

Research on Financial Literacy: A Review

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Abstract: Although many research have been conducted in India as well as other countries related to financial literacy. Now a day's it's difficult to measure financial literacy over the globe because of their language and level of understanding of terms in different ways. The components of financial literacy is remaining the same over the globe like financial attitude, financial knowledge and financial behaviour but the methods to measure is different in terms of Index method or scoring techniques. However different financial literacy models were also applied to get better result and Demographic factors are also responsible for understanding of financial terms and applicability.

1. INTRODUCTION

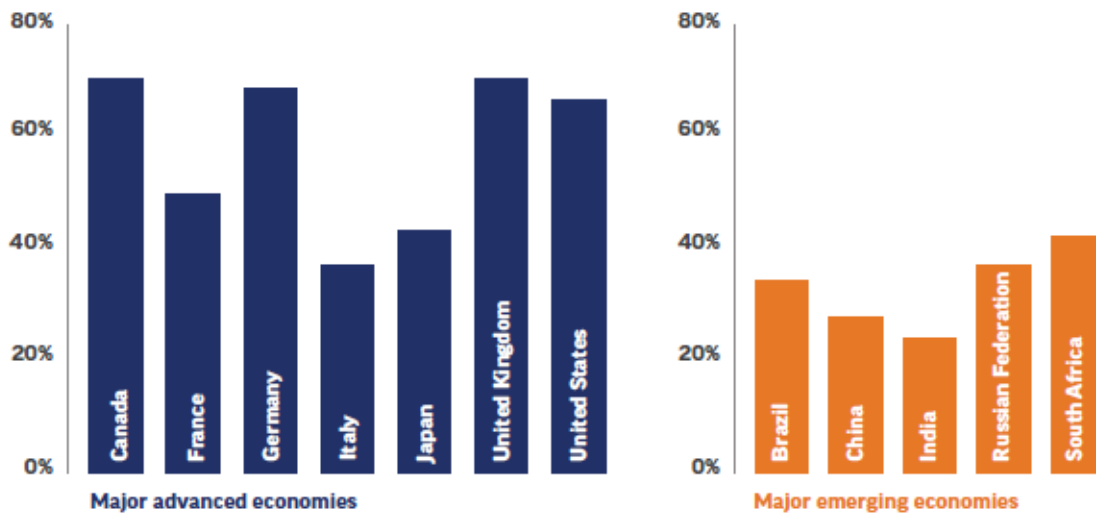
“Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve financial wellbeing.” – Atkinson and Messy, 2012

Financial literacy as “the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being”

The Organisation for Economic Co-operation and Development (OECD) defines (2005) financial education as “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 wellbeing”

Financial Literacy is utmost important lubricant for any country's economic growth. Financial education is crying need and a two way process; where financial education is taught and what we learn. In an increasingly risky and globalized marketplace, people must be able to make well-informed financial decisions. New international research demonstrates that financial illiteracy is widespread in both well-developed and rapidly changing markets. Women are less financially literate than men, the young and the old are less financially literate than the middle-aged, and more educated people are more financially knowledgeable. Most importantly, the financially literate are more likely to plan for future. The well financial literate population can prove to be the guiding star for the overall economic development of the nation.

Financial literacy is not the problem of Indian Economy but said to be the critical problem of all countries in the world so as to come out from this situation RBI, IMF, World Bank and other Institutions take some revolutionary initiative to lead economy ahead.



Source: S&P Global FinLit Survey

Figure 1 Wide Variation in Financial Literacy around the world (% of Adults who are financially literate)



Figure 2 Key Components of Financial Literacy (Identify from Indian Financial Literacy Research and Overseas Research)

2. LITERATURE REVIEW

INDIAN FINANCIAL LITERACY RESEARCH

NISM Report on Financial Literacy and Financial Inclusion in India (2014). The study conducted among five zones of India including Union Territories. There were three parameters used like financial attitude, behavior and knowledge to conclude the level of financial literacy among households. For computation financial inclusion index different financial products like saving related banking products, banking, credit, insurance, capital market, pension, commodity futures market related products included. The report also highlighted that according to geographically mix and financial literacy around 30% from urban areas and 20% from rural areas while financial inclusion result emphasized that major households financial included belong to urban area.

IIM Ahmedabad report (2014) on “Effectiveness of Financial Literacy Interventions in Improving Financial Literacy among Rural Women in North India” reveal the performance of rural women before and after training by using three components

financial knowledge, behavior and attitude with only two variables income and education. The result of training makes difference in three components positively as compared with uncontrolled group.

V.Mathivathani & Dr.M.Velumani (2014) in their study on “Financial Literacy Among Rural Women in Tamilnadu” focused on three pillars financial knowledge, financial behavior and financial attitude and highlighted that Financial literacy of marginalized rural women is very low and also mention the reason for these are social & cultural barriers, physical barriers, financial barriers as well as education barriers.

