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A Study on Financial Literacy of Urban India

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A B S T R A C T

With increasing life expectancy, nuclear family set ups and lack of social security system, an individual has to shoulder greater responsibilities to ensure his and his family's financial security. India, being a developing nation, is witnessing a gamut of financial reforms and introduction of new and complex financial products. The success of these financial reforms and attempts for financial inclusion depend upon people's response to such initiatives. This study attempts to understand the level of financial literacy among urban citizens of India. The study reveals the gender gap in the financial literacy and suggests future scope of research to bridge it. Apart from gender, the financial literacy has also been compared across ages, income, marital status and number of children in the household. This is important since the pace of development of the economy also depends upon ability of its nationals to take wise financial decisions. The analysis is found to be significant across all the demographics factors except age.

Introduction

On an average, one third of a person's life is spent in learning to build ones earning capabilities while the rest two thirds is spent on earning money and achieving life goals. This means that it is imperative that an individual has at least basic understanding of money matters. Moreover, in recent years, the role of government and employers in providing financial security is decreasing. This has substantially increased the individual's responsibility in managing the family finances and ensuring lifelong financial security.

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Yet, it is not uncommon to find people living beyond their means, having credit card debt, making risky investments and doing things that are irresponsible and against the basic principles of finance. Further, the proliferation of new and often complex financial products and, turbulent global conditions demand more financial expertise.

Financial literacy is of particular relevance to emerging economies. As these economies endeavour to improve the financial situation of their citizens by achieving higher economic growth rates, enhancement of financial literacy would help improve the financial well-being of their people even further through sound financial decision making.

This paper attempts to study the level of financial literacy in urban India and the gender gap in the level of financial literacy.

Motivation behind the Study

A recent S&P survey indicates that more than 70% of people in India fare badly in financial literacy. Almost 76% Indian adults do not adequately understand key financial concepts. The S&P's Ratings Services Global Financial Literacy Survey found that this number is lower than the worldwide average of financial literacy, but it is roughly in line with other BRICS (Brazil, Russia, India, China and South Africa) and South Asian nations (Writer, 2015).

Since the new government assumed the office in 2014, it has had financial inclusion as one of its key missions. The Jan Dhana Yojana Scheme was launched to enable every citizen in India to have a bank account. Barely a fortnight after the launch, the Yojana entered the Guiness Book of World Records for the maximum number of accounts opened in a week (Deepalakshmi, 2016).

The Indian Government is moving on its way towards financial inclusion, attempting to provide access to organised financial system to every citizen. But a pre-requisite to this financial inclusion is financial literacy of the citizenry. Realising this fact, the Government and the regulatory bodies like RBI, SEBI, etc have taken a lot of initiatives to educate all sects of the society.

Researchers and financial experts across the world are trying to highlight the link between the two – financial literacy and financial inclusion (Dev, 2006; Ramakrishnan, 2012; Monique Cohen, 2011). Dr. R Ramakrishnan in his study emphasizes upon this link. The study indicates the financial literacy as the demand side of the financial inclusion. This link is the motivational driver behind this paper to study the level of financial literacy in India.

Literature Review

The construct:

Many financial literacy studies lack an operational definition of the construct. (HUSTON, 2010). The few studies who have tried to define the financial literacy have emphasized on the ability to manage finances and on financial knowledge.

The study conducted by Huston S. J. indicates that over the last decade at least four distinct content areas were used to varying degrees:

1. Money basics (including time value of money, purchasing power, personal financial accounting concepts).
2. Borrowing (i.e., bringing future resources into the present through the use of credit cards, consumer loans or mortgages) and
3. investing (i.e., saving present resources for future use through the use of saving accounts, stocks, bonds or mutual funds).
4. Protecting resources (either through insurance products or other risk management techniques).

After due consideration and review of several definitions proposed by various studies, the one used for this particular research is a modification of the one proposed by Organisation for Economic Co-operation and Development (OECD) INFE. The definition states financial literacy as 'A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.' (INFE, 2011). Since the OECD definition has been used for surveys on financial literacy across several countries, use of that definition provides the possibility of benchmarking the results in the Indian context against the results for other countries. This research does not capture the attitude and the behaviour aspect of financial literacy.

Past literature studies:

Across the world, financial literacy has interested researchers as it is one of the crucial factors that impact an individual's retirement planning, retirement confidence and financial behaviour (Mohamad Fazli Sabri, 2015; Mitchell, 2008; Menkhoff, 2015).

