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Financial Literacy among Different Strata of Population

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Abstract

Financial literacy and education are the essence without which the flavor of growth and development cannot be tasted. Financial literacy and education are nothing but the understanding the basics of finance, like personal financial management, funding agencies and procurement of finance and risk associated with them. Level of financial literacy can be different among different pool of people, and they have to be

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trained accordingly. This paper focuses on level of financial literacy among different pool of people and what measures government can take to create financial awareness among the citizens of the country.

Keywords

Financial Literacy, Education, Finance, Society, Strata.

Introduction

The dawn of the twenty-first century has seen a comprehensive recognition for proliferating financial literacy among people. No country, whether developed or not, can deny the fact that knowledge of basic finance is as important as organs to the body. No society can sustain long if they are not aware about the importance of financial literacy and education. Financial literacy is the skill and knowledge that an individual possesses in making decisions regarding basic finance related matters like family budgeting, personal budget management, household budget, savings, investments etc. “Given the fact that India has a large population, a fast-growing economy with national focus on inclusive growth and an urgent need to develop a vibrant and stable financial system, it is all the more necessary to quickly formulate and implement a national strategy. Also, since a large number of stakeholders including the central and state governments, financial regulators, financial institutions, civil society, educationists, and others are involved in spreading financial literacy; a broad national strategy is a prerequisite to ensure that they work in tandem according to the strategy and not at cross purposes [NSFE- 2012]”.

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One needs to be very clear while talking about financial literacy and financial education, both are somewhat related but not same. Financial education is the skill to know how money works. It is an art of investing and managing money and the ability to produce sensible financial choices. There is a thin line of difference between the two, which will become the source of further studies. "OECD defines Financial Literacy as a combination of financial awareness, knowledge, skills, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. People achieve financial literacy through a process of financial education. Whereas financial education defined as the process by which financial consumers/investors improve their understanding of financial products, concepts, and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being [NSFE, 2012]". The knowledge of financial literacy is necessary to make important financial decisions and manage money effectively. The lack of such skills is described as being financially illiterate. This paper focuses on level of financial literacy among different pool of people and what measures government can take to create financial awareness among the citizens of the country.

Components of Financial Literacy

The following components are required to attain financial literacy:

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1. Budgeting: While talking about budgeting, there are four main facets attached to uses for money that defines a budget: spending, investing, saving, and giving away. Planning of money is one of the important aspects when it comes to making smart financial decisions, let it be related to daily, weekly, or monthly income and expenses. Crafting the proper equilibrium through the prime uses of money permits individuals to better allocation of their income, resulting in financial security and prosperity. In general, a budget should be comprised in a manner that pays off all current debt while leaving money separately for saving and making valuable investments.
2. Management of Finances: Managing finances efficiently means savings and investing monetary resources in manner that keeps them safe, and possibly even allows them to multiply and grow.
3. Investing: The financially literate person may pursue smart investments in different areas related to stocks and bonds; in retirement accounts, such as individual retirement accounts, in real estate, or possibly even in business ventures. To become financially literate, a person must understand regarding vital components with the view to investing. Some of the components that should be learned to make certain positive investments are those pertaining to interest rates, price levels, diversification, risk mitigation, and indexes. Knowledge about crucial investment components may allow individuals to make smarter

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financial decisions that may result in an increased inflow of income.

4. **Borrowing:** At one point in their life, roughly every person is required to borrow money. However, before borrowing one needs to ensure that it is done effectively. For that, one should have a clear understanding regarding the interest rates, compound interest, time period involved in payments, value of money and loan structure. If the benchmarks listed above are understood appropriately it will lead to increase in financial literacy of an individual, which will provide sensible borrowing guidelines and ease long-term financial stress.
5. **Taxation:** Earning knowledge regarding the various forms of taxation and how they influence the various forms of taxation and how they influence an individual's net income is vital for acquiring financial literacy. Each source of income is taxed differently, let it be on employment, investment, rental, inheritance, or unexpected. Information and awareness of the diverse income tax rates permits economic steadiness and boosts financial performance through income management.
6. **Personal Financial Management:** An entire mix of all the components listed above helps an individual to manage personal financial management effectively. Financial security is warranted by evaluating the blend of given financial elements to solidify and enhance investments and savings while minimizing borrowing and debt. An in-depth

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knowledge of the financial components will definitely level-up an individuals' financial literacy.

