

Measuring the Financial Literacy Level among Working Youth in Punjab

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ABSTRACT

Enhancing financial knowledge about the new products and services in the financial markets is an essential for the middle and lower-middle income groups of people who are participating in these markets either as savers or borrowers or both. Financial literacy is required to face market competitions, increase market efficiency and to regulate regulatory intervention. With the development of the financial markets in India, the individuals need to have capacity and the confidence to make informed financial decisions thus underlining the importance of financial literacy (Kaur et al., 2015). The purpose of this paper is to analyse the financial literacy level among working youth in Punjab. This study also examines the influence of various demographics variables on financial literacy of youth. The authors used survey method and collected data from 300 working youth in Punjab. A modified questionnaire has been developed to measure the financial literacy and assess the influence of various demographics variable on financial literacy. A judgmental sampling technique was used. The study reveals that the financial literacy among youth in Punjab is fairly good. Also, it has been observed that various demographics variables such as gender, occupation, education, income influence the level of financial literacy. This study would help in adopting appropriate strategies to improve the level of financial literacy amongst youth.

1. Introduction

Enhancing financial knowledge about the new products and services in the financial markets is an imperative for the middle and lower-middle income groups of people who are participating in these markets either as savers or borrowers or both. For instance, there are a large number of people who have a bank account but refrain from participating in other financial market segments such as equity, currency, and commodity because of lack of knowledge. Financial literacy helps individuals to make informed choices. It helps to make informed decisions and achieve financial well-being. Financial literacy is required to face market competitions, increase market efficiency and to regulate regulatory intervention. With the development of the financial markets in India, the individuals need to have capacity and the confidence to make informed financial decisions thus underlining the importance of financial literacy (Kaur et al., 2015). Financial literacy is all about creating awareness on the functioning of such markets and also about the fact that these market segments provide relatively higher returns as compared to other investments over a long period of time. According to OECD, "Financial literacy is a combination of financial awareness, knowledge, skills, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing."

The often neglected poor also require a range of financial services, such as opportunities to earn, safeguard the hard earned income, or credit to support them in maintaining at least bare minimum levels of sustenance through the year, risk mitigating services like insurance and transferring their earnings to their near and dear who may be staying at other places. It has been often discussed and agreed that one of the critical deprivations in acquiring wealth by poor households is the absence of the apt and appropriate type of financial services

and lack of finance knowledge. It is believed that as much as money or finance, its products and services are needed to be part of the financial inclusion, so is financial literacy. Financial Literacy is the ability to make informed judgments and to take effective decisions regarding the use and management of money (Noctor, Stoney and Stradling (1992). According to OECD, financial literacy is the combination of consumers' understanding of financial products and concepts and their ability and confidence to appreciate financial risk 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.

In India, financial education has been identified as a policy priority and various regulators and stakeholders viz. RBI, SEBI, IRDA etc. have proposed a survey at national level for examining level of financial literacy in the country in the National Strategy for Financial Education draft which seeks to create a financially aware and empowered India (ENS Economic survey, 2012). The Financial Stability and Development Council (FSDC) chaired by the Union finance minister is mandated, inter alia, to focus on financial inclusion and financial literacy. Under the guidance of the FSDC, the draft National Strategy for Financial Education (NSFE) for India was prepared, and it was decided to include Financial Literacy in school curriculum at the national level. As of March 2017, 1,376 Financial Literacy Centres (FLCs) were functioning in the country and 96,315 financial literacy activities were conducted by FLCs during the period of April– March 2017 (RBI Annual Report, 2017).

Various Research and surveys has been conducted worldwide for measuring the financial literacy level. Most of the surveys have reported poor level of financial literacy in India

(NCFE Financial Literacy and Inclusion Survey, 2015; S&P Global FinLit Survey, 2015; VISA Global Financial literacy Survey, 2012). Research from around the world has shown lower financial literacy level particularly among youth (van Rooji et al., 2009). This study focuses on financial literacy among youth and to examine the influence of various demographics variables on financial literacy level.

