al (2008) provides evidence that in India, people who are living in rural areas have lowest level of financial literacy.

Family size: Different studies have conducted to survey impact of family size and concluded that the factor have considerable influence on investment decisions of investors. The family whose size is large are more knowledgeable in financial matters i.e. their financial literacy is high. Joint-family and consultative decision making process are found relatively better. (Agarwalla et al 2013; Jain and Mandot 2012)

4. CONCLUSION

As India is a developing country, financial sectors reforms are in second phase, new investment avenues are evolving rapidly. The diverse characteristics of different investment avenue demand high levels of financial literacy. But the results of past studies expose that the financial literacy levels of Indian investors are very low which is influenced by variety of demographic and socio-economic factors i.e. gender, age, educational qualification, marital status, region, occupation, and family size. Many households are unfamiliar with even the most basic economic concepts needed to make saving and investment decisions. Female investors, rural people, youngsters require special consideration in this matter. There is an imperative need to frame strategies for improvement in financial literacy levels of investors so that the financial wellbeing of individuals as well as of the economy can be achieved.

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