

# A STUDY ON MEASURING INDIVIDUAL COMPONENTS OF FINANCIAL LITERACY IN INDIA

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**Abstract :** Financial literacy has developing as a priority area across the world in recent years. Developing country like India has need of the hour for comprehensive growth and sustainable prosperity in financial literacy as people of India play an important role in the economic development of the country. A research consists in enhancing better and impactful understanding of individual components of the financial literacy. It is imperative for individuals to be well equipped with the essential financial knowledge and awareness to practice their financial resources in an optimum way. Financial literacy program reach to millions of people need to be re-invented and scaled up to help the conventional supply mechanisms. The study observes the financial literacy of the people by survey developed by the National Institute of Securities Market (NISM). The study will find the level of people about financial literacy with financial attitude, financial behaviour and financial knowledge.

**Key Words - Financial Literacy, Financial Attitude, Financial Behaviour, Financial Knowledge.**

## 1. INTRODUCTION

Financial planning in today's world is important for financial stability of a country. In the America, financial literacy was introduced way back in 1908 by the American Credit Union Movement. In 1957, financial education was made compulsory by the state of Nevada then other states followed. Australia also delivers financial literacy education through customized programs. Singapore and Indonesia are among few of the Asian nations who have started this initiative and have taken the primary step towards Financial Literacy. It is well-being for individuals through key component of financial literacy as it is globally acknowledged. Financial literacy refers to skills and knowledge of financial products and services with reference to financial inclusion to form informed choices to manage resources and income. Basically it's the capacity to have solid financial planning through the financial education. Most surveys show that financial literacy remains poor in India. Over two-thirds of the population, is not financially literate, i.e., people lack financial planning basics. The Standard & Poor survey from 2014 found that over 76 % of adults in India didn't comprehend financial planning basics. According to the Economic & Political Weekly article "Deciphering Financial Literacy in India," there is tremendous inter-state difference within India itself. A nationally representative data-set with an index of financial literacy representing financial knowledge, behavior, and attitude demonstrated over 60 % point's variation between an Indian state with the highest financial literacy and one with the lowest. Statistical analysis showed that these differences in financial planning basics correlated to differences in gender, qualification, location (rural, urban, or metro), employment, and technology savvy and current debt. Financial Literacy has become uppermost significances for many countries today as considerate basic financial concepts

agrees people to manage their wealth in a more prepared way which consecutively helps within the economic progression of the country. It's ascertained that people with appropriate financial education and knowledge make better financial planning and makes the foremost of the available financial resources with appreciable benefit.

## 2. FINANCIAL LITERACY IN INDIA

Financial Literacy in India has not become priority as like become in other developed nations. Financial decisions and investments are poor results because of lack of basic financial knowledge. Most of the people invest in short-term plans and physical assets to achieve their personal goal which are given lesser benefits and its not help in the economic development of the country. Refer to Global survey, Indian adults do not understand basic financial concepts and are unfortunately financially illiterate even today about a staggering 76%. India has been consistently poor as compared to the rest of the world the survey confirms by financial literacy rate. Financial literacy such poor financial literacy rate can show to be a major obstacle to India's ambition to becoming an economic superpower in the coming years, it is importance for developing country like India. The Reserve Bank of India (RBI), along with some legislative agencies like SEBI and IRDA are developing training modules, guides and academic programs within the place of financial literacy but this movement requires greater impetus so as to succeed in the masses. Many efforts are ongoing and therefore the National Institute of Securities Markets (NISM), a charitable trust established by SEBI, has found out a National Centre for Financial Education (NCFE). One among the most programs started by NCFE is an initiative called National Financial Literacy Assessment Test (NFLAT). This is often India's first national-level test designed to live the extent of financial

literacy among school students of Classes VIII to X. it's primarily aimed toward encouraging students to get basic financial knowledge on topics like money, budgeting, investment, banking, savings, insurance, retirement planning and financial planning. CERE in partnership with Tata Capital is developing a Financial Literacy program that targets lyceum children. The program undertakes exhaustive research within the specialized area of financial literacy and education. This program aims to grow a strong accessible web-based platform that might take Financial Literacy through schools in India, in tandem with the NFLAT curriculum and examination.

