

A Study of Financial Literacy of Salaried Individuals' in Terms of Financial Awareness, Skills and Knowledge

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Abstract

In present decade financial literacy financial awareness, financial knowledge and financial skills are helping to salaried individuals to getting appropriate decisions about investment and borrow money. Median was used to categorize in two groups of respondents where more than median group is "high financial literate group" and is equal to or less than median is known "low financial literate group". All demographic components have not affected on agree level with financial literacy importance it means financial literacy help in understanding the investment attitude of the targeted respondents in a better level. Investing avenues, the borrowing preference of salaried respondent are also for various financial avenues are independent from financial literacy. Financial literacy is significantly associate with sources for reducing risk aversion in making investing and borrowing decision. High financial literacy groups prefer used financial literacy and financial experts/advisor for making investment and borrowing decision as compared to low financial literate group.

Keywords: Financial literacy, financial knowledge, financial awareness, financial skills

Introduction

In present decade financial literacy are makes enable to individuals to make effective financial decisions about personal and business finance. After globalization various financial products available in market therefore financial literate individuals easily understand the risk association with financial products and they are selecting those products which give good return with minimum risk. In this circumstances' financial awareness, financial knowledge and financial skills are helping to salaried individuals to getting appropriate decisions about investment and borrow money.

In the developing countries Government should be conduct financial knowledge and financial awareness programs. Financial literacy is helpful to increase economic growth rate and beat the inflation rate, mostly salaried investors invest ours saving for future aspect and borrow money for current needs of their financial literacy level. In digital century many digital sources are available for increasing their financial literacy level and financial knowledge which are helpful to investors to getting advice and suggestions to invest and borrow money. Due to digitalization salaried investors have sufficient information to diversify money and create a profitable portfolio.

Financial literacy is process of how to invest our money which is getting maximum return to minimum risk aversion. A salaried individual mostly invests our saving in bank fixed deposit, public provident fund, life insurance, which give benefit for tax saving and secure financial future. Financial literacy helps individuals to use our financial skills and knowledge for effective financial planning, co-ordinate between debts and investment, calculating actual interest amount and time value of money. A literate person takes the

steps which can accomplish their goals whatever sources of income they have earn.

1. Operational Definitions

1.1. Investment: According to OCED Financial literacy is defined as "A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing"

1.2. Borrowing: When a person need money to investment but they have no sufficient saving then he receives money from another parties like bank, a store, or money lenders with an agreement that the money will be repaid principal amount with interest.

1.3. Financial Literacy: OECD (2005) defines financial education is "the process by which financial consumers/investors improve their understanding of financial products and concepts 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."

1.4. Financial Awareness: Financial awareness is defined as "an investor economic beliefs to make a decision about the outcome of a certain behavior and are thus a key factor in the personal decision-making process" (Grichnik, Kellermans, & Koropp, 2013)

1.5. Financial Knowledge: Financial knowledge is defined as "understanding issues related to personal finance" (Robb & woodyard, 2011). Knowledge about financial products and financial economic condition is known as

financial knowledge.

1.6. Financial Skill: Appropriate analytical use of financial awareness and financial knowledge for make effective decision regarding investment and borrow.

Objective

- To find out the impact of demographic and socio-economic factors on financial literacy and investor's investment & borrowing pattern.
- To determine the level of basic financial literacy and advanced financial literacy groups and their investment and borrowing pattern.
- To study how financial literacy level of salaried employees affect their awareness regarding financial products.

Hypotheses

- **Ho1:** Preference of financial investment & borrowing avenues significantly depends on financial literacy.
- **Ho2:** There is no sources which significant association for reducing risk aversion in investing or borrowing.

Research Methodology

Research Design

This study descriptive and exploratory research design method has been used. Descriptive survey design and qualitative nature data uses in this research paper because it is suitable to the objectives and hypotheses.

Data Collection

Primary data was collected by survey method through structured questionnaire and this questionnaire is helpful to measure the level of financial literacy. Simple numeracy, percentage calculation, profit and loss calculation and interest calculation related questions were asked in basic financial literacy questions while in advanced financial literacy questions we used conceptual financial questions such as risk diversification, time value of money and inflation. This approached OECD has been used for collecting data of financial literacy level. In order to data collecting, we adopted three-point Likert scale to check the awareness about available financial product of investment and borrowing.

Also, to gain deep information in this research paper secondary data was collected from various newspaper, research papers, internet and books which was according to our research objectives and hypotheses.