Financial Literacy and Economic Development

Financial literacy and education play crucial role in economic development of any country. Financially literate and educated citizens make better decisions which will give them economic security and well-being. Financial literacy and education are integral part of the financial system of any country. Financial system plays a crucial role in the process of financial intermediation in particular to the growth of the economy as a whole. Hence a better understanding of how it works and what they offer and how to utilize the financial products by the participants of the economy help to create a viable financial system and in turn enhance economic development as the chain effect of a viable financial system can't be denied on the economy.

Financial Literacy in India

For the overall development of the economy financial literacy among its population is necessary. The basic financial education promotes the banking and investing habits among people, which is necessary for the capital formation in the economy. The financial literacy in India has yet not become an important aspect like other developed countries. Evidence shows that lack of simple financial knowledge results in wicked investments and financial decisions. The outcome is witnessed by the fact that, most people invest in short-term plans and physical assets to accomplish their personal goals which are relatively less beneficial and eventually does not contribute

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much towards economic development of the country. “In a country like India we are close 80 percent literacy, but when it comes to financial literacy, we are not that lucky. In the year 2019, National Centre for Financial Education did a survey which says that only 27 percent of Indians are financially literate, it means that we have a long distance to travel and that puts a lot of responsibility on all the institutions including exchanges and SEBI that how best we take the message of financial literacy across the country [Financial Express, 2020]”.

Review of Literature

Fosnacht and Dugan [2018], discusses in his study that college is an increasingly risky investment for students due to increased financial burden placed on students and their families. After keeping other characteristics constant, they found little efficacy of many types of financial education programming. The single program with a significant and positive relationship was student loan counseling, which had a very little trivial influence on financial knowledge.

The study carried out by Dube [2018], focuses on studies conducted about financial literacy on international platform, in Asia and in India to determine areas of both commonality and inconsistency. The present paper chalks out recurrent themes that could be extended, research gap and potential new areas for research in financial literacy.

Kasman, Heuberger and Hammond [2018], in their study reveals that the low financial literacy threatens the prosperity and financial well-being of many Americans. Private,

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non-profit programs have been developed to deliver financial literacy education to a large number of students across the nation. Despite the much progress that has been made on the state level over the past several decades, there are still many states that have no financial literacy requirements, and others with weak mandates that are likely to be ineffective. Although some non-profit programs have been subjected to rigorous evaluation, there is much more work to be done to ensure that they deliver services that effectively meet students' needs.

This research work was carried out by Agarwal, Kureel and Yadav [2017], discussing how to go ahead with increasing financial literacy, according to them, the basic knowledge of financial terms should be introduced at the school level. If, from the school level, people are aware regarding the financial literacy then they will be able to take appropriate decisions regarding saving and investment, budget, pension funds etc.

Surendra and Sarma [2017], in their study focused on factors of financial literacy and personal financial planning among teachers of higher education. It was found in the study that the level of financial literacy is satisfactory among the teachers of higher education. It reveals the importance of contextual variables that may influence financial literacy and personal financial planning.

The research carried out by Purohit and Dwivedi [2016], investigates the need of interventions in terms of awareness, sensitization, and proper implementation of the financial planning for the better condition of rural women. Knowledge of people about financial planning is very poor and

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most of the people have not heard about the word financial literacy. Poor financial literacy is due to conservativeness, gender biasness, traditional beliefs, and patriarchal society.

Sekar and Gowri [2015], in their study suggests that level of financial literacy varies significantly among respondents based on various demographic and socioeconomic factors. It can be concluded that financial literacy level gets affected by gender, education, income, marital status, and number of dependent and does not get affected by age. In nutshell, they conclude that financial literacy level is low among Gen Y employees in Coimbatore city and necessary measures should be taken by government to increase awareness about financial matters.