### 3. LITERATURE REVIEW

Choudhary & Kamboj (2017), studied the financial literacy of the people in Haryana, which found that only one-third of the total people exhibit higher financial literacy. Majority of the people have basic financial knowledge and exhibit progressive financial behaviour, 57 % of the respondent's lack a positive financial attitude. This study suggests that the initiatives on the part of policymakers would be beneficial, as they may be beneficial in changing the attitudes of the respondents. Choudhary & Kamboj (2017), studied the financial literacy of the people in Haryana, which found that only one-third of the total people exhibit higher financial literacy. Majority of the people have basic financial knowledge and exhibit progressive financial behaviour, 57 % of the respondent's lack a positive financial attitude. This study suggests that the initiatives on the part of policymakers would be beneficial, as they may be beneficial in changing the attitudes of the respondents. Puneet Bhushan &Yajulu Medury(2013), Suggest that overall financial literacy level of respondents isn't very high. Financial literacy level gets undergone from gender, education, income, nature of employment and field of labor whereas it's found that the people that are government employee has less level as related to the privet employee, countryside don't affect the extent of monetary literacy. The level of monetary literacy among the working young in urban India is analogous to the amount that prevail among comparable groups in other countries i.e. the effect of several socio-demographic variables similar influence of family income and gender on various extents of financial literacy is analogous as recorded in other studies in Indian context. Mark Taylor (2010). Identify the key determinants of Financial Literacy. Financial literacy are age, health, housing tenure, and so the employment individual position, household size and structure, and other household members using panel data models as found main factors. Adult men and ladies in full-time work with an employed spouse have the notable financial proficiency although many of those characteristics have noteworthy impacts on financial capability, but results propose that age, and employment position has the most important impacts.

### 4. OBJECTIVES OF THE STUDY

- 1) To study of financial literacy concept through determining individual components of financial literacy in India.
- 2) To know the role of Indian agencies in promoting financial literacy for creating awareness and educating people about financial services and their features *Source:*

## 5. RESEARCH METHODOLOGY

Research is done through secondary data by collecting data from various sources such as annual report, books, magazines, journals, newspapers and websites.

## 6. RESULTS ANALYSIS AND DISCUSSION

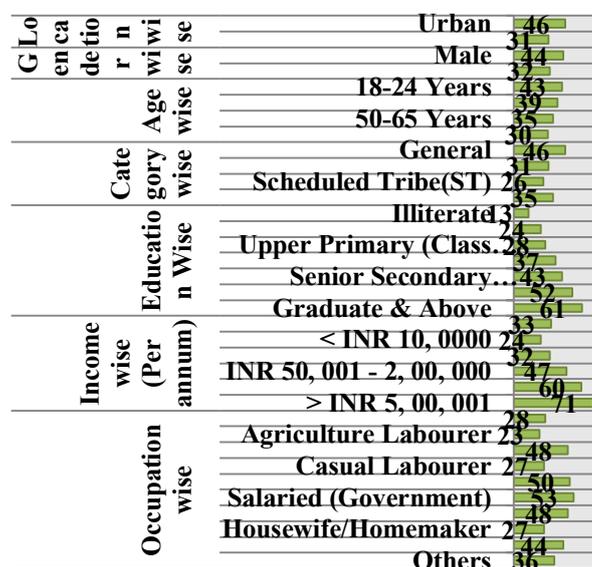
Study of financial literacy is done through measuring the individual components which are divided in three part viz. financial attitude, financial behaviour and financial knowledge. As per the survey of NISM, total points decided to be 22 by measuring individual components of financial literacy. Points allotted and scoring details to individual components of financial literacy as deliberated and approved by NISM and other stakeholders have been provided here under.

### 6.1 FINANCIAL KNOWLEDGE ANALYSIS

The financial knowledge of the respondents is judged on the basis of eight questions incorporated in the survey instrument. It measures the numeracy skills and knowledge of the respondents regarding the basic financial concepts, such as the impact of inflation on prices, on returns and on the standard of living; computation of simple interest and compound interest; risk-return relationship and effect of diversification in risk reduction.

*Source: National Institute of Securities Market*

#### ■ Financial Knowledge



*National Institute of Securities Market*

Respondents scoring 80 per cent or above were considered as highly knowledgeable and could handle the challenges pertaining to financial matters. Respondents scoring between 60 and 80 per cent were considered as average knowledgeable. Finally, respondents scoring less than 60 per cent were given a low rating in terms of financial knowledge. On the basis of the survey of the whole sample, the scores of the respondents on financial knowledge are presented in

Figure of Financial knowledge. The results show that 55 per cent of the respondents scored 9 or above for financial knowledge and were placed in the high financial knowledge category.

