

**An Association between Financial Literacy and Investment Behavior of Salaried Individuals: A Study in Telangana State**

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**Abstract**

*Financial literacy of an individual's is their level of understanding of financial matters which enables them to process financial information and make informed decisions about personal finance. It is difficult for a common man to understand the risk associated with the new age financial products. In order to understand risk and return associated with these products, a minimum level of financial literacy is a must. Financially literate individuals can make effective use of these financial products and services by evaluating associated risks and returns and finally choosing those products which are best suited to them. An attempt has been made through this article to examine the relationship between financial literacy of salaried individuals and their awareness regarding financial products. Also the relationship between financial literacy and investment behaviour of salaried individuals is studied. The results of the study suggest that financial literacy level of individuals affects the awareness as well as investment preferences of salaried individuals towards financial products.*

**Keywords: Financial Literacy - Financial Products - Investment Preferences - Salaried individual.**

**Introduction**

Financial literacy helps individuals to improve their level of understanding of financial matters which enables them to process financial information and make informed decisions about personal finance. Financial literacy is directly related to the well being of individuals. Previous research suggests that those with low levels of financial literacy face problems with issues relating to personal finance such as savings, borrowings, investments, retirement planning etc. Over the recent years, financial landscape has changed considerably becoming complex with the introduction of many new financial products. It is difficult for a common man to understand the risk associated with these financial products. In order to understand risk and return associated with these products, a minimum level of financial literacy is a must. Financially literate individuals can make effective use of these financial products and services by evaluating associated risks and returns and finally choosing those products which are best suited to them. Thus financially literate individuals can make effective use of financial products and services; will not get cheated by sales people selling financial products not suited for them. Financial literacy aids in improving the quality of financial services and contribute to economic growth and development of a country. Through this paper an attempt has been made to know whether financial literacy affects the awareness and investment preferences of salaried individuals towards various financial products available in the market.

**Literature Review**

Many researchers across the globe have studied the level of financial literacy. Beal and Delpachitra (2003) examined financial literacy of Australian students at the University of Southern Queensland (USQ) in Toowoomba, Queensland. The results of the study suggest that financial literacy was not high among students and the main reason for this was the lack of financial education at the school level. The ANZ study (2003) carried on behalf of ANZ Bank found that Australians overall were financially literate, there were certain groups with particular challenges. Those groups were identified as those with a lower level of education, not working or in unskilled work, with lower incomes, with lower savings levels, single people

and people at both extremes of the age profile. Lusardi and Mitchell (2007) conducted a study for the National Council on Economic Education and found that high school students and working age adults failed to understand basic economics. Respondents faced difficulty in answering questions related to interest rates, inflation and personal finance. Al-Tamimi and Kalli (2009) assessed the financial literacy of the UAE individual investors who invest in the financial markets of UAE. They found that financial literacy of UAE investors is much less from what is actually needed. Their results also suggest that there exists a significant relationship between financial literacy and investment decisions. Nga et al. (2010) through their study investigated the level of general financial and product awareness among young adults studying in a private higher educational institute in Malaysia. They tried to find out that how demographic factors influence financial awareness of the youth and whether studying a course in business affects financial and product awareness amongst the youth or not. Their findings suggest that males have higher level of financial awareness as compared to fe-males. They also found that education level as well as course taken in business has an influence on general and financial product awareness. Bhushan and Medury (2013) assessed the financial literacy level of salaried individuals in India. They found that financial literacy level gets affected by gender, education, income, nature of employment and place of work whereas it does not get affected by age and geographic region.

For long researchers have researched on the demographic factors that influence the investment decisions of an individual. The focus has mostly remained on core factors such as age, gender, income, marital status, profession, education and financial knowledge. A number of research studies have been undertaken in India and abroad to identify the investment behaviour of retail investors and households. Geetha and Ramesh (2011) studied the Indian's behaviour about investment preferences. The study found that people were not aware about all the investment options available to them and they lack knowledge about securities. Samudra and Burghate (2012) studied the investment behavior of the middle class households in Nagpur. Bank deposits were found to be the most popular instrument of investment followed by insurance. Small savings scheme such as PPF, Post office savings deposits are the third preferred investment option. Amongst the factors which influence the decision to invest in a particular instrument it was found that re-turn from the investment ranks first. Chaturvedi and Khare (2012) examined the investment pattern and awareness of the Indian investors about different invest-ment instruments. The results suggest that age, education, occupation and income level of the individual affects their investment behaviour. Awareness of respondents towards traditional investment options is much higher than that for corporate securities, mutual funds, equity shares and preference shares. They also identified the factors which contribute to investor awareness. They found that occupation, education and income level af-fects the awareness level of investors towards various investment avenues. Sood and Medury (2012) analysed the investment preferences of working adults in Delhi, Gurgaon and Noida. The results of their study showed that investment preferences are not affected by age, gender, income, marital status and employment status. Bashir et al (2013) studied the investment preferences and risk level of salaried individuals in Gujrat and Sialkot provinces of Pakistan. The results of the study suggests that females are more risk averse than males whereas young and educated people are attracted more towards new risky investment opportunities and want to invest money in these instruments but they hesitate be-cause of limited resources and lack of investment opportunities as well as absence of investment rends. Bhushan and Medury (2013) analysed the gender differences in investment behavior of employees working in various universities of Telangana. India. They found that employees working in various universities of Telangana invest in almost all investment avenues available to them. There is an overall inclination of investing in safe investment instruments. Gender differences in investment preferences are significant for health insurance, fixed deposits and market investments.

