An Empirical Study on Financial Literacy and Financial Decision with Special Reference to the Service Sector of Kolkata

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Abstract: Financial literacy is the ability to use skills and knowledge to take effective and informed money-management decisions. For a country like India, it plays a bigger role as it is considered an important adjunct to promotion of financial inclusion and ultimately financial stability. Financial literacy and financial stability are two key aspects of an efficient economy. Financial literacy enhances individuals' ability to ensure economic security for their families. This paper basically focused upon general financial literacy, banking related literacy, postal savings literacy and insurance related literacy of the service holders of different private companies. Here the causes, symptoms, consequences, are studied empirically based on a sample of 150 respondents.

***Index Terms* - Financial literacy, financial stability, financial inclusion**

1. Introduction

Financial literacy refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. Financial literacy also involves the proficiency of financial principles and concepts such as financial planning, compound interest, managing debt, profitable savings techniques and the time value of money. The lack of financial literacy may lead to making poor financial choices that can have negative consequences on the financial well-being of an individual. The main steps to achieving financial literacy include learning the skills to create a budget, the ability to track spending, learning the techniques to pay off debt and effectively planning for retirement. These steps can also include counselling from a financial expert. Education about the topic involves understanding how money works, creating and achieving financial goals, and managing internal and external financial challenges. This field demonstrates the behaviours and attitudes of a person possesses about money that is applied to his daily life. Financial literacy shows how an individual makes financial decisions. This skill can help a person develop a financial road map to identify what he earns, what he spends and what he owes. This topic also affects small business owners, who greatly contribute to economic growth and stability. Financial illiteracy affects all ages and all socioeconomic levels. Financial illiteracy causes many people to become victims of predatory lending, subprime mortgages, and fraud and high interest rates, potentially resulting in bad credit, bankruptcy or foreclosure. The lack of financial literacy can lead to owing large amounts of debt and making poor financial decisions. In India, there are also certain erroneous beliefs associated with financial literacy, the most common being the myth that one who is 'literate' or 'rich' is also 'financially literate'. Lack of basic financial understanding leads to unproductive investment decisions. We can achieve the desired results from financial literacy only when we start educating our children.

2. Literature Review:

Bhushan and Medury (2013) Suggest that overall financial literacy level of respondents is not very high. Financial literacy level gets affected by gender, education, income, nature of employment and place of work whereas it is found that the people who are government employee has less level in comparison to the privet employee, geographical region do not affect the level of financial literacy. The level of financial literacy among the working young in urban India is similar to the levels that prevail among comparable groups in other countries i.e. the influence of several socio-demographic variables like influence of family income and gender on various dimensions of financial literacy is similar as recorded in other studies in Indian context.

French & McKillop (2016) stated that a positive correlation exist between poor financial literacy and debt problem. They found that those with superior money-management skills have reduce debt to income level, prefer less borrowing from high cost vendors such as money lender, high-street loan shop etc.

Garg & Singh (2017) concluded that financial literacy is the basic understanding of the financial matters and application of them to make relevant and adequate financial decisions. He also observed that educational qualification significantly related with each

other. They also added that for a highly qualified person, gender, marital status, age, residential status does not have significance influence in their financial decision. They also suggested the need of organising financial literacy related program that may boost the financial literacy level.

Dinesha (2018) investigated in the study that in comparison to the rest of the world, India has poor financial literacy rate. Financial illiteracy creates a burden upon India via higher cost of financial safety and lesser socio economic prosperity. Unproductive investment is the result of lack of awareness regarding financial instrument. He observed that financial knowledge enrich common people's ability to ensure a healthy economic situation of their family.

Lusardi (2019) stated that not only in developing country but also in so many developed country having well developed financial market lack of financial awareness is the acute concern and need to take immediate action. It also suggested in this study that in modern world financial literacy should be treated as importance as basic literacy.

3. Objectives of the Study

This paper basically focused upon general financial literacy, banking related literacy, postal savings literacy and insurance related literacy of the service holders of different private companies. The main objectives of this paper are as follows:

a) To assess the financial literacy level of the respondents among general, Banking, Postal savings and Insurance related variables.

b) To understand how financial literacy related variables are co related with each other's.