### 6.2 FINANCIAL ATTITUDE ANALYSIS

Financial attitude is an important element of financial literacy, as it influences the financial behaviour of people. A total of three items, as recommended by OECD, viz. preference to save, to consume, and preference to make long-term financial plans, were employed to capture the attitude of the respondents towards handling finance.

#### ■ Financial Attitude

Location	Urban	Score
Gender wise	Male	69
	Female	68
Age wise	18-24 Years	62
	50-65 Years	68
Category wise	General	67
	Scheduled Tribe(ST)	71
	Scheduled Caste(SC)	63
Education wise	Illiterate	64
	Upper Primary (Class VI-...)	68
	Senior Secondary (Class...)	69
	Graduate & Above	67
	Others	64
Income wise (Per annum)	< INR 10,000	66
	INR 50,001 - 2,00,000	65
	INR 2,00,001 - 5,00,000	64
	> INR 5,00,001	70
Occupation wise	Agriculture Labourer	67
	Casual Labourer	67
	Salaried (Government)	69
	Housewife/Homemaker	60
	Others	71
	Others	64

Source: National Institute of Securities Market

The attitudinal statements sought a response in terms of the degree of agreement or disagreement on a 5-point scale. The score of the respondents was created by adding together their scores for the three attitudinal questions and then dividing by 3. A score of 4 and above signifies that the respondent has a positive financial attitude, while a neutral financial attitude is represented by score of 3. A score of 2 or less indicates that the respondent has a negative financial attitude. The scores for financial attitudes on the basis of all the respondents in

the sample are presented in Figure. The results exhibit that 43 per cent of the respondents of the whole sample fall in the positive attitude category whereas 30 per cent of the respondents have a negative attitude towards financial planning and a propensity to save, which is a matter of serious concern.

### 6.3 FINANCIAL BEHAVIOUR ANALYSIS

Financial behaviour is an indispensable element of financial literacy and probably the most important one. This is because although people have the knowledge as well as positivity in their attitude towards financial matters, their future financial well-being depends on their behaviour towards utilizing money in their daily lives. The study attempts to show the financial behaviour of the respondents by covering the aspects regarding the household budgets, affordability of products and management of expenditure, timely payment of bills, efforts towards achieving financial goals, saving habits, and borrowing tendency. The survey instrument includes six items to accumulate information about the respondent's dealings with personal finances. The overall behaviour score is obtained by combining the information on six items. Respondents scoring 5 or more out of 6 are classified as having a positive behaviour towards money and finance. Those scoring 4 are classified as neutral, and less than 4 are considered as having negative financial behaviour. The scores for financial behaviour on the basis of all the respondents in the sample are presented in Figure. The financial behaviour scores of the respondents show that the majority of the respondents depict positive financial.

The financial literacy scores of the respondents are obtained by adding their scores for the three dimensions of financial literacy, i.e. financial knowledge, financial attitude, and financial behaviour. The maximum financial literacy score that can be attained by a respondent is 22 as component wise 11 for financial knowledge 6 for financial behaviour, and 5 for financial attitude. Categorized in the high financial literacy class on gaining a score of 80 per cent or above by respondents, score of 60 to 80 per cent in the moderate financial literacy class for and are measured as less financially literate if they score less than 60 per cent. The financial literacy scoring adopted follows the approach recommended by the OECD and is also followed in some Indian. The results show that 37 per cent of the respondents fall in the high financial literacy category, which suggests that they are well equipped with financial skills and knowledge, and also seem to have a positive attitude or behaviour with regard to financial matters. The other 63 per cent of the respondents are lacking in one or other aspects of financial literacy with 19 per cent of the respondents being ill-equipped in terms of the financial skills essential for their financial well-being as they appear in the category of low financial literacy.

Overall, the results indicate the poor literacy level of the people despite high levels of financial knowledge and financial behaviour. The low level of overall financial literacy is mainly accredited to the poor scores of the respondents for financial attitude. Another factor is the lack of consistency in the results for the three dimensions of financial literacy among the respondents. Just 20 per cent of

