

Financial Literacy and its Contributing Factors in Investment Decisions among Urban Populace

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Abstract

Objectives: Financial literacy helps the persons to understand the information regarding financial aspects and make well-versed decisions when investing their money. The key objective is to explore the literacy level of individual in investment decisions and to suggest sustainable measures of increasing the awareness level in urban areas. **Methods and Analysis:** The study covered the 200 investors residing in the area of Chennai (Tier-1) and Trichy (Tier-2). Simple random sampling has been followed to collect the primary data from the investors to analyze their literacy level. Primary data was gathered with help of the questionnaire and secondary data from the related research journal publications and websites. Primary data collected were analyzed using SPSS package and statistical tools like percentage analysis and factor analysis. **Findings:** Five variables are loaded on five factor and all are positive loadings based on the loadings the factor is named as 'facing the problem in investment'. Based on the Factor analysis, in total, five factors such as 'investment decisions personally, revision of the investment, maintaining the investment portfolio, influence on personal investment and facing the problem in investment' are able to extract 72.9% of variance. These five factors were identified as important factors influencing the financial literacy. **Applications/Improvements:** This study can be applied to the investors of any kind to make a rational financial decision to achieve their financial goal.

Keywords: Economic Security, Financial Literacy, Financial Stability, Financial Resources, Investment Decisions

1. Introduction

In India the societal and economic scenario has broadened their financial inclusion policy to accommodate and permit the poor through innovative means and has made a massive involvement in economic growth. Over the years, with a good intention of improving access to the marginalized sector of the population the Reserve Bank of India (RBI) have been taken steps through the priority sector such as loaning requirements for banks, the bank lead scheme, instituting of Regional Rural Banks (RRBs), service area approach, self-help group-bank network programme and many more to make it possible. In

developing countries, financial literacy progresses the competency to admirably recognizing of financial funds for growing the monetary welfare of a person. Now most of the countries are initiating various programmes for financial education. Indian economy with national focus on wide-ranging growth has a crucial necessity to progress an energetic and constant monetary scheme.

Financial literacy helps in educating the excellence of financial facilities and contributes to monetary progress and development of a nation. Although the concept is defined usually at convenience by stakeholders, it has broad practices remain same, that is the ability to take informed decisions, make choices leading to empower-

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ment. The financial investors should know about their monetary products, concepts and risks, and thorough information regarding financial literacy. Financial literacy enhances the capacity of financial investors to educate and advice on the financial products, thereby improving their skills and confidence to take decision of financial risks associated and grab opportunities for betterment. It also helps to develop their financial well-being. It is a device that aids in achieving comprehensive financial inclusion.

The researchers have studied the influence of financial literacy on Indian salaried individuals based on variables such as age, income, occupation, gender, employment nature, geographic location and the like. The study revealed that financial literacy was not influenced by age of the individuals and geographic location but the other variables definitely had an influence. They initiated that persons were not focused on the investment securities¹. The respondent's attentiveness towards outdated investment choices is considerably greater than that for corporate securities like shares and mutual funds². The researcher has analyzed the behavior relating to investment preferences of Indians³. The researchers studied the measurement of financial literacy and revised its link to stock market participation⁴. Credit cards are mostly used by the undergraduates⁵. They studied that knowledge level as well as course taken in economics has a guideline on general and financial creation awareness⁶. In a study conducted to measure the performance of middle class household's investment in Nagpur highlighted that among the investment instruments bank deposits topped the highest followed by insurance, small savings schemes, post office savings deposits⁷. Organisation for Economic Co-operation and Development defines financial literacy as blending of capacity of individuals to understand, receive and approach the financial information and to make financial decisions for their well-being. In India, National strategy for financial education creates knowledge about the availability of financial products and services among the financially excluded population and includes them in the formal financial sector. The financial literacy includes the awareness about the financial products, attitude towards financial risk and the financial competency⁸. Learning programs should be conducted for the public with inadequate literacy in the field of planning for the retirement and decision making in personal

financial portfolio⁹. The key objective is to explore the literacy level of individual in investment decisions and to suggest sustainable measures of increasing the awareness level in urban areas. The study covered the 200 investors residing in the area of Chennai (Tier-1) and Trichy (Tier-2).

