

AN EMPIRICAL STUDY ON FINANCIAL LITERACY LEVEL OF SERVICE SECTOR EMPLOYEES IN SOUTH HARYANA

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ABSTRACT:

Financial literacy is an individual's ability to take informed decisions with respect of their effective and efficient utilization of money. In present study, level of financial literacy is measured using the three variables given by OECD, that are financial knowledge, financial attitude and financial behavior. The sample size of 333 service sector employees from various (teaching, banking, insurance and telecommunication) public and private organizations of south Haryana. it is of immense need for our economy to take into consideration the fact that where and how they are spending or investing their funds. For the fuller utilization of ones funds an individual need to be financially literate. This study is conducted to determine the level of financial literacy of service sector employees. Financial Literacy is a sum of financial attitude, financial behavior and financial knowledge. In the present paper these three variables were analyzed to determine the level of financial literacy of the service sector employees. It has been observed that the level of score of financial knowledge, financial attitude and financial behavior and financial literacy score is not at par as desirable. The results concluded that there is an average level of financial literacy among the service sector employees, which is matter of concern

KEY WORDS: Financial Literacy, Financial Attitude, Financial Behavior and Financial Knowledge, Service Sector Employees

INTRODUCTION:

The economic development of any country depends upon the existence of a well-developed financial system. With the changing economy, a significant change in the social support structure across the world has led to the need and responsibility of an individual for managing their own finance and securing their financial future. It is imperious on the part of an individual to analyze the situation and make right decisions for managing his finance. So, understanding the level of financial literacy and its factors affecting are equally important. In the changing landscape, where the range and complexities of financial products continue to increase, developing an understanding of the world finance is of paramount importance (Narula, 2015). This calls for the dearth need of getting financially literate, and being aware about the need and importance of varied financial avenues. For the very purpose the financial literacy has assumed greater importance. In the recent years, as the complexities of the financial markets and it has led to the information asymmetry leading to making informed choices more and more difficult for the common person. Before getting financial education, one should get the clear image of what actually is the meaning of financial education.

Financial education is the process by which financial consumers/ investors improve their understanding of financial products, concepts, and risks, and by acquiring knowledge and skills to make sound financial decisions. As, per (Das, 2007) Financial education can broadly be defined as providing the familiarity with and understanding of the financial market products especially, rewards and risk in order to make informed choices. Organization for Economic Co-operation and Development (OECD) has defined financial education as, the process by which financial consumers/ investors improve their understanding of financial products, concepts and risk and through information, instructions 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. For the growth and development of the Indian economy and the expansion of financial markets by the way of liberalization, privatization and globalization have given a way to the abundance of financial product and investment substitutes. But, on the other hand, level of financial illiteracy or low level of financial literacy prevents an individuals' from making a sound financial decision. As a result, the individuals are not able to choose the most suitable investment alternative which can be more than the rate of inflation prevailing in the economy and give them a better return.

LITERATURE REVIEW:

While there are several definitions of financial literacy exists, all of them are focused on the understanding and awareness of the financial concepts and then implementing these concepts in real life situations thus making right decisions which promotes financial wellness. The OECD INFE, 2011 has defined financial literacy as follows: 'A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.' Financial literacy has been studied in many countries from different aspects. Hussein A. Hassan Al –Tamimi and Al Anood Bin Kalli (2009) found that the financial literacy of UAE investors is well below the desired level. Apart from this, it also analyses the relationship between the financial literacy and the influence of the factors that affect the investment decisions. A significant difference in the level of financial literacy was also found between the respondents according to their gender where females were found to have lower level of financial literacy as compared to men. The result indicated that there exists a significant relationship between financial literacy and investment decisions.

Kelly and Williamson (1968) compared per capita household saving against per capita household income for five household age groups in Indonesia. It was found that the age of the head of the household is an important determinant of household saving in rural households and that the average and marginal saving rates rose with the share of agricultural income and the presence of positive interaction between wealth and saving.