Several studies have attempted to examine the level of financial literacy in India. Most of them report that the level of financial literacy in India is poor. For instance, the VISA (2012) study ranked India at the 23rd position among the 28 countries surveyed. Adopting the questionnaire developed by the Organisation for Economic Co-operation and Development (OECD) to facilitate international benchmarking, this study attempted to further the knowledge and understanding of financial literacy is India. Compared to some of the other studies, the OECD approach is more comprehensive as it attempts to measure the influence of a range of explanatory variables on the three dimensions of financial literacy, namely, financial attitude, financial behaviour and financial knowledge (Sobhesh Kumar Agarwalla, October 2013).

Another important phenomenon that has been revealed by studies in this area is the gender gap in financial literacy (Fisk, Gender gap in financial literacy transcends national borders; Mitchell, 2008; Association, 2011). It is also evident that women tend to be considerably less knowledgeable about personal finance than men, and that can put their economic security at higher risk. This gender gap in financial literacy exists in many other developed countries and it is found among people of all ages, education levels, and other socioeconomic characteristics (Fisk, Gender gap in financial literacy transcends national borders).

Objectives

The objectives of this study are as follows:

1. To study the level of financial literacy in urban India
2. To study the gender gap in the financial literacy in urban India
3. To study various demographic factors that could impact the financial literacy

Hypothesis

As previously mentioned, several studies in the past have tried to look at the gender difference in the financial literacy (Association, 2011; Fisk, Gender gap in financial literacy transcends national borders). Within the Indian context, researchers have tried to look at factors like age, income, occupation etc. (Sobhesh Kumar Agarwalla, October 2013).

Based on the objectives of the study, following alternate hypotheses were set:

I. H1a: Men are more financially literate than women

II. H1b: Financial literacy is affected by age of the individual

III. H1c: Financial literacy is affected by family income of the individual

IV. H1d: Financial literacy is affected by marital status of the individual

V. H1e: Financial literacy is affected by number of children in a family

Research Methodology

Methodology and Data Collection:

Empirical studies of financial literacy require quantified measurements. It must be understood, however, that these measurements are only an approximation of actual literacy levels. Individuals are assessed on financial literacy by testing their knowledge about basic financial concepts like numeracy, risk diversification, inflation, and compound interest (savings and debt) etc. These aspects are indicative of *elementary level* of financial literacy. By testing the individuals on many questions related to financial concepts like stocks, financial markets, mutual funds, banking and insurance one can try and gauge the *advance level* of financial literacy. In this research the authors have tried to assess *elementary* financial literacy. The questionnaire used for the study is provided in the annexure for readers' understanding.

A total of ten questions were asked on the concept like numeracy, risk diversification, inflation, and compound interest (savings and debt), stock markets, mutual funds etc. Based on the individual's response to these questions, they were recorded as correct or incorrect answer. For each correct answer, the respondents were awarded one mark, else zero. Thereby the range of the financial literacy scores was 0 (least) to 10 (highest).

Data Collection

It is a descriptive research on the financial literacy of urban India. A multi modal survey was conducted – physical and online, to distribute the questionnaire for the study. A total of 166 usable responses were collected through this exercise. The sample respondents belonged to various tier I and Tier II cities of Urban India. The respondents were pooled so as to do justice to various incomes, age and other demographic factors like marital status, number of children etc.

Analysis

Financial literacy scores were analysed across various demographic factors using testing of hypothesis and analysis of variance.

Findings and Discussions

The data were analysed using IBM SPSS (statistical software for social sciences) Statistics version 23. The mean financial literacy score was found to be 4.88 with a standard deviation of 2.65.