2. Methodology

Simple random sampling has been followed to collect the primary data from the investors to analyze their literacy level. Primary data was gathered with help of the questionnaire and secondary data from the related research journal publications and websites. Primary data collected were analyzed using SPSS package and statistical tools like percentage analysis and factor analysis.

3. Results and Discussion

Financial decisions are taken by the respondents with the help of financial literacy which is very essential to understanding of financial products and concepts. Low level of financial literacy affects the personal literacy and personal interest of the respondents. The major causes of low level of financial literacy which are lack of sources of financial information namely, limited access to internet and finance magazines, financial constraints and lack of government initiatives to promote financial awareness among the public.

The Cronbach's alpha Reliability Test was used to measure the reliability. The general rule is that if the coefficient is greater than or equal to 0.5 it is considered acceptable. The overall Cronbach's alpha for the categories was 0.666. According to the Table 1 it is found that, socio-economic profile of the respondents. It was found that age was an influencing factor in the operation financial transactions, and the other variables like education, occupation to some extent, decided the usage of financial services. 57% of the respondents were below the age of 30 years. 42.5% of the respondents were of the age above 45 years. Of the total respondents 48% were male and 52% were female. 58% of the respondents were graduates and only 7% possess the professionally qualified. 16.5% of the respondents were school level education. The kind of occupation and income generated by an individual determines his social strata to buy a product, his preference

for investment, his life style, his purchasing and spending ability as well. Majority 68.5% were employed either by the Government or by private sector. 19% were self-employed and engaged in their own business. 83.5% of the respondents were earning less than Rs. 30,00,000 per annum and the rest 16.5% of the respondents were earning above Rs. 30,00,000 per annum. Of the total respondents 41.5% were residing in rural area and the rest 58.5% were residing in the urban area. 54.5% of the respondents were married and 45.5% were unmarried.

According to the Table 2, it is inferred that, statistics of statements describing financial literacy: To find the relevance of the outcomes by analysing the mean scores and stated the financial literacy aspects of the respondents for the present study. The statement which had the highest satisfaction of the respondents was to avoid borrowing from other sources to their balance personal budget with a mean of 4.20, followed by the statement, the respondents of all age group had confidence in financial decision

Table 1. Demographic profile of the respondents

Particulars		No. of respondents	Percentage to total	Total
Age (Years)	15 to30	115	57.5	200
	30 to 45	50	25	
	45& above	35	17.5	
Gender	Male	96	48	200
	Female	104	52	
Educational qualification	Professional	14	7.0	200
	Post Graduate	116	58.0	
	Under graduate	37	18.5	
	School Level	33	16.5	
Occupation	Business	03	1.5	200
	Government Employee	58	29.0	
	Private sector Employee	79	39.5	
	Self employed	38	19.0	
	Retired	22	11.0	
Annual Income (Rs)	Up to 5 lakhs	124	62.0	200
	5-10 lakhs	43	21.5	
	Above 10 lakhs	33	16.5	
Area	Urban	117	58.5	200
	Rural	83	41.5	
Marital status	Married	100	54.5	200
	Unmarried	91	45.5	
No of Dependents	1-3	156	78.0	200
	4-6	43	21.5	
	Above 6	1	0.5	