4. Research Methodology

Data has been collected exclusively from service holders of different private companies, who are from Science, Commerce and Arts backgrounder respondents of Kolkata. Most of the respondents have been either contacted personally in their work places after making prior appointments or their responses collected by sending mailed questionnaires as they were located at faraway places. Stratified sampling technique has been adopted where each sector (Science, Commerce and Arts) has been treated as a stratum. Further quota sampling applied in each stratum for data collection through structured questionnaires. The collected data has been analyzed through SPSS package by using different statistical tools (viz. descriptive statistics, correlation etc.) for interpretation of the data.

5. Data Analysis and Findings

This is the most important part of the paper, which deals with the cross-sectional study of respondents. Here the causes, symptoms, consequences, are studied empirically based on a sample of 150 respondents.

Reliability of the Data Sets Used for Different Scales:

Cronbach's alpha coefficient confirms the internal consistency of the set of items of a given scale. The present data set for the study shows Cronbach's alpha for General Financial Literacy scale equal to 0.869. Similarly reliability of the set of items for banking related literacy, postal savings literacy, and insurance related literacy tested and the values are respectively 0.820, 0.729, and 0.944. In general, any value greater than 0.50 is desirable under the Cronbach's alpha. Cronbach's alpha for the coping checklist under these heads are > 0.50.

5.1 Demographic Characteristics of Respondents

Demographic characteristics of the sample reveals that 20% of the sample are within the age group of 21 to 25 years, 31.33% and 20% of the sample are within 26-30 and 31-35 years age bracket, whereas 26.67% of the sample are from 36-40 age group. So far as gender is concerned 53.33% of the sample are male and rest 44.67% are female. Marital status of the sample reveals that 41.33% of the total sample are married and rest 58.67% are unmarried. In terms of educational qualification about 60% of the respondents are graduate, 26% are post-graduate and rest 14% of the respondents are having other professional qualification. Stream of education reveals that 40.67% of the sample are from science background followed by 27.33% from Commerce and 31% from arts background. It is revealed that 22.67 of the respondents have their monthly income less than rs.10,000; monthly earnings of 36% of the respondents fall within Rs.10,000-25,000, 24.64% of the respondents earn Rs.25,000-50,000 per month, 10.66% of the respondents fall within Rs.50,000-75,000, monthly earning of only 6% of the respondents are above Rs.75,000.

5.2 Descriptive statistics showing the financial literacy level of the respondents:

The financial education related attributes of the sample respondents have been measured with the help of a bipolar scale (1-2-3-4-5). Two extreme end of the scale 1 signifies extreme low financial literacy attributes and the other end of the bipolar scale 5 signifies extreme high financial literacy characteristics. Altogether there are 4 personality attributes, like: General Financial Literacy, Banking related literacy, Postal saving related literacy and Insurance related literacy etc. which are depicted from extreme low to extreme high financial literacy level from left to right of the scale.

Table 1. Descriptive Statistics of General Financial Literacy:

	Frequency(%)					Mean	S.D.
	1	**2**	**3**	**4**	**5**		
Financial education helps people to understand the risk and return associated with financial market as well as financial products.	0 (0)	0 (0)	21 (14)	112 (74.7)	17 (11.3)	3.97	.504
Financial education helps people to select right financial products for investment purpose.	0 (0)	0 (0)	34 (22.7)	74 (49.3)	42 (28)	4.05	.712
Personal financial planning involves maintaining an adequate financial records, minimizing expenditure and preparing plans for future financial goals.	0 (0)	0 (0)	46 (30.7)	95 (63.3)	9 (7)	3.75	.555
Financially educated person must follow the Union Budget and assess his/her current financial position in respect of immediate preceding budget.	0 (0)	37 (24.7)	30 (20)	64 (42.6)	19 (12.7)	3.43	.999
One of the reason of economic recession is inequality in resource allocation and distribution of income can removed through proper Financial Education.	0 (0)	48 (32)	102 (68)	0 (0)	0 (0)	3.68	.468
Financial education increases the financial awareness of the people as a result they are not willingly to invest their savings in any unorganized sectors and able to protect themselves from financial scams.	0 (0)	3 (2)	147 (98)	0 (0)	0 (0)	3.98	.140

Source: SPSS

Financial literacy also involves the proficiency of financial principles and concepts such as financial planning, compound interest, managing debt, profitable savings techniques and the time value of money. The lack of financial literacy or financial illiteracy may lead to making poor financial choices that can have negative consequences on the financial well-being of an individual. It can be concluded that people who have highly expertise knowledge in general finance are very few only 7.3%, on the other hand 23.3% do not possess the poor personal financial knowledge, which affects the personal money management decisions.