After studying the literature on financial literacy and financial products it can be said that very few studies have assessed the relationship between financial literacy and investment preferences of individuals. This study aims at bridging this gap

### **Objectives of the study**

- a) To study how financial literacy level of salaried individuals affect their awareness regarding financial products.
- b) To study how financial literacy level of salaried individuals affect their investment preferences towards financial products.

### **Hypotheses**

#### **Hypothesis 1**

**Ho:** Awareness level of salaried individuals for various financial products are independent of financial literacy level.

**HA:** Awareness level of salaried individuals for various financial products are not independent of financial literacy level.

#### **Hypothesis 2**

**Ho:** Investment preferences of salaried individuals for various financial products are independent of financial literacy level.

**HA:** Investment preferences of salaried individuals for various financial products are not independent of financial literacy level.

### **Research Methodology**

For the purpose of this study, Telangana is taken as an area of study. All those salaried individuals of Telangana whether in government or non-government job and those who fall under income tax bracket were considered as the population for this study. Primary data from the respondents was collected by using a non-disguised structured questionnaire. The questionnaire was prepared with utmost care incorporating all necessary information by using close-ended questions, attitudinal rating questions as well as knowledge testing questions. Multistage sampling has been adopted for collection of the data. There are total of ten districts in Telangana. Out of these three districts namely Khammam, Nalgonda and Warngal were selected randomly (first stage). The selected districts are further divided on the basis of sub-divisions. In each of the selected districts further 2 sub divisions were selected randomly (second stage). From each selected sub-division, the required number of salaried individuals was selected based on purposive sampling by using some criteria like place of work, occupational status and the attitude of the respondents to cooperate for the study, so as to get the representative sample of the population. In each district selected for the purpose of this study, 300 questionnaires were distributed (total of 900), out of which 590 questionnaires were received back from the respondents. After analysing the questionnaires, few questionnaires were found incomplete and finally total of 516 questionnaires were used for the purpose of this study.

In order to measure the level of financial literacy of the respondents, OECD approach has been used in this study. The OECD approach is more comprehensive as it attempts to measure the level of financial literacy by using the most probable dimensions of financial literacy – financial knowledge, financial behaviour and financial attitude. The financial literacy score was obtained by adding the individual scores of three different dimensions of financial literacy - financial knowledge, financial behaviour and financial attitude. Financial attitudes and financial behaviour were measured on 5 point Likert scale, thus their maximum possible score is 5 each. Financial knowledge score has been calculated out of 13, which was further scaled down to 5. Thus the maximum possible score for financial literacy is 15 (5 for financial

knowledge, 5 for financial attitude and 5 for financial behaviour). SPSS 16.0 was used for analysing the data and testing the hypothesis. Hypothesis 1 has been tested using T-test and Hypothesis 2 has been tested using Chi-square test. Hypotheses have been tested at 5 % level of significance. Table 1 shows the characteristics of the sample used for the purpose of this study.

**Table1: Demographic and Socioeconomic Details of the Respondents**

		Frequency	Percentage
GENDER	Male	355	68.8
	Female	161	31.2
AGE (years)	20-30	101	19.6
	31-40	153	29.7
	41-50	158	30.6
	51-60	90	17.4
	More than 60	14	2.7
MARITAL STATUS	Unmarried	110	21.3
	Married	406	78.7
EDUCATION	10+2	39	7.6
	Graduation	237	45.9
	Post Graduation	220	42.6
	Ph.D	20	3.9
INCOME PER ANNUM (in Rs.)	2-5 lacs	315	61.0
	5-10 lacs	177	34.3
	10-15 lacs	24	4.7
NATURE OF EMPLOYMENT	Government	241	46.7
	Non-Government	275	53.3
PLACE OF WORK	Urban	280	54.3
	Rural	236	45.7
GEOGRAPHIC REGION	Khammam	187	36.2
	Nalgonda	178	34.5
	Warngal	151	29.3