Data Analysis

In order descriptive statistical techniques were used to test of null-hypotheses. Median was used to categorize in two groups of respondents where more than median group is "high financial literate group" and is equal to or less than median is known "low financial literate group". ANOVA has been conducted to check signification association between financial literacy and demographic and socio-economic factors like age, income, education. In order chi-square has using to check significant association for reducing risk aversion in investing or borrowing.

Review of Literature

1. (Achari, *et al.*, 2020) ^[1] This study examined Age, gender, staff category, income etc. used in demographic factors whereas savings and borrowing, investments, insurance and financial knowledge associated with

financial factors. In further, author said that all these factors would be an independent factor and they all significantly effects on retirement planning like thinking of retirement, information gathering and responsibility feeling.

2. (Ismail & Zaki, 2019) ^[7] Author intends to determine the financial literacy and financial stress both factors were affected to financial wellness. A financial literate individual had more able to take effective decision and organize their money in significant financial product, therefore a main reason of low financial stress is high financial literacy at would be increases overall financial wellness.
3. (Dhar, *et al.*, 2018) ^[6] Author examined those two factors were affecting to investors to investing in mutual fund. One factor was intrinsic factor and second was income factors. Return on investing funds and tax savings both were affected income features of mutual fund, when investor was investing their savings. But author didn't find testimony that education was any impact on the investors to make any decision of investing.
4. (Saeed, 2018) ^[14] In this study author revealed that significant relationship between emotional intelligence, financial literacy and investor behavior. They would help the investors to perform attractively in financial market and they would be able to make rational decision about financial products. Financial awareness and perceived risk attitude were affected the behaviors of an investor and the author also found that illiterate person was not capable to make significant decision for enhancing profitable portfolio.
5. (Assef & Durga, 2018) ^[2] Author revealed that government bonds were significantly infused salaried investors whatever financial literacy level they had and a salaried individual mostly investing in traditionally financial investing avenues. On the basic of chi-squre test author concluded that preference of salaried employees for various option of investment was not dependent of F.L. except for Govt. bonds.
6. (Mahdzan & Mohd-Any,2017) ^[8] This study examined the effects of financial literacy, risk aversion and expectations on retirement planning as well as portfolio allocation also he found that those employees who had High financial literacy they were hold risk assets and lower risk aversion on their retirement portfolios.
7. (Sabri, *et al.*, 2015) ^[13] This study the author was used cross-sectional study among working women in Govt. agencies. Earlier study author revealed that financial training and financial management practice were improved making retirement confidence programmes. For make causal relationship between retirement planning and financial management planning author was conduct long time period study.
8. (Bhushan, 2014) This study examined awareness level of salaried person for different type of financial literacy. High financial literate salaried individuals are high aware for bank fixed deposits, saving accounts, public provident fund, mutual funds, stock markets and bounds as compared to low financial literate individuals. Also, he was found that respondents those who had low financial literate they were invest in bank deposits and post office savings.
9. (Clark, *et al.*, 2014) ^[5] Author found that a salaried employee decided an optimal path of earning and savings that would achieve their retirement goals. Lake of

financial literacy an individual was unable to achieve an optimal balance between present and future consumption in retirement. Financial education programmes would be more effective if they were provided timely for informed for retirement plans.

10. (Ramanujam & Devi, 2012) [11] Author explored that the socio-economic factors like lack of financial literacy and low-income level, low level education system of financial management, age of investors, awareness about the financial system etc. problems were significantly faced

by salaried and business class person while make suitable investment pattern which was measure to reduce the tax liabilities.

11. (Rooij, *et al.*, 2011) [12] Author argued that financial literacy might facilitate household wealth accumulation from two ways. First was role of confidence important factor for making conservative portfolio that was main reason of lower return on their investment moreover, high financial literate households spread their wealth and they have high savings with lack of buffer negative stocks.