Ambarkhane, Venkataramani and Singh [2015], in their study discussed about the worldwide low financial literacy. There are many malpractices and frauds taking place in financial sector and financial literacy will help the people by preventing them in getting into those traps. It will act as preventive as well as curative measures for the consumers.

In the study of Hinga [2014], the researcher is talking about the main objective, which was to determine the relationship between financial literacy and individual savings. He found that the financial literacy has a significant and positive impact on individual saving.

Obago [2014], in his study determine that whether financial literacy had any effect on personal financial management practice among employees of commercial banks in Kenya or not. These employees are assumed to be

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financially literate by virtue of their training and nature of work. The study indicates that financial literacy has a positive influence on personal financial practices. However, despite the sound financial literacy levels of commercial bank employees in Kenya, not all the respondents are good managers of their personal finances.

The study carried out by Agarwalla, Barua, Jacob and Varma [2013], observes that given the emphasis on education in India, it should be possible to enhance the financial literacy of youngsters relatively fast through inclusion of relevant curriculum in general education program of schools and colleges. The study demonstrates the importance of contextual variables that may influence financial literacy. The influence of joint family and the consultative financial decision-making process that are variables specific to India, confirms the importance of contextual variables.

The research work carried out by Hanna, Hill, and Perdue [2010], found that school of study is statistically significant in explaining the level of financial literacy. On comparing undergraduate students with business, education and liberal arts schools at a metropolitan university, business students as a group were found to be the most financially literate and education students were relatively weak.

The study of Willis [2008], suggests that consumers generally do not serve as their own doctors and lawyers and for reasons of efficient division of labour alone, generally should not serve as their own financial experts. The search for effective financial literacy, education should be replaced by a

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search for policies more conducive to good consumer financial outcomes.

Braunstein and Welch [2002], in their research work found that the effectiveness of financial literacy training has been mixed. Although some programs, particularly those having discrete objectives, have succeeded in improving certain aspects of consumers personal financial management such as maintaining a mortgage, increasing savings, or participating in employer sponsored benefit plans – improved financial behavior does not necessarily follow from increased financial information. The timing and format of training, as well as human traits such as aversion to change, play a role in whether programs will effect positive change that contributes to household's long-term financial well-being.

Research Gap

The conclusion of the survey of literature shows that, there are many individuals who are having financial literacy. The above-mentioned studies have been carried out on people belonging to different socio-economic segments and countries. So far, many studies have been carried out with limited purpose of covering some selected aspects of individuals and countries. The findings reveal that large enough portion of the pool is not even having a basic idea of finance, and this is not very encouraging for our government to sustain growth and development.

However, the Indian economy including many of the countries across the globe are witnessing the problem related to financial illiteracy and therefore, there was dearth of

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research so far covering the aspects related to financial literacy. There is a wide scope for research on financial literacy and education especially in developing countries like India covering various aspects related to financial literacy and education and what will be its social and economic implications on them.

Objective of the Study

1. To find out the financial literacy level among different strata of people.

Research methodology

The quality of any research work depends, to great extent, on the research methodology followed during the research work. The research design for the present study was descriptive. The data was collected through purposive sampling. Individuals belonging to different strata of the society were approached where 40 of them agreed to be part of the survey and were selected as sample for the present study through convenience sampling. A questionnaire was prepared, and data was collected via google forms and shared with the respondents. The questionnaire contained information to elicit their background, family, and occupation-related information of the respondents as well as a probe was made to find out the awareness and level of financial literacy and education.