Lusardi and Tufano (2009) in their study revealed that males are more financially literate as compared to females. Debt related questions were wrongly answered, hence debt literacy is also lower among this section. The research also shows that the the finding of other researchers that there is a low level of financial literacy among younger section older women. Level of financial literacy has been observed low among respondents who are divorced, widowed and separated (Lusardi and Tufano ,2009) In their study, they found that the relationship between three dimensions of Financial Literacy and found positive relationship between Financial Behavior and Knowledge, however the study reflected negative relationship between Financial Attitude and Financial Behavior, which was contradictory and was unexpected (Agarwalla et al., 2013). Financial knowledge and Financial Planning are closely related to each other. It has been investigated that those individuals who exhibits higher level of financial literacy are found to be in a habit of planning(Lusardi and Mitchell, 2008). Huston, 2010 in a study revealed that 4 common factors of financial literacy are personal finance, borrowings, saving/investing and protection(insurance or risk diversification). It also mentioned that the basic concepts such as TVM, Planning, Economy, Borrowing, Credit Cards, Loans, Mortgages, Savings/Investment, Stock, Bond, MF, Retirement Savings, Protection Concepts Are Insurance, Real Estate, Tax Planning, etc are used in measuring financial literacy. The study reveals that the respondents scored very low in literacy scales and financial numeracy. Moreover, the less financially literate individuals participated less in stock (Christeli et al., 2010). The study by Puneet Bhushan, 2014 stated that individuals(salaried) are not fully aware about current financial products and services due to which they are deprived of their advantages.

Gupta (1970) analyzed the determinants of saving. He found that permanent income concept is more applicable in the urban areas in India where as in the rural area saving behavior is more in accordance with the absolute income. It was found in his study that marginal propensity to save is an increasing function of income at lower level of development. Chaiubey and Dimri(2009) identified the investment perceptions and their behavior for designing effective investment policies. The results indicates the shifting trend of investors from post office and other government investment schemes to investments in banks, mutual funds and equity etc.

Bhardwaj Rajesh, Raheja Rekh and Priyanka (2011), examine –Analysis of Income and Savings Pattern of Government and Private Senior Secondary School Teachers. The study concluded that the major source of income of Government teachers is salary while tuition fee for private teachers. Mostly Government & Private teachers both used Bank Deposits and Life Insurance for investing their savings. Government school teachers received more perks in comparison to private teachers. The main objective of savings of Government teachers is an emergency and security while for private teachers is children education and purchase of consumer durable.

OBJECTIVE OF THE STUDY:

To determine the level of financial literacy among service sector employees of south Haryana.

METHODOLOGY:

Exploratory along with descriptive research design is followed in the given study. The target population is the service sector employees of south Haryana. The technique of convenience sampling was used for collecting data from the sample of 500 respondents through structured questionnaire, but only 333 was taken into consideration as few questionnaires had incomplete responses. Three variables financial knowledge, financial attitude and financial behavior were taken into consideration for determining the score of financial literacy of service sector employees. The responses were measured on 3 point scale. The total score of 2.4 or above are considered as highly financially literate to handle the challenges in personal financial matters. A Scores in the range of 1.5 -2.4 are considered as moderate financial literacy and 1.5 or below are regarded as low financially literate.

OECD INFE (2011) The study adopts the approach of Organization for Economic Cooperation and Development (OECD) to facilitate international benchmarking, as its approach is more far-reaching as it attempts to measure the most suitable dimensions of financial literacy – financial knowledge, financial behavior and financial attitude. Insights about these individual dimensions could conceivably provide valuable intuition beyond those provided solely by financial literacy.

The study attempts to portray the financial literacy level of the service sector employees by studying the financial knowledge, financial attitude and financial behavior of the service sector employees. As we are adopting the OECD definition of financial literacy, which defines it as – “A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.”

Financial Knowledge is the awareness and understanding about the financial concepts and procedures as well as the use of this understanding to solve financial problems. It is Ability to make better financial decisions, effective management of money and debt.