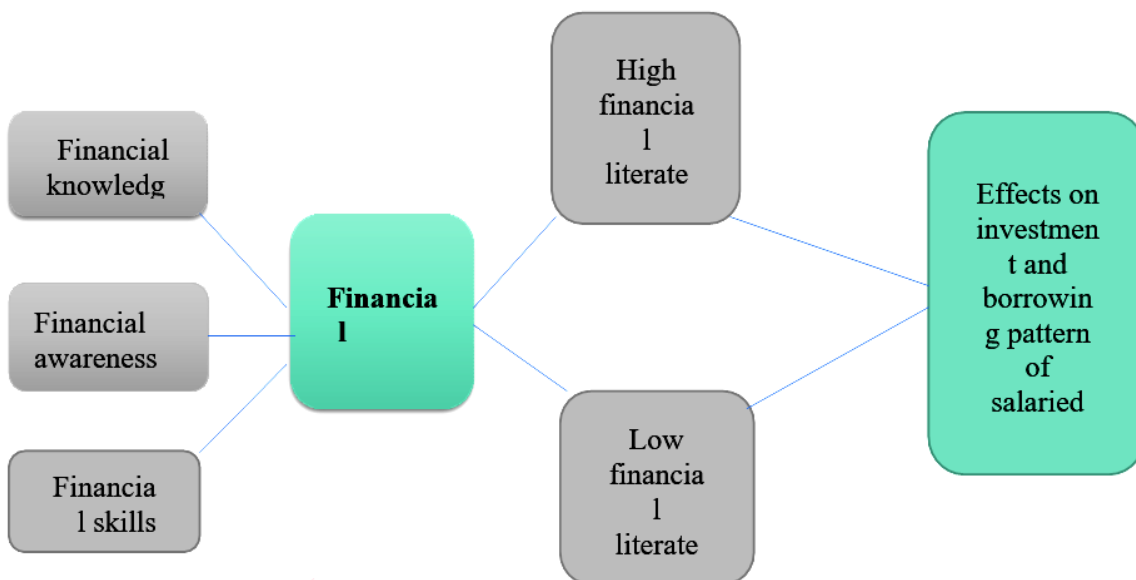


Fig 1: Conceptual framework is found after review: show the factor of financial literacy.

Result and Discussion

1. Demographic and Socioeconomic Details of the Respondents

This study covered selected demographic variables to investigate the relation between those variables like gender, occupation, income level and education and their level of agreement that financial literacy is being play an important

role to take decision about investment and borrowing avenues. The descriptive value indicate that the mean is 4.022 and with standard deviation of 17.222 (1.021739) this shows that respondents are highly agreed with financial literacy important during investing and borrowing money in various avenues.

Table 1: Data collection and there % analysis

Demographic Characteristics	Demographic characteristics	Frequencies	Percentage %
Gender	Male	77	51.11
	Female	73	48.88
Education	Non graduated	0	0
	Undergraduate	23	15.55
	Postgraduate	100	66.67
	Ph.D	7	4.44
	Any other professional course	20	13.33
Income (per annum) in Rs.	250000	83	55.55
	250000-500000	50	33.33
	500001-1000000	12	8.88
	More than 1000000	3	2.22
Nature of employment	Government	70	46.67
	Private	80	53.33

Source: Survey data collected

Table 1.1 and 1.2 is represent the summary of ANOVA between salaried employee class investors and their agree

level of that financial literacy are useful to take decision about investment & borrowing.

Table 1.1: Table Summary of ANOVA between gender and agree level with importance of financial literacy:

ANOVA					
Source of Variation	SS	df	MS	F	P-value
Between Groups	0.125	1	0.125	0.006061	0.940479
Within Groups	123.75	6	20.625		
Total	123.875	7			

Table 1.2: Table Summary of ANOVA between education and agree level with importance of financial literacy

ANOVA					
Source of Variation	SS	df	MS	F	P-value
Between Groups	69.5	2	34.75	2.160622	0.171254
Within Groups	144.75	9	16.08333		
Total	214.25	11			

The calculate value of above both tables are less than F critical value (5.987378*¹, 4.256495*²) at 5% level of significance and p-value is greater than 0.05 (α value) hence found that education and gender related components of salaried employees have no effect on the important of financial literacy.

Table 1.3: Table Summary of ANOVA between occupation and agree level with importance of financial literacy.

ANOVA					
Source of Variation	SS	df	MS	F	P-value
Between Groups	0.1	1	0.1	0.004246	0.949643
Within Groups	188.4	8	23.55		
Total	188.5	9			

Table 1.4: Table Summary of ANOVA between income level and agree level with importance of financial literacy

ANOVA					
Source of Variation	SS	df	MS	F	P-value
Between Groups	95.6875	3	31.89583	2.681261	0.09397
Within Groups	142.75	12	11.89583		
Total	238.4375	15			

The utility of financial literacy is the same for all employees whether they are private sector or government sector employee or they have different income level. The calculated value is (0.004246*³, 2.681261*⁴) both are less than critical value (3.490295, 5.317655) beside the critical value the p-value is greater than 0.05 (α value) hence conclude that there are not significantly association between various demographic components and agree level with financial literacy. All demographic components have not affected on agree level with financial literacy importance it means financial literacy help in understanding the investment attitude of the targeted respondents in a better level.