Table 2. Descriptive Statistics of Banking Related Literacy:

	Frequency(%)					Mean	S.D.
	1	**2**	**3**	**4**	**5**		
Financially educated people have complete idea about different types of banking institutions and there rendering services	0 (0)	0 (0)	38 (26)	105 (70)	6 (4)	3.78	.503
RBI can control Inflation through imposition restriction upon supply of money.	0 (0)	1 (0.7)	32 (21.3)	117 (78)	0 (0)	3.77	.436
Financially educated people have complete idea about bank rates, discounting facilities, remittance facilities etc.	0 (0)	6 (4)	82 (54.7)	58 (38.7)	4 (2.7)	3.40	.613
They have the idea about the collection and payment of credit instrument facility of banks	1 (0.7)	0 (0)	30 (20)	105 (70)	14 (9.3)	3.87	.583
They possess the idea that bank offers consultancy services about investments in various financial instrument.	1 (0.7)	1 (0.7)	41 (27.3)	98 (65.3)	9 (6)	3.75	.601

Source: SPSS

Banking related literacy is required to make our savings effective. Through this literacy variables one can understand regarding various interest rates, deposit schemes, different facilities such as, discounting facilities, remittance facilities etc., and payment of credit instrument facilities. These knowledge ultimately helps a person to take financially sound decisions. From the above table it has been revealed that around 60-70% people possessed the high level of literacy in this segment, which ultimately indicates that the service holders of different private companies in Kolkata have the adequate financial knowledge in this segment.

Table 3. Descriptive Statistics of Postal Savings Literacy:

	Frequency(%)					Mean	S.D.
	1	2	3	4	5		
Basic knowledge about post office savings account/5-years recurring deposit account.	0 (0)	65 (43.3)	37 (24.7)	44 (29.3)	4 (2.7)	2.91	.912
Idea about Post Office Monthly Income Scheme (POMIS).	0 (0)	46 (30.7)	38 (25.3)	61 (40.7)	5 (3.3)	3.17	.908
Basic idea about Kishan Vikas Patra (KVS) and investment through it in Post Office.	0 (0)	42 (28)	28 (18.7)	80 (53.3)	0 (0)	3.25	.868
Now a days post office offers e-payments, have basic knowledge regarding this facility.	1 (0.7)	30 (20)	45 (30)	74 (49.3)	0 (0)	3.28	.804
The bold step of Indian Post office in Financial Inclusion era, offering ATM and cheque book facility, possess basic knowledge regarding these.	1 (0.7)	2 (1.3)	11 (7.3)	134 (89.3)	2 (1.3)	3.89	.436
In remote area where banks doesn't able to spread their wings, post Office is the only medium to channelize the savings in the main stream.	1 (0.7)	0 (0)	35 (23.3)	114 (76)	0 (0)	3.75	.480
Have idea about post office's International money transfer facility.	1 (0.7)	115 (76.7)	3 (2)	30 (20)	1 (0.7)	2.43	.839

Source: SPSS

Postal savings financial knowledge helps an individual to understand the various savings and investment opportunities offered by Indian post office. Post office is the oldest pillar of financial inclusion, that's why it is considered as an important determinant of financial literacy of the respondents. In this section knowledge of the respondents regarding post office savings account, Post Office Monthly Income Scheme (POMIS), KishanVikasPatra (KVS) and investment through it in Post Office, e-payments, Money Order facility, ATM and cheque book facility, Postal Life Insurance policy, International money transfer facility etc. have been tasted. It has been observed that around 60% do not possess the sound knowledge regarding postal savings schemes, POMIS, international money transferring facilities etc.