2. Objectives of the study

The objectives of the study includes

- 1) To measure the financial literacy level of working youth in Punjab.
- 2) To find out the influence of various demographic factors on financial literacy of youth.

3. Review of Literature

Danes and Hira (1987), in their research paper, made attempt to examine the knowledge of credit cards, insurance, record keeping, personal loans & financial management of college students. The author collected data with the help of questionnaire of fifty one items. The results of their study indicate that knowledge of males was higher than female in most areas of the study. It was also found that married students knew more than unmarried students. The authors found that college students had low level of financial knowledge.

Chen and Volpe (1998) examined the college students' knowledge of personal finance. The authors used questionnaire consists of fifty two questions. The findings of the study showed that financial literacy level was low among college students. It was also found that 53 % of the students answered correct answers, which show that college students were not knowledgeable about personal finance. The mean score were not above 65 % in the area of saving and borrowing, insurance and investments.

Hogarth and Hilgert (2002) investigated the financial literacy of adults in the U.S. The results of the study showed that less financial knowledge was found among the respondents were single, relatively uneducated, low income, minority and either young or old.

ANZ study(2003) found that financial literacy level was low among respondents with a lower level of education, not working or in unskilled work, with lower incomes, lower savings, single and people at both extremes of the age profile;

ACNielsen Research (2005) conducted a national survey of adult financial literacy in Australia. The results of this study indicated that the low level of financial literacy were associated with people with lower education, unemployed or unskilled workers, with low income etc.

Worthington (2006) measured financial literacy of Australian adults. The author used data from ANZ survey 2003 of Adult financial literacy in Australia. The author also used logit regression model to predict the financial literacy level of Australian adult. The findings of this study indicated that there was a greater likelihood of a higher level of financial literacy if the respondents were a male, professional or business owner,

executive, had a university degree , higher level of incomes and of old age.

Al-tamimi and Kalli(2009) examined the financial literacy of the UAE individual investors. They also assessed the factors responsible for investment decision making of UAE individual investors. They found that financial literacy level of UAE investors were low and depend upon gender, income, workplace activity and education. The results of this study suggested that there exist a significant relationship between financial literacy and investment decisions.

Monticone(2010) in their study found that white collar managers and self employed individual in Italy were most financially literate.

Nga et al. (2010) found that had higher level of financial awareness as compared to females. They also found that education level as well as course taken in business had an influence on general and financial product awareness.

Agarwalla et al (2012) found that "Financial knowledge among Indians were very low than the International standards. But the author reported that financial behaviour and attitude of the employees and retired seems to be positive. It was observed that women had marginally higher financial knowledge than the men. It was also found that greater access to consumption credits has influenced the financial behaviour of young employees.

Ansong and Gyensare (2012) found that the age & work experience were positively related to level of financial literacy. It was also found that mother's education was positively correlated with financial literacy of respondents. The study level, work location, education of father, access to media & the source of education on money had no influence on financial literacy.

Mahdzan & Tabiani (2013) in their study examined the influence of financial literacy on individual saving in Malaysia. The data was collected from approximately 200 individuals in Kalng Valley, Malaysia. The authors stated that financial literacy is basic skills and knowledge that individuals need in order to survive in a modern society. They used probit regression model in order to examine the influence of financial literacy on savings of individuals. The results of the probit regression revealed that the financial literacy level had a significant and positive impact on individual saving. It was also found that saving regularity, gender, income and education level influenced the probability of saving positively. The authors suggested that policymakers should implement various financial education programmes to increase financial literacy of Youth and to further influence saving rates at the national level.

Bhushan and Medury (2013) made an attempt to determine financial literacy level of salaried individuals based on various demographic and socio-economic factors. The finding of this study indicated that overall financial literacy of respondents was not very high. It was also found that financial literacy level gets affected by education, employment, gender, income and work place whereas it did not get affected by age and geographic region. The authors suggested that the findings of this study will

help policy makers and regulators to make appropriate strategies in order to increase the financial literacy level amongst the population.