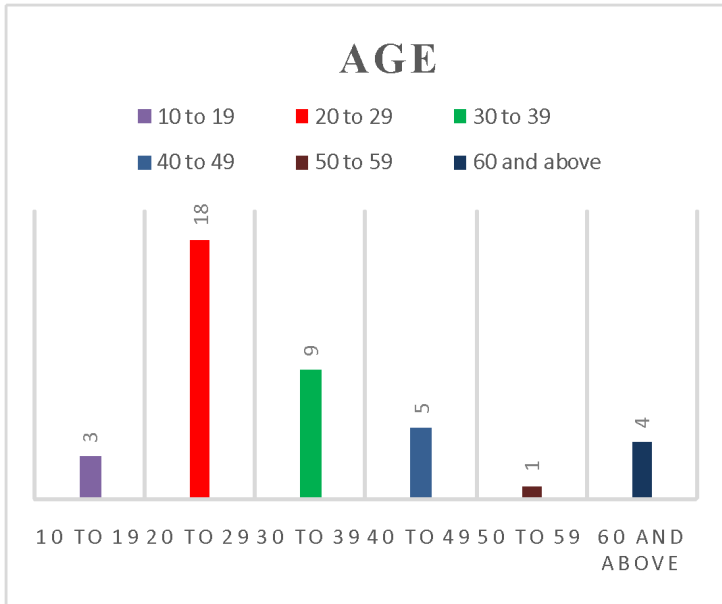
Major Findings

A survey was carried out to find the level of financial literacy and education among the people belonging to different

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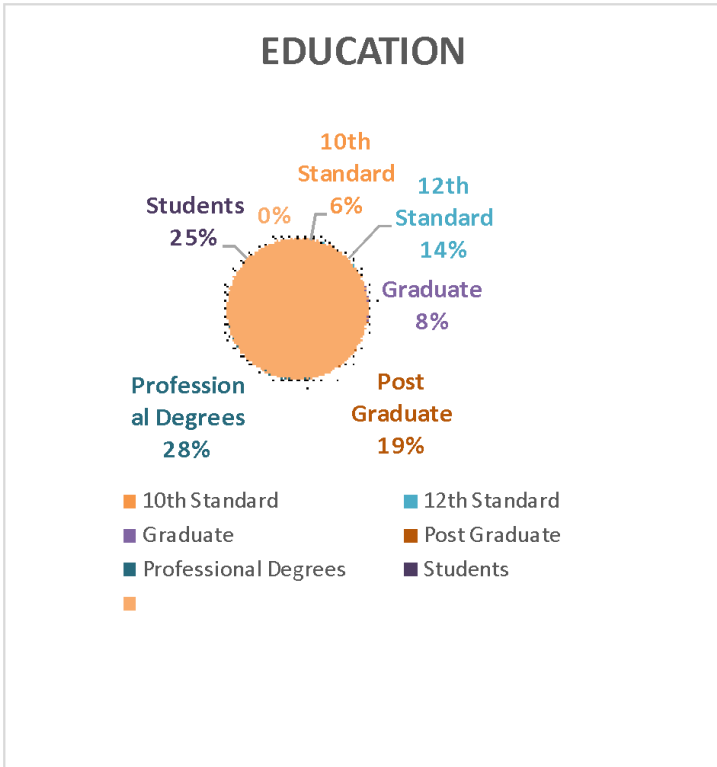
strata of the economy. The findings obtained on the basis of responses gathered is discussed in detail here.

Personal Information of the Respondents



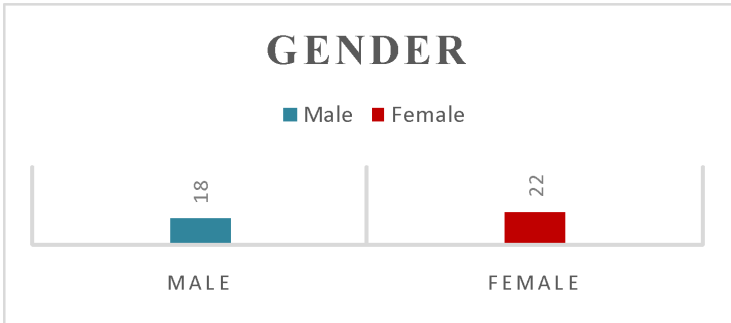
In the present study, out of 40 respondents, 3 respondents were age group of 10 to 19 years, and 4 respondents were age group of 60 years and above. Majority of respondents [18] belonged to the age group of 20 to 29 and only one respondent belongs to age group of 50 to 59 years.