Source: Primary Data

**Results and Discussion**

**Financial Literacy and Awareness Regarding Financial Products**

In order to examine how salaried individuals’ financial literacy level affects their awareness regarding financial products, respondents were categorized into two groups namely “High Financial Literacy Group” and “Low Financial Literacy Group”. The respondents whose

financial literacy score was greater than median were put in “High Financial Literacy Group” and those respondents whose financial literacy score were either equal to or less than median were put in “Low Financial Literacy Group”. Mean awareness level of respondents falling in these two groups were calculated and compared. Table 2 and Figure 1 show the awareness level of high and low financial literacy groups for various financial products.

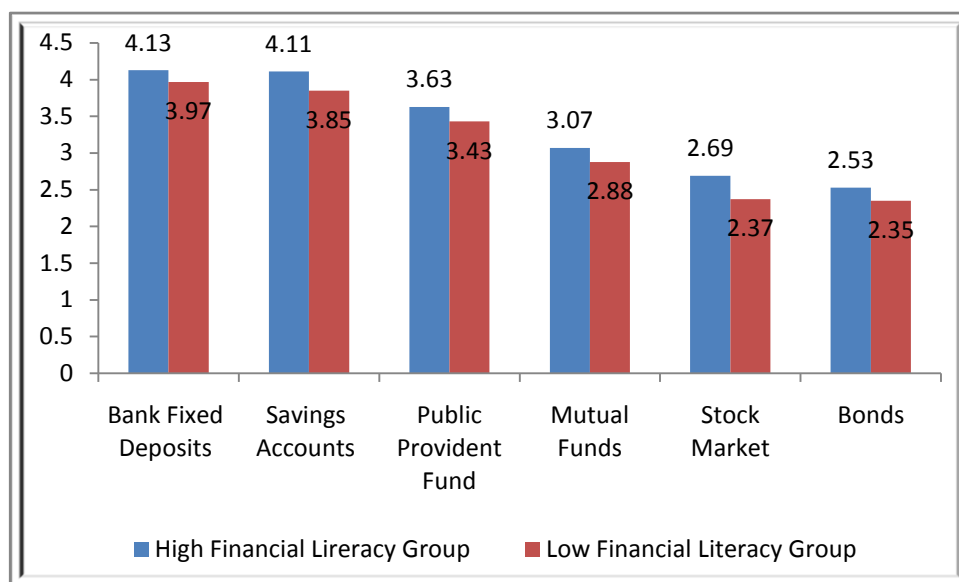
**Table 2: Awareness Level of Financial Products between High and Low Financial Literacy Group**

<b>Financial Products</b>	<b>High Financial Literacy Group</b>	<b>Low Financial Literacy Group</b>	<b>t-value</b>	<b>significance</b>
	<b>Mean Awareness level</b>	<b>Mean Awareness level</b>		
Bank Fixed Deposits	4.13	3.97	-2.621*	.009
Savings Accounts	4.11	3.85	-4.270*	.000
Life insurance	3.89	3.75	-1.737	.083
Public Provident Fund	3.63	3.43	-2.375*	.018
Post Office Savings	3.62	3.63	.150	.881
National Savings Certificate	3.30	3.24	-.604	.546
Kisan Vikas Patra	3.25	3.15	-1.174	.241
Pension Funds	3.17	3.10	-.629	.529
Mutual Funds	3.07	2.88	-2.096*	.037
Stock Market	2.69	2.37	-3.365*	.001
Bonds	2.53	2.35	-1.982*	.048
Debentures	2.37	2.28	-1.022	.307
Commodity Market	1.89	1.75	-1.673	.095
Forex Market	1.76	1.61	-1.853	.064

Source: Primary Data

\* Significant at 5% level

Results show that respondents in high financial literacy group have higher awareness level for all financial products except for post office savings. For post office savings mean difference in scores was not statistically significant. On the basis of t-test, statistically significant differences in awareness level has been found for bank fixed deposits, savings account, public provident fund, mutual funds, stock market investments and bonds. Thus it can be said that financial literacy level affects awareness regarding financial products.