Financial Attitude is the state of mind, opinion, and judgment of a person about his finances which is generally a resultant of his background and environment. It is the way an individual wants to manage his finances

Financial Behavior concerns with a human’s action with respect to an individuals’ financial matters which is the result of the financial knowledge he possesses considering the way he wants to manage his finances.

Following this, to measure the financial literacy of services sector employees, we have divided the financial literacy into three identified components that are financial knowledge, financial attitude and financial behavior. These identified components are measured with the help of a certain set of statements, and later combining the data of these components we calculated the financial literacy of the respondents. Measurement of Financial knowledge is the first part with is done with a set of questions and are scored resulting in depicting the level of financial knowledge, following this financial attitude is assessed with 7 statements which are narrowed down to 3 factors resulting the assessment of the attitude of the service sector employees towards their finances and the last part relates to the financial behavior of the respondents which is evaluated with the help of 10 statements, the result showing the behavior of the respondents towards their finances. The detailed step by step measurement of the components is as follows.

ANALYSIS OF FINANCIAL KNOWLEDGE OF SERVICE SECTOR EMPLOYEES

The level of financial knowledge of the respondents is measured with a set of twelve questions to capture their knowledge of numeracy, knowledge of interest calculations, knowledge of inflation and time value of money and knowledge of Diversification, risk and return. The correct answer for each question is given a score that was scaled from 1 to 3, where 3 considered as highly knowledgeable, 2 being moderate financial knowledgeable and 1 or below are regarded as poor financial knowledge. Table 1.1 displays the values of mean and standard deviation of the whole study, calculated on the basis of responses collected from each respondent.

Table 1.1 Mean Score of Financial Knowledge

	N	Mean	Std. Deviation
Knowledge of Numeracy	333	1.83	.390
Knowledge of Inflation & TVM	333	1.62	.720
Knowledge of Interest Compounding	333	1.95	.673
Knowledge of Risk & Return	333	1.64	.721
Financial Knowledge	333	1.7614	.41873

Source: Own calculations using SPSS v20

From the above table it can be observed that the mean score knowledge of numeracy is 1.82 and is close to 2. It means the knowledge of numeracy is good. The knowledge of inflation and time value of money has a mean score of 1.62, which means are despite having to the basic knowledge of numeracy the employees still lag a bit when it comes to assess the inflation and knowing their value of money over the period of time. The mean score of Knowledge of compound interest is 1.95, which means considering all the parts of financial knowledge the respondents are well aware about the assessment of their interest incurring avenues. 1.64 mean score of the knowledge of Risk and return aspects of the respondents means that the respondents are able to estimate the risk and return at a good level. Among all the elements of financial knowledge it has been observed that the knowledge of interest compounding of the respondents is better than any other element. The financial knowledge mean score come to 1.7614 so it can be concluded that overall financial knowledge of the service sector employees is moderate.

ANALYSIS OF FINANCIAL ATTITUDE OF SERVICE SECTOR EMPLOYEES

It is a state of mind of a person about finances which is generally a resultant of his background and environment. It is one’s attitude towards money and finance could affect the behavior towards his savings, borrowings, risk-taking etc. In this part the financial attitude of the respondents is measured with a set of seven statements which exhibits the three main aspects that are the extent of belief in planning, propensity to save, and propensity to consume. The attitude responses are scale based. Higher score, reflects the positive attitude, whereas the lower score reflects the conservative attitude towards one’s financial matters. The responses of the statements are calculated and later the statements are categorized in three categories that are the extent of belief in planning (first three statements), propensity to save (next two statements), and propensity to consume (last two statements). The scores across the three items are then averaged. An average score of 3 or above is considered as a positive attitude as used in the OCED survey.