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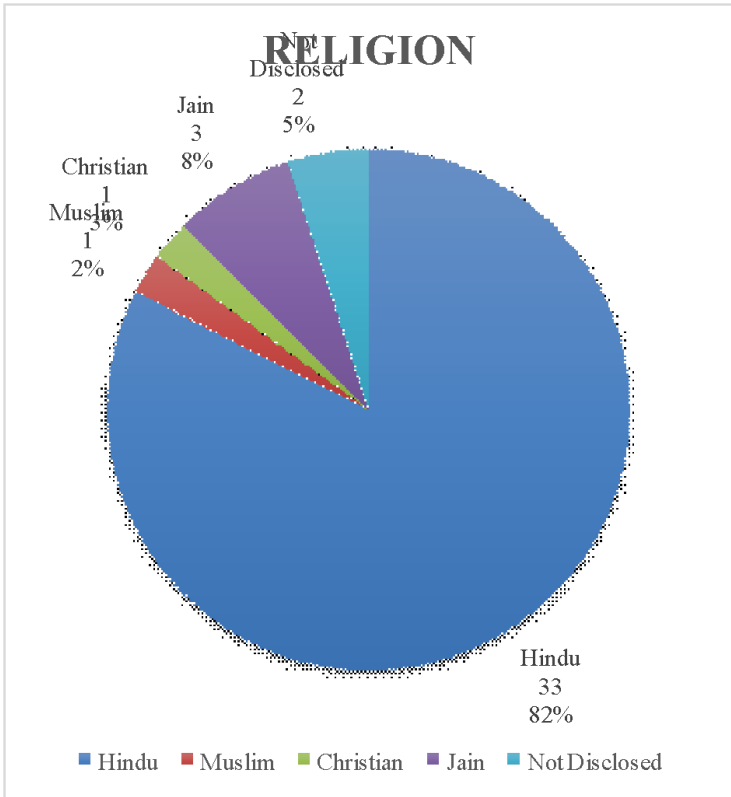
Education is believed to be one of the vital elements in bringing social transformation. out of 40 respondents, 9 were students and educational level of remaining 31 were as follows – majority of the respondents [10, 28percent] were graduates, 7 [19 percent] were post graduate, 3 [8 percent] were Doctorates, 5 [14 percent] were passed 12th Standard, 2 [6 percent] were passed 10th Standard and 4 [10 percent] does not revealed their educational qualification.

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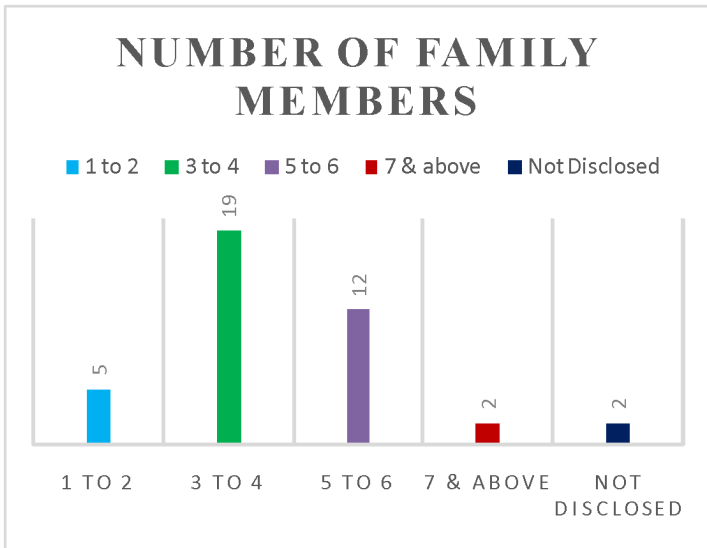
Out of 40 respondents, 18 respondents were male, and 22 respondents were female.

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Out of 40 respondents, majority [33] respondents were Hindu and 1 respondent each belongs to Muslim and Christian religion. 3 respondents were Jain, and 2 respondents chose not to disclose their religion.