2. Defining the Financial Literacy Groups

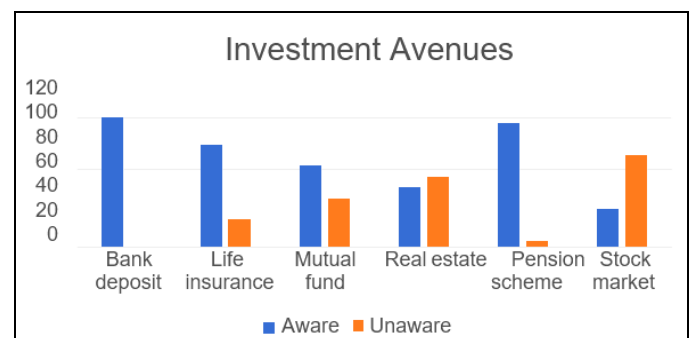
Financial literacy level of salaried individuals through various questions. For further analysis 67.7% respondent were rightly calculate of profit and loss amount whereas 43.6% respondent were general aware about return of share market and 69.2% were analyzed fluctuate difference between various investment avenues or 48.7% individuals given right answer that if investor spread his money among different assets than risk of loss will be decreases whether only 35.9% of

respondent were solve the question of time value of money. The respondents are divided in two categories which are "High financially literate group" or "Low financial literate group". The mean score of all financial literacy questions is 5.689 and compare to individual question mean score it has based the categorization of financial literacy level i.e., which respondent those financial literacy scores was equal or more than the mean value were part of HFLG and similarly those respondent's financial literacy score was less than the mean score those are put in LFLG. It shows that 80% salaried individuals are highly financial literate whether 20% respondent has low financial literate.

3. Financial Literacy and Awareness Level about Investment and Borrowing Avenues

• Awareness Level about Investment Avenues

The awareness level as measured in 3-point scale where 3 indicate completely aware, 2 indicates moderately aware and 1 unaware regarding investment alternatives. The tables indicate that bank deposit is such kind of an investment avenue which are most aware among people whether a salaried person is less aware about in stock market whereas they are very concerned for our pension scheme.

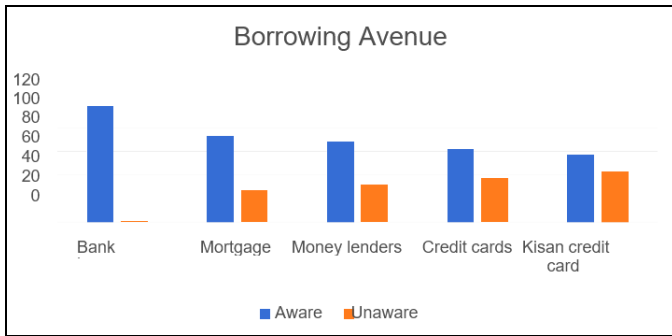


Source: Survey data collected

Chart 1: Survey data for investment avenues.

• Awareness level about borrowing avenues

In chart 2 show that bank loan is such type of borrowing avenue in which a salaried employee mostly really comparatively other borrowing avenue whether 84.44% respondent are aware about credit card and salaried investors are less use mortgage to Finance raises through. Although mostly salaried investor is aware how to get borrow and select those avenues which give benefits in tax or interest. Thus, in conclusion salaried investors borrows from the borrowing product he knows about.



Source: Survey data collected

Chart 2: Survey data for borrowing avenues.

4. Investment preference in Financial Products between High and Low Financial Literacy Group

Table 2 shows the preference of salaried individuals in various investment avenues and the result indicates that 73.33% of respondent are first preference to investing in bank deposit whether it is a fixed deposit or saving, further they are second choice are life insurance schemes and mutual fund is third preference. In this order real estate or pension schemes are fourth and fifth preference of respondent whereas 55.56% respondent has least preferred to invest in stock and commodity market.

Table 2: The preference of salaried individuals in various investment avenues and the result.