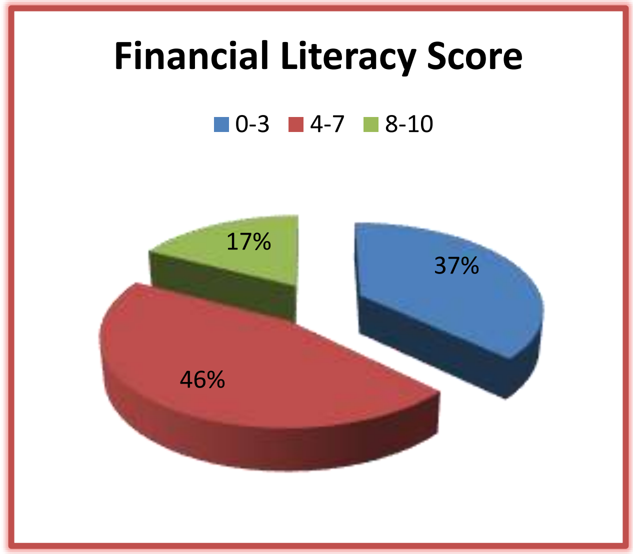

Chart-I: Financial Literacy Score

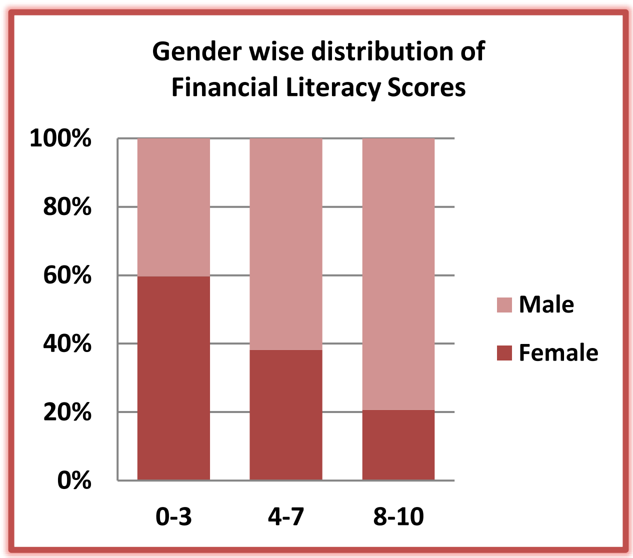

Chart I: Gender-Wise Distribution of Financial Literacy Scores

Chart I indicates the percentage distribution of respondents based on their financial literacy scores. Only 17% of respondents have been able to answer more than 2/3rd of the questions correctly which is in line with the S&P survey findings (Writer, 2015). Chart II explains the gender gap across the financial literacy scores. The proportion of correct responses is greater amongst men compared to women.

Independent sample t test was conducted to test the first hypothesis that men are more financially literate than women. The output for this analysis gives a p value = 0.000, significant at level of significance of 0.05. The next few charts are indicative of how individuals belonging to different demographic classes have scored on the financial literacy test.

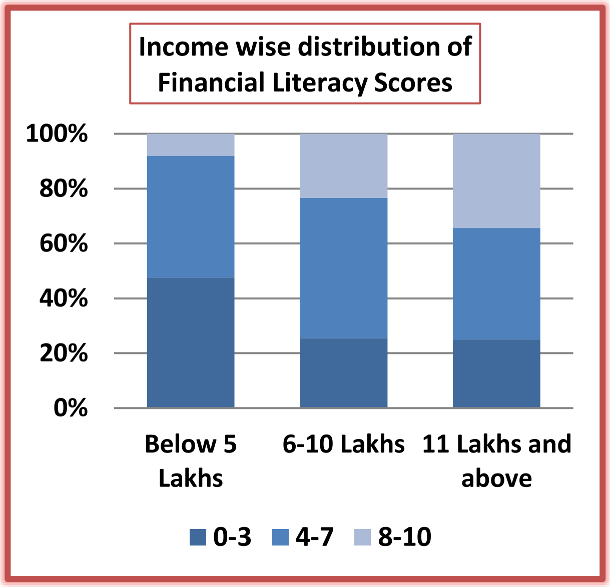

Chart-III: Income-Wise Distribution of Financial Literacy Scores

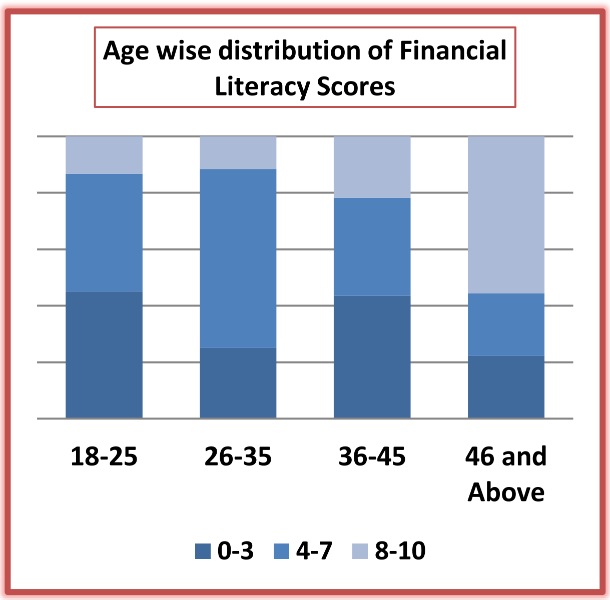

Chart-II: Age-Wise Distribution of Financial Literacy Scores

Charts III and IV indicate how individuals belonging to different income and age groups have scored on the financial literacy test. The charts exemplify that as age and income increases the individuals have scored more in the literacy test (Worthington, 2004).