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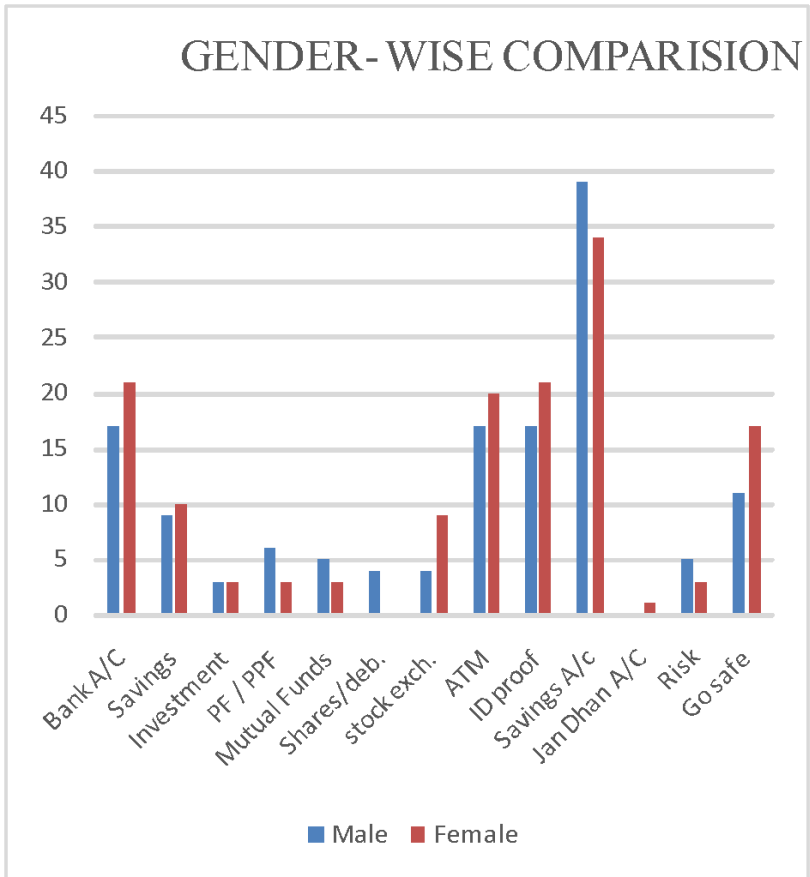
Out of 40 respondents, majority (19) respondents have 3 to 4 family members, 5 respondents have 1 to 2 family members, 12 respondents have 5 to 6 members in their family, 2 respondents have 7 and above family members in their family and 2 respondents chose not to disclose the number of members in their family.

Gender-wise Comparison of Financial Literacy

“When it comes to global financial literacy, 70 percent of women are illiterate compared to 65 percent of men. In India, the gap is wider, with 80 percent of women compared with 73 percent men. [S & P Ratings Services Global Financial Literacy Survey, 2015]

The following chart shows the gender wise comparisons.

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The above table shows Gender-wise comparison of financial literacy and indicates that, majority of people of both genders have savings accounts. Majority of affirmed having a bank account, savings, holding ATM card, ID proof, and preferred to go for safe investment.

Majority of women affirmed their awareness regarding bank account, savings, they were also aware about stock

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exchange unlike males, having ATM card, ID proof, and going for safe investment.

The comparison between male and female with regard to financial literacy shows that female is more financially literate than males in the society, but overall literacy among both males and females are low.

Financial Literacy among Students

It is important to teach and create awareness about financial literacy among students as it will help them to improve their financial capabilities. By attaining financial literacy, students will learn to handle money- both at home and in school or educational institutions. It will help students to have an understanding about the debt as well. It will help them to learn about the importance of money and also to start investing at young age.

Categories in questionnaire	Frequency of students
Bank Account	09
Savings Done	04
Investment Done	01
Having PF/PPF Account	01
Invested in mutual funds	00
Invested in shares and debentures	00
Awareness about stock exchange	04
Like to take risk in investment	03
Like to go safe in investment	06
Have ATM	08