Wagner (2015) found that family had a great influence on the financial behaviour of individuals. The author also stated that students who had more opportunities to discuss and observe their parents and peers were more likely to save and budget. It is also found that financial education had the most positive relationship with financial literacy and long-term behaviours and a mixed relationship with short-term behaviours. The findings of the study suggested that there are benefits to financial education, but the extent of the benefits may depend on the time horizon for changing financial behaviours.

Bhargava and Mittal (2017) determined the factors that affect financial literacy and how they affect decision making. The authors collected data from 649 individual investors through structured questionnaire from various parts of India. The authors found that there were seven factors which mostly influenced financial literacy and that affect investor decision making i.e attitude, budgeting habits, liquidity, knowledge, goal planning, emotional inclination and self analytical skills. They suggested that this study will be very helpful to individual investors if they consider these seven factors into consideration. The authors also recommended that focus should be on these seven factors so that financial literacy can be improved in India.

Bharucha (2017) examined the factors that determine personal financial literacy level among the youth in India's financial capital city. The author collected data from 650 respondents. The data was analysed with help of descriptive statistics and multivariate statistics. The findings of the study indicated that having children, education and employments was positively correlated with financial literacy level. It is also found that female were less likely to have a higher personal financial literacy level (-0.271) compared to males.

Isomidinova et al (2017) investigated the relationship between financial education, financial socialization agents and money attitude towards financial literacy among students in Tashkent, Uzbekistan. The data was collected from 110 respondents and data was analysed using SPSS Version 20. Financial education & financial socialization had a positive impact on financial literacy among students in Uzbekistan but money attitude did not have significant impact on financial literacy level. The authors recommended that financial education and financial socialization agents should be taken into consideration in order to improve financial literacy in Uzbekistan.

4. Research Methodology

In order to examine the financial literacy level of youth in Punjab, a questionnaire proposed by OECD (2005) was used. The questionnaire was divided into three parts. The first part of the questionnaire was related to the demographic profile of the respondents. The socio-demographic variables selected for the study were based on the previous studies. The second part of the questionnaire was related to basic financial literacy of the respondents and included five concepts i.e calculation of simple interest, compound interest, interest paid on loan, division of

money, and time value of money. The third part of the questionnaire was related to the advanced financial literacy of the respondents and included three concepts i.e understanding of diversification of money, risk and return, inflation etc. The correct responses of the respondents to the financial literacy questions were used for the analysis. ANOVA was used to find out the difference in the financial literacy level of the youth, based on the socio-demographic variables. The primary data was collected from 300 working youth in Punjab. For the purpose of the study, judgemental sampling technique was used. This study was restricted to working youth of Punjab only.

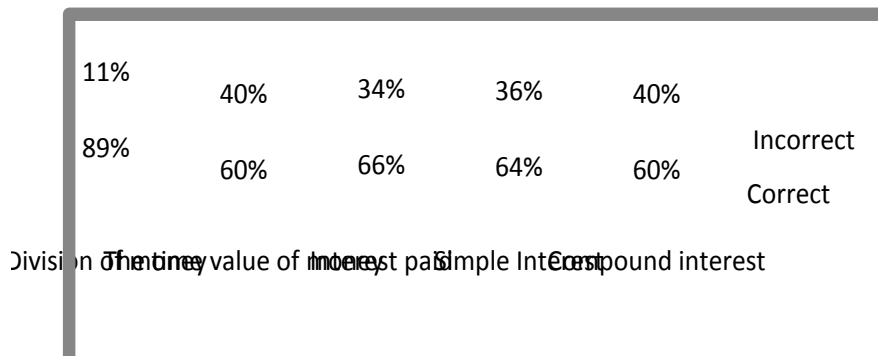
5. Sample Characteristics

The demographic and socio-economic detail shows that percentage of male respondents is 78.7% and female is 21.3%. 19.7% of the respondents fall in the age group of 30-40 years and 30.5% fall in the age group of 41-50 years. Majority of the respondents (46.94%) are graduates followed by 43.6% having post graduate degree. About 45.7% of the respondents are working in government sector and 54.3% are non-government employees. Around 60% of the respondents have an annual income between Rs1-5lakhs followed by 35.5% respondents have an annual income between RS 5-10 lakhs annually. 41.4 % of the respondents constitute of government sector employees, 32.6 % constitutes of private sector employees, 9.5 were self employed, and 5.5% were retired.