Table 2. Descriptive statistics of statements describing financial literacy

S.No.	Statements	Mean	Std. Deviation
1.	Age	1.5800	.65248
2.	Income	2.1400	.61831
3.	Health	2.0800	.75926
4.	Family responsibilities	2.4850	1.29931
5.	Liquidity	2.4550	.96051
6.	Risk bearing Capacity	2.5650	.62267
7.	Taxation Benefit	1.5150	.50103
8.	Change in Tax laws	2.5250	.96125
9.	Change in Economic Events	3.5800	1.91886
10.	Change in Life Events	2.6900	1.24968
11.	Introduction of new products	1.6050	.49008
12.	Additional Income Received	1.5850	.49396
13.	Reduced Income	1.9300	.25579
14.	Maintaining adequate financial records	1.2400	.42815
15.	Maintaining diversified investment portfolio regularly	1.6400	.48120
16.	Spending less amount from regular income	1.5600	.49763
17.	Maintaining adequate insurance coverage	4.1250	.65691
18.	Confidence in financial decision making	4.1700	.74422
19.	Balancing personal budget and avoiding borrowing	4.2000	.67250
20.	Gathering information from varied sources.	3.9150	.61618
21.	Changes in the real estate market	3.8700	.75228
22.	Changes of quotations and indices in the capital market	3.7450	1.10730
23.	Changes of interest rates on deposits	4.1550	.65813
24.	Changes of interest rates on credits	2.0700	.74692
25.	Changes in the inflation rate	2.4750	.95073
26.	Changes in the level of public pensions, benefits and tax exemptions	1.6550	.72706
27.	Changes in the gold and silver market	2.7400	.77809
28.	Managing the present portfolio	2.3200	.90648
29.	Pre-closure of bank deposits, life insurance policies	2.5000	1.03700
30.	Sale of real estate and gold	2.1800	1.03098
31.	Expressed grievance to the company	1.7600	.42815
32.	Made an appeal to government authority	2.3400	1.14497

Source- Primary Data

Table 3. KMO and Bartlett's test

Kaiser-Meyer - Olkin Measure of Sampling Adequacy.		.862
Bartlett's Test of Sphericity	Approx. Chi-Square	6.296
	Sig.	.000

Source- Primary Data

Table 4. Total variance

Factor Component	Rotation Sums of Squared Loadings		
	Total Eigen values	% of Variance	Cumulative %
1	5.924	21.8	21.8
2	4.478	17.9	39.7
3	3.111	13.7	53.4
4	2.891	10.2	63.6
5	2.207	9.3	72.9

Source- Primary Data

making with a mean of 4.17 and the changes of interest rates on deposits with a mean of 4.1550.

The statement depicts that, the respondents with the lowest satisfaction was maintaining the adequate financial records and taxation benefit with a mean of 1.2400 and 1.5150 respectively. The respondents are showing more interest in investments. Most of them are looking for tax benefits.

The statement that had the highest variation in opinion was change in economic events with a standard deviation of 1.91886, followed by the statement, family responsibility with a standard deviation of 1.29931 and change in life events with a standard deviation of 1.24968. To live peacefully during the retirement period, investments only support a man's life. Investment is very helpful for each and every individual or family for the future requirement.

The statement that had the lowest variation in opinion was expressed grievance to the company and maintaining adequate financial records with a standard deviation of 0.42815, followed by the statement is maintaining

diversified investment portfolio regularly with a standard deviation of 0.48120 and other statement is an introduction of new products with a standard deviation of 0.49008.

For the confirmation of the deviation was found high the responses are in a heterogeneous manner. To narrow these responses further statistical tool viz., factor analysis was performed.

As a first step KMO and Bartlett's Test was conducted and is presented in the Table 3.

The value of KMO should be greater than 0.5 if the sample is adequate. The Kaiser-Meyer-Olkin Measure of sampling adequacy is 0.862, which shows that sample for this study is quite adequate.

According to the table, it is inferred that, five factors were extracted. In total, the five factors were able to explain 72.9% of the variance. The first factor is able to extract 21.8%, second factor is able to extract 17.9%, third factor is able to extract 13.7%, fourth factor is able to extract 10.2%, and the fifth factor is able to extract 9.3%. (Table 4) and (Table 5).

Table 5. Rotated component matrix

Variables	1	2	3	4	5
Age	.874				
Income	.854				
Health	.759				
Family responsibilities	.717				
Liquidity	.695				
Risk bearing Capacity	.692				
Taxation Benefit	.591				
Change in Tax laws		.727			
Change in Economic Events		.609			
Change in Life Events		.594			
Introduction of new products		.533			
Additional Income Received		.530			
Reduced Income		.522			
Maintaining adequate financial records			.753		
Maintaining diversified investment portfolio regularly			.732		
Spending less amount from regular income			.701		
Maintaining adequate insurance coverage			.687		
Confidence in financial decision making			.634		
Balancing personal budget by avoiding borrowing			.618		
Gathering financial information from varied sources			.521		
Change in real estate market				.727	
Changes of quotations and indices in the capital market				.712	
Change in rate of interest on deposits				.709	
Change in rate of interest on credits				.669	
Change in inflation rate				.632	
Change in level of public pensions, benefits and tax exemptions				.612	
Changes in the gold and silver market				.601	
Managing the present portfolio					.698
Pre-closure of bank deposits, life insurance policies					.585
Sale of real estate and gold					.531
Expressed grievance to the company					.522
Made an appeal to government authority					.513

Source- Primary Data

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 5 iterations.