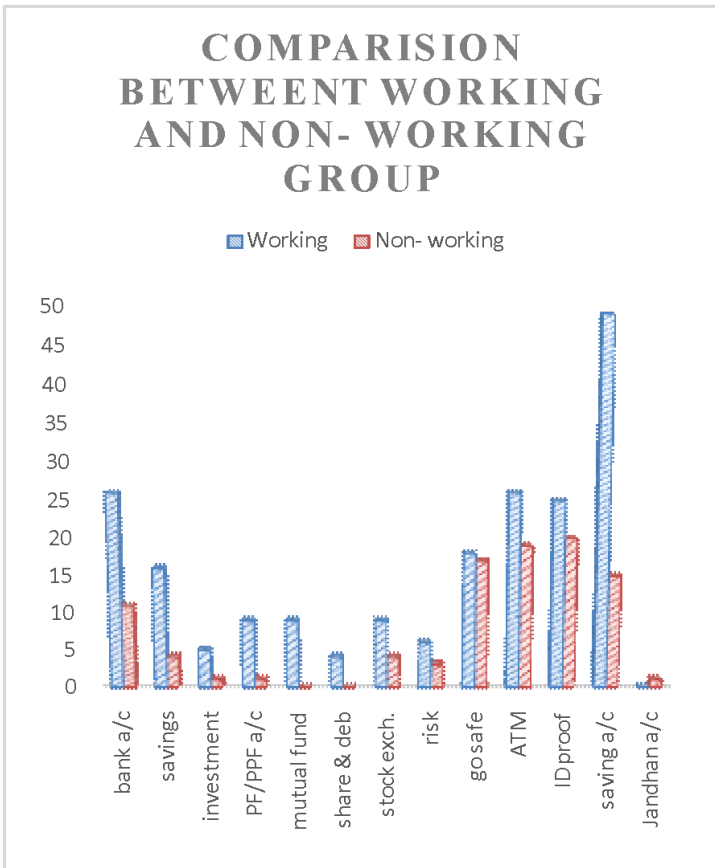
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Have ID proof	09
Savings Accounts	09
Jan Dhan Account	01

The above table is showing the data pertaining to financial literacy among the students. Of the total 40 respondents 9 were students who were pursuing their studies. All the 09 respondents had bank accounts and ID proofs. 06 students were in favour of going for safe investment. 08 students were holding ATM Card. the data shows the students were not having complete financial literacy, signifying a low level of financial literacy among them.

Financial Literacy among Working and Non-Working

Working people may have a better understanding of financial concepts. And it can become an important determining factor in building an individual's financial life in terms of savings, investment, budgeting and other financial aspects.



Out of 40 respondents, 67 percent were employed, 28 percent were unemployed, and 5 percent chose not to disclose their employments status.

Apparently, it can be seen from the above chart that working population is much educated & literate financially than non- working population. By analyzing the questionnaire, a significant difference in savings was found between working and non- working population. Besides this majority of working

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population have Provident Fund account which is negligible in non-working group. Only one Jan Dhan account was found in non-working group, otherwise total population responded affirmative in having savings account.

Conclusion and Suggestions

In today's time, Financial Literacy is one of the primary aspects of one's day to day life. Financial literacy makes an individual a better and responsible citizen. There is need to develop financial literacy among the people for many reasons. Financial emergencies can happen to anyone, and financial literacy can help one to face such emergencies and minimize common pitfalls.

On the basis of the analysis of the current scenario regarding the financial literacy in the country, it can be concluded that there is overall low level of awareness about financial literacy and education across all the group/ strata of people except working population. Students are close to financial literacy but not sufficiently meeting the criteria. Gender – wise analysis also reveals the same trend in both males and females with regard to financial literacy, which is very discouraging, government and also people in general should take enough measures to ensure financial literacy and education. All the aspects of study suggest that present level of financial literacy will not work in attaining desired level of welfare and growth in the society. There is further scope in this area regarding type of training required according to the different strata of population.

Suggestions

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Financial literacy is one of the important ingredients for a viable financial system which impacts the economic growth of a country positively. Government of a country has to play an important role in enhancing the financial literacy in the country and this can be accomplished by creating awareness about the same. Imparting training along with the awareness programme will have an overall impact on well-being of society and economy as a whole. Banks can create partnership with NBFCs to educate its customers and investors. Apart from this, there is need to start financial literacy programme at the school level. During the present digital age, various social media platforms can be used to create awareness.

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