Table 1.2 Mean score of the statements of Financial Attitude

	N	Mean	Std. Deviation
I manage my own finances.	333	2.55	.664
I am well conversant when it comes to matters relating to financial issues	333	2.35	.737
I set long term financial goals and strive to achieve them	333	2.37	.740
Extent of belief in planning	333	2.4244	.54396
I feel confident in making financial or saving decisions	333	2.26	.780
I am aware of how much% of my household income is saved monthly	333	2.35	.780
Propensity to save	333	2.3048	.62890
I tend to live for today, and let tomorrow take care of itself	333	1.76	.823
I can decide independently what to spend money on	333	2.17	.813
Propensity to Consume	333	1.9655	.58945
Financial Attitude	333	2.2591	.46493

Source: Own calculations using SPSS v20

From the above table it can be observed that the mean score of for the extent of belief in planning is 2.4244 which reflects highly positive attitude towards planning of finances. Whereas the respondents are positively inclined towards their propensity to save as compared to consume simultaneously and it below the mean value which can be observed with their mean scores that are 2.3048 and 1.9655 respectively. So, it can be concluded that overall, the respondents have good attitude towards their finances and they behave accordingly.

ANALYSIS OF FINANCIAL BEHAVIOR OF SERVICE SECTOR EMPLOYEES

Financial Behavior is human behavior that is relevant to money management. It is a study of the influence of psychology that focuses on fact that investors are not always rational, have limits to their self-control, and are influenced by biases. In the present study the survey attempted to understand the financial behavior of the service sector employee as it reflects the way, they deal with their money matters in their everyday lives. A total of ten statements were asked and the response were collected on scale. Respondents scoring 3 are classified as having positive behavior towards money and finance. Those scoring 2-3 are classified as neutral and less than 1 or 1 are considered as having negative financial behavior. The mean score of the response of the statements can be seen in the table given below.

Table 1.3 Mean score of the statements of Financial Behavior

	N	Mean	Std. Deviation
I compare my earnings with the earning of the fellow mates/Friends	333	1.72	.798
Money is the most important criteria to switch job for me	333	1.70	.822
I do self-assessment of affordability	333	2.00	.847
I am comfortable in making payment online (paying a bill)	333	2.12	.845
I monitor my personal finances	333	2.08	.848
I do long term planning of my funds	333	1.91	.836
I do plan for my household budget	333	2.00	.847
I actively save for future from my salary	333	2.10	.835
I do evaluate different financial products	333	1.84	.798
I prefer to borrow in times of need	333	1.71	.781
Financial Behavior	333	1.9168	.52603

Source: Own calculations using SPSS v20

The above table reflects the financial behavior of the respondents for most of the statements have the mean score of 2 or above which means the respondents have positive behavior towards their money matters. This can be concluded that the overall financial behavior has a great impact on the financial literacy of the respondents at it is reflected by the mean score of the all statements which is 2.3039.

Table 1.4 Mean Score of Financial Knowledge, Financial Attitude and Financial Behaviour

	Number of Responses(N)	Mean Value of Components of FL	Standard Deviation
Financial Knowledge	333	1.7614	.41873
Financial Attitude	333	2.2591	.46493
Financial Behavior	333	1.9168	.52603
Financial Literacy	333	1.9791	.35417

Source: Own calculations using SPSS v20

CONCLUSION: The study had been conducted to measure the level of financial literacy of the service sector employees. As per the recommendations given by OECD, Financial literacy is a composition of financial attitude, financial behavior and financial knowledge of an individual. Same has been used in the study and the three components were found to be related to significantly related to financial literacy and it can be observed in the table above. The mean score of financial knowledge towards overall financial literacy is 1.76 and close to 2. It means their knowledge towards the basic numeracy, interest compounding and their assessment of risk and return of their finances is good. Further it can be observed that the mean score for the financial attitude is 2.2591 which is above neutral value and the mean score of financial behavior towards managing one's own finances is 1.9168. Among all the three components Financial Knowledge, financial attitude and financial behavior the basic knowledge seems to have the lowest score among the three. So, it can be concluded that the respondents have good attitude towards their finances but they lack in basic knowledge with is reflected in their behavior.

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