**Figure 1: Awareness level of high and low financial literacy groups**

**Financial Literacy and Investment Preference For Financial Products**

In order to examine how salaried individuals’ financial literacy level affects their investment behaviour, respondents were categorized into two groups namely “High Financial Literacy Group” and “Low Financial Literacy Group”. The respondents whose financial literacy score was greater than median were put in “High Financial Literacy Group” and those respondents whose financial literacy score were either equal to or less than median were put in “Low Financial Literacy Group”. Table 3 and Figure 2 show the investment preference of high and low financial literacy groups for various financial products. Results show that respondents in high financial literacy group showed higher preference for mutual funds, stock market investments, debentures, life insurance, public provident fund, pension funds, bonds and commodity market as compared to those in low financial literacy group. Respondents in low financial literacy group showed higher preference for bank deposits and post office savings.

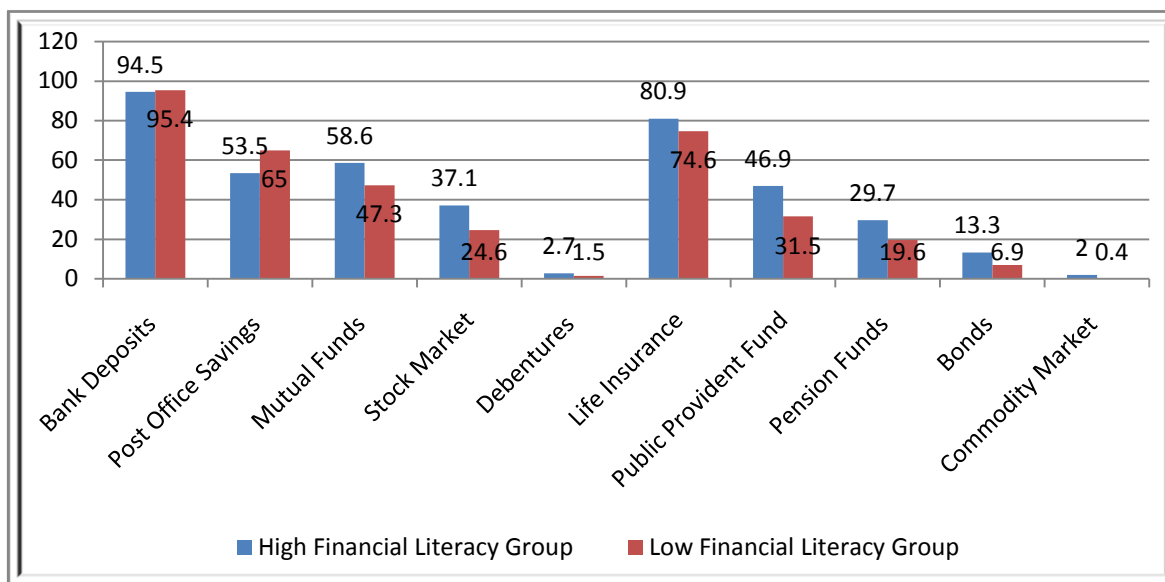
This clearly shows that respondents having low financial literacy primarily invest in traditional and safe financial products and do not invest much in those financial products which are comparatively more risky and can give higher returns. Chi-square value of 26.137 which is statistically significant at 5% level shows that investment behaviour of an individual depends on the financial literacy level.

**Table 3: Investment in Financial Products between High and Low Financial Literacy Group**

Financial Products	High Financial Literacy		Low Financial Literacy		Chi-square value
	Frequency	Percent of cases	Frequency	Percent of cases	
Bank Deposits	242	94.5	248	95.4	26.137*
Post Office Savings	137	53.5	169	65.0	
Mutual Funds	150	58.6	123	47.3	
Stock Market	95	37.1	64	24.6	
Debentures	7	2.7	4	1.5	
Life Insurance	207	80.9	194	74.6	
Public Provident Fund	120	46.9	82	31.5	
Pension Funds	76	29.7	51	19.6	
Bonds	34	13.3	18	6.9	
Commodity Market	5	2.0	1	.4	
Total Respondents	256		260		

Source: Primary Data

\* Significant at 5% level



**Figure 2: Financial Literacy and Investment Preference**

**Conclusion**

Result shows that respondents in high financial literacy group have higher awareness level for all financial products except for post office savings. Statistically significant difference in awareness level has been found for bank fixed deposits, savings account, public provident fund, mutual funds, stock market investments and bonds. Also respondents having low financial literacy primarily invest in traditional and safe financial products and do not invest

much in those financial products which are comparatively more risky and can give higher returns. Thus it can be said that financial literacy level affects awareness regarding financial products as well as investment preferences towards financial products. This clearly implies that due to low level of financial literacy, individuals invest their money in traditional financial products and are not able to take advantage of new age financial products which can offer them higher returns. Thus it becomes the need of the hour that government as well as policy makers take necessary steps to improve the level of financial literacy among the population.

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