### ■ Financial Behaviour

Gender wise	Urban	65
	Rural	50
Location wise	Male	62
	Female	51
Age wise	18-24 Years	49
	25-49 Years	61
	50-65 Years	57
	66-80 Years	47
Category wise	General	63
	Scheduled Caste(SC)	47
	Scheduled Tribe(ST)	52
	Other Backward Caste..	51
Education Wise	Illiterate	30
	Primary (Up to class V)	45
	Upper Primary (Class..)	49
	Secondary (Class IX-X)	57
	Senior Secondary (Class..)	59
	Diploma	70
Income wise (Per annum)	Graduate & Above	77
	No Income	46
	< INR 10, 0000	48
	INR 10, 001 - 50, 000	56
	INR 50, 001 - 2, 00, 000	68
	INR 2, 00, 001 - 5, 00, 000	83
Occupation wise	> INR 5, 00, 001	88
	Self Employed..	54
	Agriculture Labourer	40
	Self Employed (Non-..)	67
	Casual Labourer	45
	Salaried (Private)	75
	Salaried (Government)	85
	Student	49
	Housewife/Homemaker	44
Retired Person	62	
Others	45	

Source: National Institute of Securities Market

the respondents scored high for all three dimensions. It represents the financial literacy scores of the respondents on the basis of various socio-demographic factors. The financial literacy scores of all the respondents show that the financial literacy level of females is better than that of the male respondents. Furthermore, the married respondents outperform single respondents for all three aspects of financial literacy, i.e. financial knowledge, financial attitude, and financial behavior. Perhaps increased family responsibilities make the people more conscious of their financial future. They feel the need to improve their financial knowledge and to change their attitude and behaviour towards savings, investment, consumption, and other financial matters to secure their financial future. Occupation also emerges as a significant determinant of the financial literacy of the respondents. The results show that the respondents who are in paid employment perform much better than those respondents who are self-employed or not working. The findings also suggest that the level of financial

literacy improves with age. Perhaps this is due to the greater exposure of people falling in the high age group, their level of understanding as well as behavior, which is inclined towards positivity and improving their level of financial literacy. The results based on education level show a positive association between education and financial literacy performance. The findings also document that the people with a higher income possess higher financial knowledge, depict better financial behaviour, and show a positive attitude towards financial matters. Moreover, the evidence based on the sample show that respondents with a stable income outperform the unstable income respondents in all the dimensions of financial literacy, i.e., financial knowledge, financial behaviour, and financial attitude, and score high on financial literacy.

### 7. CONCLUSION

Financial literacy is important for empowering people to make right financial choices. People buy insurance policies without adequate planning in view of the lack of proper awareness and give up midway because they don't have money to pay the premium. Aggressive pushing of products by insurance providers without sufficiently measuring the consistency in income streams of the buyers for servicing their policies can mean more harm to the poor. While savings, investment, prosperity creation and debt reduction is central to an honest plan, you would like to stay track of developments, invest early and manage your finances. The key to financial literacy is to satisfy financial goals and convey prosperity to day to day life. It is observed from Geographic Mix & Financial Literacy that rural respondents are leading in case of financial attitude while in the cases of financial behaviour and knowledge more urban respondents have achieved minimum required scores than rural respondents. The same has been reflected in overall category wise ratio of financial literacy. It can be seen from the Gender Mix & Financial Literacy that around 2/3rd respondents from either male or female have similar financial attitude. However in case of financial behaviour and knowledge higher number of male respondents have achieved minimum required score than female respondents. Around 23% male respondents are found financially literate while around 16% female respondents are found financially literate. It can be observed from the Age Group & Financial Literacy that around 67% respondents from all age group have scored more than 3 points in case of Financial Attitude. Age group of 25-49 is leading in financial literacy when compared to other age groups. It can be observed from the Social Category & Financial Literacy that General category respondents are leading in case of financial literacy. Financial literacy among other category respondents is between 14-17%. The direct relationship is observed between education and financial literacy. It can be observed from the Personal Income & Financial Literacy that with increase in income level there is increase in financial literacy. It is observed from the Occupation & Financial Literacy that more than 25% respondents from each category of self-employed, salaried or retired are financially literate. Lowest financial literacy is observed in case of casual laborers, housewife / homemaker and agricultural laborers. Considering the situation, thoughtful actions to promote

financial literacy is the need of the hour. Financial literacy should began at school stage. Former RBI Governor Raghu ram Rajan has suggested inclusion of financial literacy in school curriculum. Children should aware about the concept of financial literacy as it can influence their families on the importance of savings and take essential steps to better manage their money. Thus, dispersal the concept of financial literacy by inculcating banking habits and creating financial awareness among children is a great help. As per OECD's global paradigm, India's National Strategy for Financial Education (NSFE) aims to spread awareness about basic financial products in order to link new users to the formal financial sector.

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