Table 4. Descriptive Statistics of Insurance Related Literacy:

	Frequency(%)					Mean	S.D.
	1	2	3	4	5		
Insurance leads to a secure future, betterment of life.	1 (0.7)	0 (0)	3 (2)	143 (95.3)	3 (2)	3.98	.317
Possess the knowledge about different Insurance company and their product.	0 (0)	4 (2.7)	38 (25.3)	108 (72)	0 (0)	3.69	.517
For getting 80C Deduction (Tax benefit) people buy an insurance policy of LIC.	1 (0.7)	69 (46)	52 (34.7)	25 (16.7)	3 (2)	2.73	.816
Proper selection of insurance scheme can give us security and reduces the uncertainty in every step of life.	0 (0)	0 (0)	1 (0.7)	146 (97.3)	3 (2)	4.01	.163
There is a difference between Life Insurance, General Insurance and Medical Insurance.	0 (0)	0 (0)	25 (16.7)	122 (81.3)	3 (2)	3.85	.408
Auto insurance company determine our premium based on type and expected life span of the vehicle.	0 (0)	12 (8)	132 (88)	3 (2)	3 (2)	2.98	.425
The main reason to purchase medical insurance is to compensate the future medical expenses.	1 (0.7)	2 (1.3)	129 (86)	9 (6)	9 (6)	3.15	.564
Micro-insurance involves small amount and it for poor people.	1 (0.7)	11 (7.3)	64 (42.7)	74 (49.3)	0 (0)	3.41	.656
Agriculture related insurance are crop insurance & livestock insurance.	0 (0)	6 (4)	54 (36)	90 (60)	0 (0)	3.56	.573

Source: SPSS

Insurance related knowledge of the respondents are assessed in this part through various question such as basic idea about insurance, purpose of buying insurance policy, whether purchase insurance is to protect them from sustaining a future loss, different types of insurance like Life Insurance, General Insurance and Medical Insurance, Micro Insurance, Agricultural Insurance etc. It has been observed from the above table that very few people have adequate knowledge in this segment. Around 60-70% of the respondents have basic idea about LIC, GIC, medical insurance but they have less knowledge regarding the financial planning though insurance.

5.3 Association of Various Financial Literacy Variables:

Table 5. Pearson's Correlations of Financial Literacy Variables

		General Financial Literacy	*Banking Related Literacy*	*Postal Savings Literacy*	*Insurance Related Literacy*
General Financial Literacy	Pearson Correlation	1	.558**	.518**	.339**
	Sig. (2-tailed)		.000	.000	.000
	N	150	150	150	150
Banking Related Literacy	Pearson Correlation	.558**	1	.410**	.394**
	Sig. (2-tailed)	.000		.000	.000
	N	150	150	150	150
Postal Savings Literacy	Pearson Correlation	.518**	.410**	1	.422**
	Sig. (2-tailed)	.000	.000		.000
	N	150	150	150	150
Insurance Related Literacy	Pearson Correlation	.339**	.394**	.422**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	150	150	150	150

Source: SPSS

** Correlation is significant at the 0.01 level (2-tailed).

From the above table it can be observed that all correlations are positive i.e. they move in same direction. The highest correlation is between general financial literacy and banking related literacy (+0.558) followed by postal savings literacy (+0.518), followed by insurance related literacy (+0.339). So, it is likely that these variables may be good predictors of the financial literacy factor that influence financial decision. In addition, correlation between any two independent variables are not very high (not more than 0.80) which imply may be there is non-existence of multi-collinearity i.e. the variables are explaining different aspects of financial literacy.

6. Concluding Remarks

In recent time it can be observed that COVID 19 pandemic is giving rise to worldwide economic crisis. In this hard time financial education may be used as one of the weapon to cope up with this financial distress. General financial literacy and post office related literacy are highly dependent with various demographic factors like age, educational qualification etc. Around 65% of the respondents don't aware about various scheme of investment as well as savings offered by various financial institutions. Lack of awareness penalize them from secure savings, choosing the best course of alternative and gaining the higher rate of return. A large section of respondents are not taking the advantages of insurance sector. They use it as a mare saving tool. Maximum of them are risk avoider, they prefer to keep their money in banks. They fear to invest their money in stock market or mutual funds. It can be said that better financial knowledge helps in better financial decision making process which ultimately leads to a secure financial future.

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