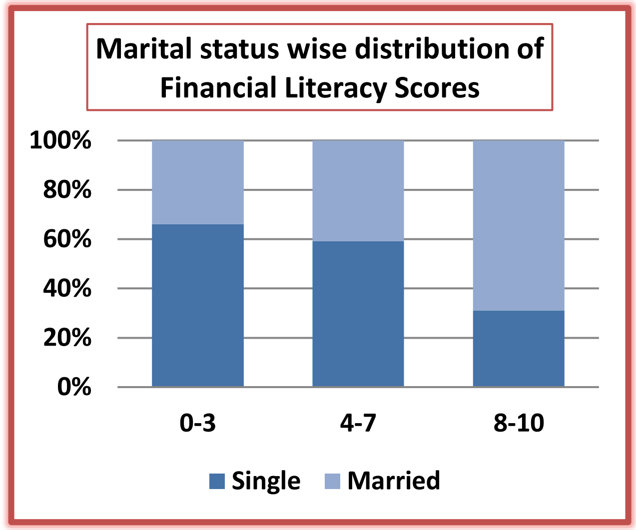

Chart-V: Marital Status-Wise Distribution of Financial Literacy Scores

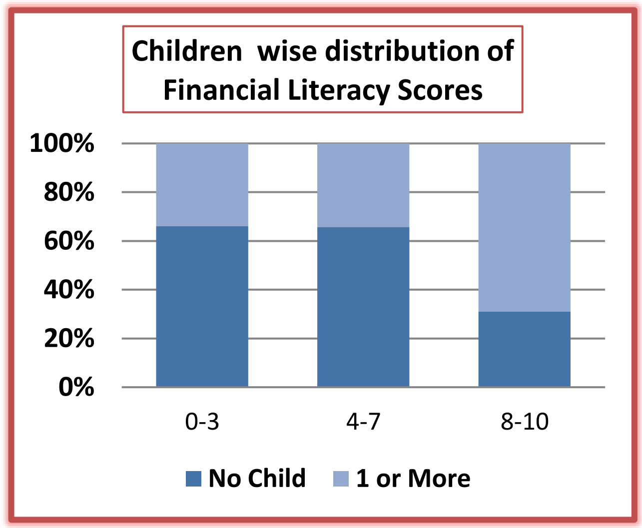

Chart-VI: No. of Children-Wise Distribution of Financial Literacy Scores

Chart V and VI illustrate how a person is likely to be more financially literate if he is married or has children. The financial literacy scores were analysed using one way analysis of variance across income and age whereas independent samples t test was used for analysing them across gender, marital status and number of children in the family.

Table 1 summarises the p values for the above mentioned analysis. It is evident that the financial literacy scores are affected by all the demographic factors accept age at level of significance of 0.05. The findings for age contrary to the studies in the past which indicate that financial literacy is higher in case of elder people owing to the experience they have in handling their finances. (Worthington, 2004). The analysis is significant in favour of all the hypothesis except the second one.

Demographic Factors	***P value***
Age	0.051
Family Income	0.000*
Gender	0.000*
Marital Status	0.004*
Number of Children	0.004*

Table 1 * Significant at 0.05 level of significance

The above findings with respect to gender are in support with the previous literature in this field (Mitchell, 2008; Raquel Fonseca, Spring 2012; Sobhesh Kumar Agarwalla, October 2013). The research indicates that there is the lack of involvement on women's part in the financial planning of the family.

Family income showed significant positive influence on financial literacy, with the influence increasing with rise in family income. This finding is also supported by previous research conducted in the past (Worthington, 2004). There isn't enough literature to indicate direct relation between marital status and number of children in the family with financial literacy. Typically these two instances, marriage and children, call for better financial management by individuals to meet their respective financial goals. Research suggests that financial management practices mediate the relation between retirement confidence and financial literacy (Mohamad Fazli Sabri, 2015). The current findings make sense in the light of this indirect connection in the domain.

Conclusion and Recommendations

The present study uses t test and one way analysis of variance to investigate the role of gender and other demographic factors in determining the distribution of financial literacy in urban India. The research supports difference in financial literacy across all the demographic factors *except age* of the respondent. The research establishes that men, married individuals, higher income groups, and those having children are more financially literate than their counterparts within the studied sample of respondents.

The findings of this research could be used by the agencies responsible for development of financial knowledge and awareness of nationals. Proper communication mediums should be used to reach people, who are single, families who do not have children and most importantly the female population of India.

This research has its own set of limitations stemming from its methodology and scope. The financial literacy test administered is taken as an indicator of financial literacy. The sample size of 166 though large is still an inadequate representation of urban India. Other dimensions like financial behaviour, retirement planning, retirement confidence, factors impacting financial literacy can be taken up by researchers to determine the factors leading to financial literacy (Mohamad Fazli Sabri, 2015; Raquel Fonseca, Spring 2012; Menkhoff, 2015).