Dr. Vijetha S. Shetty and Baby Jaison Thomas (2013), in their research on “A study of financial literacy amongst the college students in Mumbai”, encompassed of key indicators such as age, income and genders which highlighted that majority of students have lower literacy level compare to global standards because of poor numeracy skills attributed to the poor elementary and primary education system.

Sobhesh Kumar Agarwalla, Samir K. Barua et al (2013), study on “Financial Literacy among Working Young in Urban India” investigated that there are socio-demographic factors like family income, education, marital status, gender, financial decision making process, family composition and financial budgeting have significantly influence on three dimensions of financial literacy such as financial knowledge, financial behavior and financial attitude. They also identify that there is a positive relationship between knowledge and behavior while relationship exist negative between behavior and attitude is negative.

Puneet Bhushan and Yajulu Medury (2013) study on “Financial Literacy and its Determinants” conducted amongst salaried individuals of Himachal Pradesh using major demographic and socio economic variables. They also found that overall financial literacy 58.3% level, even the respondents were salaried individuals and the major reasons for that was a financial literacy gets affected by genders, education, income, nature of employment and place of work

OVERSEAS FINANCIAL LITERACY RESEARCH

Haina Yuan and Shaohua Yang (2014), “The Survey of Financial Literacy in Shanghai” reveals Financial literacy by using three major tools like financial knowledge level, behavioral finance, investment and financing ability. The research was conducted among resident of Shanghai city (random sampling) and conclude that the financial literacy is low in city.

Jennifer Robson (2012), “The case for financial literacy” lead the best effort to develop a conceptual model for financial literacy was led by Elaine Kempson and a team of researchers from the Personal Finance Research Centre who surveyed hundreds of British households to find the common threads in how ordinary people understand good financial practice and describe personal financial competence, a model of financial capability emphasizing behaviour, while recognizing knowledge and attitudinal components. They described five domains of personal finance like Making ends meet, Keeping track, choosing products, planning ahead, Staying informed and getting help. Each of these domains is made up of financial knowledge, attitudes towards personal finances and financial practices that together make up financial capability. However, Kempson et al suggest that it is the behavioral element that may be most important.

Christopher B. Bumcrot, Judy Lin et al (2011) in “The Geography of Financial Literacy” evaluate financial literacy by covering fundamental concepts of economics and finance encountered in everyday life, such as simple calculations about interest rates and inflation, the workings of risk diversification, the relationship between bond prices and interest rates, and the relationship between interest payments and maturity in mortgages. They were also used financial literacy scoring techniques to form the financial literacy index among different state of USA. This study highlights the findings that financial literacy is rather low in the population and most Americans are not familiar with fundamental concepts that should form a basis for financial decision-making.

Annamaria Lusardi (2008) in his research “Financial Literacy: An Essential Tool for Informed Consumer Choice?” categorized literacy in two parts like basic and advanced financial literacy. The survey was made among widespread general population and particularly acute among specific demographic groups, such as women, African Americans, Hispanics, and those with low educational attainment. For basic part question was related to simple economic calculations, knowledge of basic financial concepts such as the working of interest compounding, the difference between nominal and real values while advanced part covered the questions like Understanding the relationship between risk and return, how bonds, stocks, and mutual funds work, and basic asset pricing. The result of survey was major differences in financial literacy across racial groups, with African-Americans and Hispanics displaying much lower levels of financial literacy than whites.

Andrew C. Worthington (2006) in his research “Predicting financial literacy in Australia” used logit models to predict financial literacy. For that ANZ Survey of Adult financial literacy in Australia considered. He defined financial literacy in terms of mathematical ability and the understanding of financial terms. Socio economic part and financial characteristics were emphasized. He also highlighted that Financial literacy found to be highest for persons aged between 50 and 60 years, professionals, business and farm owners, and university or college graduates while it was lowest for the unemployed, females, and those from a non-English speaking background with a low level of education.

3. OBJECTIVES

- ✓ To identify key variables used by different countries to measure financial literacy.
- ✓ To understand financial literacy levels India
- ✓ To identify major factors affecting financial literacy in different countries.

4. FINDINGS

- i. Majority of researcher used the major variables Attitude, Knowledge and Behaviour to measure financial literacy in India while in overseas they used variables like knowledge level, behavioural finance and ability.
- ii. In India Scoring and Index method rarely used while overseas countries using Scoring/Index method as well as Financial Literacy Model.
- iii. The level of financial literacy in India comparatively lower than other countries.
- iv. Poor elementary, level of education as well as gender are major determinants affecting financial literacy in different countries.

5. CONCLUSION

The concept and definition of literacy remain more or less same in all over the world but the practice may be different as per their opinion. In general, majority of research used Financial Knowledge, Financial Attitude and Financial Behaviour as key components to measure financial literacy in addition to that scoring techniques/Index method that was used by some overseas countries for better result. To sum up, research concludes that gender, occupation, age, income and level of education are major demographic factors that affect lot in measuring financial literacy.

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