6. Analysis and Discussion

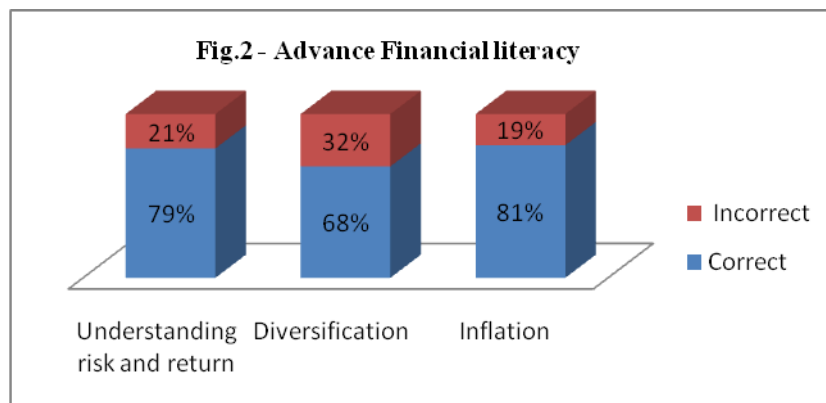
In order to determine the level of financial literacy, we designed two modules to measure and evaluated the financial literacy. In this paper, we divided the financial literacy into two parts i.e basic financial literacy and advance financial literacy. The basic financial literacy questions covered topics ranging from the working/calculation of simple interest rates and compounding interest rates, division of money, time value of money whereas the advance financial literacy covered topics on understanding of diversification of money, risk and return, inflation etc. Respondents were instructed to answer the questions without consulting additional information or using a calculator. Responses to these questions were presented in below given chart 1 &2. It was observed from the figure 1 that 60.0 per cent to 89.0 per cent of the respondents provided correct responses to these basic financial literacy questions. The knowledge of the respondents about division of money (89.0 percent) is very good as compared to the other concepts of financial literacy. Of the respondents, 11 per cent to 40 per cent provided incorrect answers to these basic financial literacy questions. More incorrect answers were received in the case of the concept of time value of money & working of compound interest. Only 60 per cent respondents provided correct response to time value of money & compound interest related questions. Of the respondents, 34 per cent were not aware about the calculation of interest paid on loan and only 66 per cent respondents provided correct responses to this question. Around 64 per cent provided correct responses to the question related to working of simple interest whereas 36 per cent provided incorrect responses to this question. Thus, it can be concluded that the knowledge of basic financial literacy concepts among youth in Punjab is fairly good.

Fig.1 Basic Financial Literacy



The below given 2 figure showed the advance financial literacy level of respondents. The questions on advance financial literacy were more complex than questions on basic financial literacy. The purpose of these questions was to measure whether respondents understand the concepts of inflation, diversification and relationship between risk and return. The figure 2 given below showed that about 79 per cent respondents stated that they understand that an investment with higher return is associated with higher risk. But 30 per cent of the respondents provided incorrect response about the relationship between risk and return. Similarly, about 68 per cent respondents knew the concept of diversification and about 32 per cent provided incorrect responses to the questions

related to diversification concept. Majority of the respondents (81 per cent) provided correct answers to the questions related to inflation concept. These findings are consistent with results found in US survey, such as the HRS and the Survey of Consumers (Lusardi & Mitchell; Hilgert, Hogarth & Beverly, 2003). As far as the advanced financial literacy of the Youth in Punjab is concerned, the percentage of correct responses was less than as compared to their basic financial literacy level. However, still the responses of the respondents to these financial literacy questions were good enough. Therefore, on the whole, the advanced financial literacy level of the Youth was good.



Association between financial literacy and demographics variables: In order to study the association between financial literacy and demographics variables, we developed hypothesis. The hypothesis had been tested with the help of statistical tool i.e ANOVA. The average mean score of

financial literacy for the entire sample was 3.75. The following hypothesis was developed for the purpose of this study:-

H0: There is no association between financial literacy and demographics variables (age, gender, income, occupation, and education).