Appendix

Questionnaire

We, at IBS, Mumabi are conducting a study on financial literacy. We would appreciate if you can spare your valuable time in responding to the below questions.

S. No.	Particulars	S. No.	Particulars	
I	Name:	______________________		
II	Age (in Years)	1	18-25	[ ]
		2	26-35	[ ]
		3	36-45	[ ]
		4	46-55	[ ]
		5	Above 55	[ ]
III	Gender	1	Male	[ ]
		2	Female	[ ]
IV	Highest Qualification	1	SSC	[ ]
		2	HSC	[ ]
		3	Graduate	[ ]
		4	Postgraduate	[ ]
		5	Professional	[ ]
		4	Others (Pl. Specify)	[ ]

V	You belong to which one of the following category:	1	Service	[ ]
		2	Professional	[ ]
		3	Self Employed	[ ]
		4	Businessman	[ ]
		5	Any other, please specify________________	[ ]
VI	Annual family income is in the range of:	1	Below Rs. 5 Lakh	[ ]
		2	Rs 5 Lakh - 10 Lakh	[ ]
		3	Rs 11Lakh - 15 Lakh	[ ]
		4	Rs 16 Lakh - 20Lakh	[ ]
		5	Above Rs. 20 Lakh.	[ ]
VII	Your Marital Status	1	Single	[ ]
		2	Married	[ ]
VIII	No of Children	1	0	[ ]
		2	1	[ ]
		3	2 or more	[ ]
IX	Where do you invest your savings?	1	Savings Bank	[ ]
		2	Fixed Deposit / Recurring deposit	[ ]
		3	Stock Market	[ ]
		4	Gold/Silver	[ ]
		5	Mutual Funds	[ ]
		6	Insurance	[ ]
		7	Real Estate	[ ]
		8	Postal Savings Scheme (NSC, PPF, etc)	[ ]
		9	Others, Specify ________________________	[ ]
X	What is the percentage of savings from your total income?	1	Less than equal to 25 %	[ ]
		2	25 to 50 %	[ ]
		3	50 to 75 %	[ ]
		4	Above 75%	[ ]
XI	Suppose you had invested Rs 1000 in a 5 year fixed deposit and the interest rate is 10% per year and you never withdraw money or interest payments and let it grow. After 5 years, how much would you get at maturity?	1	More than Rs 1500	[ ]
		2	Exactly Rs 1500	[ ]
		3	Less than Rs 1500	[ ]
XII	Imagine that the interest rate on your savings account was 4% per year and inflation was 5% per year. After 1 year, how much would you be able to buy with the money in this account?	1	More than today	[ ]
		2	Exactly the same	[ ]
		3	Less than today	[ ]
XIII	Assume a friend of yours inherits Rs 10 lakhs today and his sibling (younger brother) inherits Rs 10 Lakhs three years from now. Who is richer because of the inheritance?	1	My friend	[ ]
		2	His sibling (friend's younger brother)	[ ]
		3	They are equally rich	[ ]
XIV	Which of the following statements describe the main function of the stock market?	1	The stock market helps to predict stock earnings	[ ]
		2	The stock market results in an increase in the price of stocks	[ ]
		3	The stock market brings people who want to buy stocks together with those who want to sell stocks.	[ ]
XV		1	True	[ ]
		2	False	[ ]

	Buying a Single company stock (equity shares) usually provides a safer return than a Single Equity Mutual Fund.	3	Don't Know	[ ]
XVI	If you buy a company's bond	1	You own a part of the company	[ ]
		2	You have lent money to the company	[ ]
		3	You are liable for the company's debts	[ ]
		4	You can vote on shareholder resolutions	[ ]
XVII	If you were to invest Rs 10000 in a stock mutual fund, it would be possible to have less than Rs 10000 when you withdraw your money	1	True	[ ]
		2	False	[ ]
		3	Don't Know	[ ]
XVIII	Which type of Mutual fund has a lock- in period of 3 years?	1	ELSS	[ ]
		2	Debt mutual funds	[ ]
		3	Open ended fund	[ ]
		4	Close ended fund	[ ]
		5	Balanced fund	[ ]
XIX	Interest on Fixed deposit is taxable.	1	True	[ ]
		2	False	[ ]
		3	Don't know	[ ]
XX	An account in which shares are held in electronic form is known as	1	NRE account	[ ]
		2	Demat account	[ ]
		3	NRO account	[ ]
		4	FCNR account	[ ]

--------------------------------- Thank You---------------------------

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