Investment Avenue	Preference 1 (in %)	Preference 2 (in %)	Preference 3 (in %)	Preference 4 (in %)	Preference 5 (in %)	Preference 6 (in %)
Bank deposit	73.33	24.44	0	2.22	0	0
Life insurance	13.33	2.22	13.33	26.67	6.67	2.22
Mutual fund	11.11	13.33	48.89	22.22	4.44	2.22
Real estate	0	4.44	26.67	17.78	33.33	15.56
Pension scheme	2.22	15.56	8.89	20	28.89	24.44
Stock market	0	4.44	2.22	11.11	26.67	55.56

In table 3 analyses the chi-square value of .022047 which is statistically significance at 5% level of significance is .999996 and critical value is 9.488 where degree of freedom is 4 i.e.,

the investment preference of salaried individuals for various financial products is independent of financial literacy level.

Table 3: Analyses the chi-square value.

Investment Avenues	HFLG		LFLG		Chi-Square value	Sig.
	Observed	Expected	Observed	Expected		
Bank deposit	205	204.52	51	51.47	0.022047	0.999996
Life insurance	150	150.20	38	37.79		
Mutual fund	146	146.20	37	36.79		
Real estate	95	95.07	24	23.92		
Pension scheme	97	96.67	24	24.32		
Stock/commodity market	62	62.31	16	15.68		

5. Borrowing Preference in Financial Products Between High and Low Financial Literacy Groups

Table 4: The preferences of salaried respondent.

Borrowing Avenue	Preference 1 (In %)	Preference 2 (In %)	Preference 3 (In %)	Preference 4 (In %)	Preference 5 (In %)
Bank loans	57.78	11.11	22.22	2.22	6.67
Finance raises through mortgage	2.22	24.44	31.11	26.67	15.56
Money lenders	17.78	31.11	11.11	22.22	17.78
Credit card	13.33	28.89	17.78	22.22	17.78
KCC	8.89	4.44	17.78	26.67	42.22

Table 4 similarly shows that the preferences of salaried respondent and find the 57.78% respondents are most prefer to bank loans for borrowing purpose and second preference to borrow money is money lenders, whereas respondent are choosing third borrowing avenue is credit card and forth they have preference to raise finance through mortgage.

In table 5 present the chi-square value is 0.011861 whether the critical value is 9.49 which is statistically significant at 5% level is shows that critical value is greater than calculate value and P value 0.999982484 is higher the α value (0.05). Therefore, thus similarly to investing avenues the borrowing preference of salaried respondent are also for various financial avenues are independent from financial literacy.

Table 5: The chi-square value statistically significant.

Borrowing Avenues	HFLG		LFLG		Chi-Square value	Sig.
	Observed	Expected	Observed	Expected		
Bank loans	148	148	37	37	0.011861	0.999982484
Finance	98	97.6	24	24.4		
Raises						
Through						
Mortgage						
Money	111	111.2	28	27.8		
Lenders						
Credit card	107	107.2	27	26.8		
KCC	76	76	19	19		

6. There is no Significant Association between Sources for Reducing Risk Aversion in Investing or Borrowing

Table 6 depicts the sources of reducing risk aversion for investment and borrowing decision among high and low financial literacy group. The result shows that high financial literacy groups prefer used financial literacy and financial

experts/advisor for making investment and borrowing decision as compared to low financial literate group. Low financial literacy groups depend more on their family members and family members, friends circle and experience for making decision as compared to high financial literacy groups.

Table 6: The sources of reducing risk aversion for investment and borrowing decision.

Sources of Reducing Risk Aversion	HFLG		LFLG		Chi-Square value	Sig.
	Observed	Expected	Observed	Expected		
Family members and friends	27	10	30	8	17.57	.000539
Financial experts/advisors	24	6	23	7		
Financial literacy	48	12	48	14		
Experience and instinct	18	5	16	4		

The chi-square value is 17.57 which are statistically insignificant at 5% level of significance. It shows that sources of reducing risk aversion that individuals seek for making investment and borrowing decision does not depends upon the financial literacy level. Hence the result show that financial literacy is significantly associate with sources for reducing risk aversion in making investing and borrowing decision.

Conclusion

In conclusion financial literacy is most influencing a salaried investor's investment and investment pattern. Developing a conceptual framework of financial literacy those affecting by financial knowledge, financial awareness, and financial skills. Salaried individuals borrow money from money lender, bank overdraft, bank loan, mortgages and secured loans, credit purchases etc., thus in present time investor have many options to where they will invest and borrow. Thus, government should be organizing various seminar and education training for salaried persons to enhance their level of financial literacy. A literate salaried investor is investing their money to save our future and get retirement benefits because after retirement they have only a pension income. High financial literate person is sophisticated to choose invest or borrow money through various avenues to get financial wellbeing and financial independent in their old age.

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