Table 6. Variables loaded on factor 1 investment decisions personally

Variables	Loadings
Age	.874
Income	.854
Health	.759
Family responsibilities	.717
Liquidity	.695
Risk bearing Capacity	.692
Taxation Benefit	.591

Source-Primary Data

Table 7. Variables loaded on factor 2 revision of the investment

Variables	Loadings
Change in Tax laws	.727
Change in Economic Events	.609
Change in Life Events	.594
Introduction of new products	.533
Additional Income Received	.530
Reduced Income	.522

Source-Primary Data

7 variables are loaded on factor 1 and all are positive loadings based on the loadings the factor is named as 'investment decisions personally. Hence it is interpreted the men are bonded with responsibilities. Family responsibilities are main responsibility of men.

6 variables are loaded on factor 2 and all are positive loadings based on the loadings the factor was named as 'revision of the investment'. Hence it's interpreted that the change in the economic events playing a main role for the revision of investment (Table 7).

7 variables are loaded on factor 3 and all are positive loadings based on the loadings the factor was named as 'maintaining the investment portfolio' (Table 8).

7 variables are loaded on factor 4 and all are positive loadings based on the loadings the factor is named as 'influence on personal investment' (Table 9).

Five variables are loaded on five factor and all are positive loadings based on the loadings the factor is named as 'facing the problem in investment'. Based on the Factor analysis, in total, five factors such as 'investment

Table 8. Variables loaded on factor 3 maintaining the investment portfolio

Variables	Loadings
Maintaining adequate financial records	.753
Maintaining diversified investment portfolio regularly	.732
Spending less amount from regular income	.701
Maintaining adequate insurance coverage	.687
Confidence in financial decision making	.634
Balancing personal budget by avoiding borrowing	.618
Gathering financial information from varied sources	.521

Source- Primary Data

Table 9. Variables loaded on factor 4 influence on personal investment

Variables	Loadings
Change in real estate market	.727
Change in quotations and indices of capital market	.712
Change in rate of interest on deposits	.709
Change in rate of interest on credits	.669
Change in inflation rate	.632
Change in level of public pensions, benefits and tax exemptions	.612
Changes in the gold and silver market	.601

Source- Primary Data

Table 10. Variables loaded on factor 5 facing the problem in investment

Variables	Loadings
Managing the present portfolio	.698
Pre-closure of bank deposits, life insurance policies	.585
Sale of real estate and gold	.531
Expressed grievance to the company	.522
Made an appeal to government authority	.513

Source- Primary Data

decisions personally, revision of the investment, maintaining the investment portfolio, influence on personal investment and facing the problem in investment' are able to extract 72.9% of variance. These five factors were identified as important factors influencing the financial literacy. (Table 10).

4. Conclusion

The sound financial decisions are taken by the respondents based on their capability to make efficient allotment of financial earnings and financial strength. The financial literacy enables individuals to increase their savings ability and thereby contribute to the building of the nation as well as helping the marginalized through the loans that they get from the banks which in turn is the deposits made by the public at large. Thus literacy of financial matters has a significant role to play in increasing the demand for banking services.

Various programmes were launched by the developing countries to effective financial education which helps in sound financial and economic stability in the organization. It is also linked with economic and financial stability in the organization. Most of the companies have shifted their retirement plans to accommodate employees to participate by paying part of the cost for, and make decisions about investment. The respondents are showing more interest in investing their money in different financial securities. Most of them are looking for tax benefits. Joint family system and process of participative decision making in India influences the degree of financial literacy¹⁰. To live peacefully during the retirement period, investments only support a man's life. Investment is very helpful for each and every individual or family for the future requirements. This study can be applied to the investors of any

kind to make a rational financial decision to achieve their financial goal.

5. References

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