Impact of Financial Literacy on Investment Behaviour, Scope of Advisory and Preference for Investing in Rajasthan

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Abstract

In this study we examine the relationship between financial literary with three key variables like investment behavior, scope of advisory and preference for investing in the state of Rajasthan. Our results confirm a significant positive relationship of financial literacy with these variables. Our results document important finding with regard to building a financial education programme. We suggest that a practical approach should be used so that investors can be empowered on the issue of financial literacy.

Keywords: Financial Literacy; Investment behavior; Scope of advisory; Preference for investing: Rajasthan

Introduction

There is a huge significance of financial education which is globally considered as an essential component for the financial well-being of individuals as well as for financial stability of a nation. In today's age, we witness a remarkable diversity in terms of financial products and services in the market place and consumers are in continuous confrontation with the same exposing them to high risks. There is an increased access to a wide range of credit products to a large population. However, these diversified opportunities give rise to an increased risks associated with the decision making of consumers especially when they are unfamiliar with the terms and conditions regarding these products. The facility of utilizing credit instrument comes in handy these days which lures the customers to avail the benefits of latest products without having the proper knowledge regarding the severe default consequences that could result in financial disasters. Furthermore, the cost of financial ignorance 1s huge that may create financial unrest for households and pose a threat to the financial stability of the country if considerable degree of consumer participation is there.

In such scenario, it becomes incumbent upon the people to be well acquainted with the financial concepts and be suitably financially literate in order to make informed financial decisions. A person can be called as financially literate who is having proficiency in the core competencies, and must have the opportunity and environment for obtaining financial literacy and its advantages.

By core competencies we mean competencies such as: numerical ability, budgeting. saving, borrowing and Investment. Numerical Ability means the general knowledge related to finance for daily calculations. It includes calculation related to purchasing cost, payments of bills and installments etc. It involves an understanding of simple addition, multiplication, subtraction and division. If a person doesn't have basic numerical ability, then he 1s deprived of taking sound financial decisions as well as it affects its financial literacy. Budgeting controls finances and keeps record of all spending. It helps in reducing unwanted and needless expenditure. For effective budgeting a skill is required to live within one's own means and is essential when there is limited income. (MAS, 2005). Savings means keeping some funds from present for the future needs. There 1s short term as well as long term savings. Borrowing is the activity undertaken by everyone at any point of time in their lives. But findings of many research studies have shown that the majority of people are unaware of the difference between an unsecured loan and secured loan and even they rarely know different kind of interest rates such as fixed and floating.

Financially literate person has the basic competency if he is able to manage the debt and its repayment also. Researchers have advocated that it relates to competence in using loans as well as in reducing the existing debt level. Inability to manage the debt and engage oneself in over-indebtedness is Debt illiteracy. (Lusardi and Tufano, 2009). Investing involves choosing the best investment avenue and portfolio, and making such sound decision is the trait of financial literacy. Availability of funds and purpose of investment helps the selection of the sound investment portfolio. The three criteria suggested by the Japanese survey for choosing investment are safety, liquidity and profitability. (Fujiki et al., 2002)

Our Indian Financial Market Scenario shows that the propensity to save is high among the Indians but at the same time they invest the savings in riskless and lower yielding securities. Studies have shown the majority of Indians keep their savings at home or in bank deposits. As they lack financial awareness which is the main reason that India 1s a country of savers but not a country of Investors. Ignorance of financial awareness leads to situation like debt trap, insufficient retirement fund and low return on investment. In India social sphere has also changed a lot, longevity level and life expectancy have also risen due to which employers have now shifted from adhoc funded superannuation schemes to defined contribution schemes. In this changed financial environment, financial literacy has become significant, it helps in improving the financial status of households as with the improved knowledge they can choose from a myriad of financial products and providers. Along with this they are able to able manage their debt, savings and household budgets with the help of financial literacy.

Literature review

Bakshi and Vijayvargi (2018), argue that the young generation in contemporary times has developed a more future oriented financial attitude. Their primary focus is now on saving money for their future. This gives them more satisfaction than spending money. There is a phenomenal shift in the financial behavior of people, they are becoming more responsible, aware and active financially. There is a vast percentage of people who prepare a monthly household budget and have a financial manager in their family. As far as taking financial decisions regarding buying a particular financial product is concerned, the majority of the people act as loyalists who trust the company in which they have made their previous investments. The primary reasons for not holding banking and insurance products cited by people are lack of knowledge, money and complexity of the procedures. The common sources of information upon which majority of the people depend for taking financial decisions are advertisements, company website/offices and friends/relatives. It 1s important for all the financial regulators to take into account these sources and utilize them efficiently to create financial awareness amongst the public. It becomes important to measure the level of literacy and inclusion enabling the National Financial Regulators to make sound, informed and responsible decisions to secure the future for themselves as well as for the people dependent on them.

Arora, Sharma and Pahwa, (2018) discussed in their study the importance of financial literacy in paving the way for rural women to uplift their confidence and to achieve the place which they deserve. In order to achieve a thriving economy globally, the role of women must be realized. Financial literacy will not only help them to make decisions regarding better utilization of funds but it will also build trust in the banking sector which is one of the utmost priorities. The study further argues that financial inclusion will be accomplished if both government and banks contribute equally in educating women about opening and expanding their business with the access of banking services.

Aabida Akhter (2016), attempted to study all main components required to be considered financially literate. It was observed that youth from the sample do not possess sufficient financial literacy. It 1s also observed that importance should be given in creating awareness on the concepts of investment.