Table1: Summary of One-Way ANOVA Analysis of Differences in Financial Literacy levels based on Demographic Variables

Demographic Variables	Mean	F	Sig.
Age			
18-35	3.32	3.19	0.075
35-50	3.54		
>50	3.11		
Gender			
Male	3.60	7.663	.006
Female	3.21		
Education			
Graduation	3.60	3.072	

Post-Graduation	3.98		0.02
Professional Degree	3.72		
Occupation			
Govt. Service	3.45	3.52	0.003
Private Service	3.56		
Self Employed	3.39		
Homemaker	3.19		
Retired	3.15		
Others	3.02		
Income			
Less than Rs. 1 lakh	3.20	6.46	.00
1 lakh - 5 lakh	3.35		
5 lakh - 10 lakh	3.66		
> 10 lakh	3.92		

The above table 1 indicated that maximum financial literacy mean (3.54) was shown by respondents falling in the age group of 35-50 years, followed by 3.32 for age group of 18-35 years, followed by respondents(3.11) falling in the age group of greater than 50 years . From the results of the ANOVA table , it can be seen that F value is not significant at 5% significance level, hence null hypothesis is accepted here which means there is no significant difference in the financial literacy of the respondents and age of respondents. Therefore, it can be concluded that financial literacy does not depend on age of individuals.

As shown in the above table 1 that the financial literacy means score of males was more than that of females. The mean score of males (3.60) was higher than mean score of females (3.21). From the results of ANOVA table, it can be seen that F value is significant at 5 % significance level; hence null hypothesis rejected here which means that there is significant difference between gender and financial literacy of respondents.

The financial literacy mean score was highest for respondents who had post – Graduation (3.98) degree, followed by professional degree (3.72), and followed by graduate respondents (3.60). From the results of the ANOVA table, it can be observed that F value is significant at 5% significance level, hence null hypothesis rejected here. Therefore, there is significant difference between qualification and financial literacy of respondents. Hence it can be concluded that financial literacy depends on the education of the respondents.

The results indicated that financial literacy of private sector employees (3.56) was higher that government sector employees(3.45). It is also observed that F value is significant at 5% significant level. Therefore null hypothesis is rejected here which means there is significant difference between financial literacy and occupation of respondents.

The financial literacy was higher for respondents who had income level more than 10 lakh per annum (3.92), followed by those who earned between Rs 5-10Lakh per annum (3.66). The minimum financial literacy mean score (3.20) was found among respondents who earned less than Rs1 Lakh. It was also observed from the above table that F value is significant at 5 % significant level. Hence null hypothesis is rejected here which mean that there is significant difference between income and financial literacy of respondents.

7. Findings of the Study

- It was observed that 60.0 per cent to 89.0 per cent of the respondents provided correct responses to basic financial literacy questions. The knowledge of the respondents about division of money (89.0 percent) was very good as compared to the other concepts of financial literacy.
- More incorrect answers were received in the case of the concept of time value of money & working of compound interest.
- About 34 per cent were not aware about the calculation of interest paid on loan and only 66 per cent respondents provided correct responses to this question.
- Around 64 per cent provided correct responses to the question related to working of simple interest whereas 36 per cent provided incorrect responses to this question.
- Majority of the respondents (81 per cent) provided correct answers to the questions related to inflation concept.
- About 79 per cent respondents stated that they understand that an investment with higher return is associated with higher risk.
- About 68 per cent respondents knew the concept of diversification.
- As far as the advanced financial literacy of the Youth in Punjab is concerned, the percentage of correct responses was less than as compared to their basic financial literacy level.
- The results of the ANOVA indicate that there was significant association between financial literacy and demographic variables (education, income, gender & occupation).

8. Conclusion:

Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. It provides knowledge about the risk and return of financial products to the users and providers of these products. The study concluded that the financial literacy levels of the working youth in Punjab is fairly good and depends on their demographic profile (education, income, gender & occupation). It is also found that financial literacy level does not get affected by age. Therefore it is recommended that necessary measures should be taken by regulators and stakeholders to increase the financial literacy level in India.

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