Neha S Shukla (2016), focuses on analysis of investment preference of working women residing in north Gujarat region. This research also finds out the awareness women have about different avenues & the factors affect their investment decision.

BozenaFraczek., Monika Klimontowicz (2015), examined young customers of European countries during 2013 and 2014 to find the awareness of financial hteracy among them, decision factors to decide on investing in a particular option, and correlation between them and basic financial knowledge and skills. It was also observed that young economists who achieved satisfactory scores in finance literacy, still make mistakes in the area of finance. Higher the level of financial literacy, better financial decision-making ability.

Dilip Ambarkhane et al. (2015), examined college students to find the financial Literacy Index of college students. As per author one of the reasons for the financial crisis is due to insufficient knowledge of financial literacy. Improvement in financial literacy will help in the upliftment of an individual's financial status.

Faboyede etal. (2015), examined and observed that financial literacy education should be given importance by everyone, private organizations, and government bodies to overcome poverty and improve countries development. Financial literacy should be included in schools and colleges. Special programs should be decided for female gender.

Lereko Rasoaist, Kaleba M Kalebe (2015), examined the students of National university of Lesotho (NUL) and observed that gender is important to determine financial literacy level. Female NUL students have less financial knowledge compared to male. To reduce the financial literacy understanding gap between male and females, the government should introduce financial literacy programs in school or college itself.

Objectives of the study

1. To examine the relationship between financial literacy and investment behavior.
2. To examine the relationship between financial literacy and scope of advisory
3. To study the impact of financial literacy on investor's preference for investing

Hypothesis of the study

H1: Financial literacy has significant impact on investor's general investment behavior.

H2: Financial Literacy has significant impact on scope of advisory.

H3: Financial literacy has significant impact on investor's preference for investing.

Scope and sample of the study

The present study was confined to Rajasthan a state of India. Simple random sampling using an online survey design was used to target 422 respondents.

Statistical Techniques to be used

The data obtained was subjected to reliability testing followed by factor analysis' Finally, the objectives of the study were achieved through Regression Analysis.

Results and Discussion

Frequency and Description of Respondents' Characteristics for Study

The questionnaire used for this study included 5 items concerning the respondents' characteristics:

- Gender
- Age
- Marital status
- Tax slab
- Education level
- Investment Knowledge

Demographic characters of the respondents are shown in Table 1. These results are available on request, Table-1 shows the descriptive statistics of 422 respondents

Table 1- Frequency Distribution of Respondents

Frequency Distribution of Respondents					
Valid	**Categories**	**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Gender	Male	287	68	68	68
	Female	135	32	32	100
	Total	422	100	100	
Age	21y -30y	203	48	48	48
	31y-35y	118	28	28	76
	36y-40y	51	12	12	88
	41y & 50	36	9	9	97
	50 and above	14	3	3	100
	Total	422	100	100	
Marital Status	Single	264	63	63	63
	Married	158	37	37	100
	Total	422	100	100	
Tax slab	No Tax	85	20	20	20
	5%	135	32	32	52
	20%	134	32	32	84
	30%	68	16	16	100
	Total	429	100	100	
Qualification	HS	84	20	20	20
	UG	36	9	9	29
	Grad.	161	38	38	67
	PG	114	27	27	94
	Others	27	6	6	100
	Total	422	100	100	
Investment Knowledge	None	64	15	15	15
	Little	99	24	24	39
	Some	138	33	33	72
	A Lot	121	28	28	100
	Total	429	100	100	

Hypothesis Testing:

HI: “Financial literacy has significant impact on investor's general investment behaviour. Inference: The results show, that Std. p=0.734,1(422) = 22.144, p- value =0.00%** B = (0.802, R= 0.7354, R= 0.539, A R = 0.539, F (1, 420) = 54.576, p=0.00. This case indicates that [financial literacy has significant impact on investor's general investment behaviour Therefore, Hi is accepted for the study.

H2: “Financial Literacy has significant impact on scope of advisory." Inference: The results show, that Std. f=0.567,1(422) = 14.109, p- value =0.00%** B =() 698, R= 0.567, R= 0.322, A R = 0.322, F (1, 420) = 41.382, p=0.000. This case indicates that Normative Belief (EC) relates emphatically to disposition towards green restaurant. Therefore, H2 is accepted for the study.

H3: "Financial literacy has significant impact on investor's preference for investing." Inference: The results show, that Std. p= 0.759, t (422) =23.881, p- value = 0.00***,B = 0 888, R= 0.759. R%= 0.576, A R = 0.575, F (1, 422) = 570.260, p=0.000. This case indicates that financial literacy has significant impact on investor's preference for investing. Therefore, H3 is accepted for the study.

Conclusion

Financial literacy is the capacity of an individual to apply their financial knowledge to enhance their financial opinions, make sound financial decisions, and improve their personal financial management practices. From the results we find that financial literacy has a positive impact on general investment behavior, scope of advisory and preference for investing. Based on the results we recommend that national, regional, public and private initiatives should create awareness about financial knowledge and try to develop financial understanding about saving, investing, and insurance in order to promote and coordinate financial education. Individuals that are financially literate are better informed and empowered to make decisions. Policies for offering financial education should be developed with college students, pensioners, women, and other investors in mind. College students, who are unable to manage their finances properly and may misallocate their funds, should receive more attention. When building a financial education programme, a practical approach should be used so that investors can be empowered on the issue of financial literacy.

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