



THE LEVEL OF FINANCIAL LITERACY OF URBAN HOUSEHOLDS IN COIMBATORE CITY

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ABSTRACT

In Indian economy, the household sector contributes the lion's share of the total savings. The role of domestic saving and domestic investment in promoting economic growth has received considerable attention in India and also in many countries around the world. India's gross domestic product (GDP) growth for the third quarter (October-December) 2012-13 is alarmingly low at 4.5 per cent. At less than 5 per cent GDP growth for 2013, it will most likely be its slowest rate in the last decade. This is due to two reasons, one is the high inflation due to which households' savings plunged and on the other hand the household savings rate could remain stagnant or even decline as financial liabilities increase with greater retail credit penetration. Considering the prevailing condition the author strongly believes that by increasing adequate financial literacy among Indian households, the problems of decline in saving and investment rated can be overcome by financial institutions and policy makers. Because, financial literacy/education is important to both the security of individuals and the security of nations. This research paper has made an attempt to analyze the level of financial literacy of urban households of the Coimbatore City.

Key words: Financial literacy, House holds, savings.

INTRODUCTION

From the classical days, household saving has been considered as one of the determinants of economic growth. In the household sector, households have tremendous saving potential which has not been considered seriously by the policy makers and hence, measures have not been chartered to mobilize these huge savings. Financial experts believe that increasing domestic savings, primarily, reduces dependence on foreign capital to aid investment flow, which in turn will drive the growth engine. Interestingly, household savings alone contribute

up to 80 per cent of India's gross domestic savings. But unfortunately, gross domestic savings rate fell sharply from 34 per cent to 30.8 per cent of the GDP between 2010-11 and 2011-12.

Financial literacy is mainly used in connection with personal finance matters. It often entails the knowledge of properly making decisions pertaining to certain personal finance areas like real estate, insurance, investing, saving, tax planning and retirement and involves intimate knowledge of financial concepts like compound interest, financial planning, the mechanics of a credit card, advantageous savings methods, consumer rights, time value of money, etc. A person with a good level of financial literacy is likely to be better placed than someone without those skills and knowledge to manage their financial affairs prudently; all else being equal, they are more likely to budget effectively, invest wisely and manage their debt level in a sustainable manner⁷. Financial services are becoming freely accessible, but, increasingly complex financial services market offers the consumers myriad of products with intricate features and services, which leave many people ill equipped to cope up with the sophisticated financial needs. The economies around the world have increasingly considered financial literacy as a key pillar for the development of financial system of a country.

LITERATURE REVIEW

ACNielsen Research (2005)¹ conducted a national survey of adult financial literacy in Australia. The main results of this survey indicated that the lowest level of financial literacy were associated with people who have lower education, unemployed or unskilled workers and people with low income, single people, and those at both extremes of the age profile .On the other hand, the 2005 results showed an overall improvement in the financial literacy of Australians.

Taqadus Bashir et.al (2013)² aimed to study the behaviour of investors from National Savings Centres of Pakistan. The study inferred that the individuals of Pakistan were found to be financially illiterate in term of advance literacy and there existed a positive relationship between financial literacy and other psychosocial factors which were hopelessness, religiosity, financial satisfaction, and retirement plan intention and risk preference. Financial literacy was also positively related to age, qualification, marital status and occupation as older, highly qualified, married and business persons were more financially literate. Financial literacy had significant positive relationship with gender, hopelessness and retirement plan intention. This study has implications for researchers, academicians and policy makers.

RATIONALITY OF THE STUDY

Indian households make many financial decisions each year. These relate to a wide range of financial matters, including decisions on how to budget, how much to spend and to

save, where to invest their money i.e., their earnings, how to manage their financial risks, how much debt they may need to fund their expenditure, and what form that debt should take. These decisions range in complexity, but all require at least a basic level of financial literacy.

In the world of escalating financial complexity, there is an increasing need for financial knowledge and at least basic financial skills. Technological advances have dramatically transformed the provision of financial services in India and around the world. There is an ever increasing diversity of financial products and services, including debt products and investment opportunities available to the public. While this provides increased benefits, it also entails more complex risks, including risks that are not always readily apparent to the unwary. Accordingly, the scope and complexity of the financial decisions an individual has to make in managing their financial affairs has grown significantly. Individuals must be able to differentiate between a wide range of financial products and services, and providers of those products and services. Based on the empirical justification drawn above, conduct of this study is deemed to be rational in nature.

OBJECTIVES OF THE STUDY

1. To study the socio-economic status of urban households in Coimbatore city.
2. To evaluate the financial literacy level of urban households in Coimbatore City.

RESEARCH METHODOLOGY

The research design of the study consists of two stages. First stage of the research is explanatory in nature. A descriptive research was carried out at the second stage.

SAMPLING FRAMEWORK

The researcher adopted multi-stage sampling technique for the effective conduct of this empirical study. Primarily the researcher adopted clusters based random sampling technique to identify and group the geographic area of the households to be surveyed.

DATA SOURCE

Data base of the study includes both primary and secondary data. Primary data has been collected through individuals using Interview Schedules. The secondary data required for the study has been collected from research journals, published documents, and various websites.

ANALYSIS OF DATA

To ascertain the demographic and socio economic status of the households, sample investors were characterized on the basis of gender, age, marital status, Educational qualification,

occupation, monthly income, family size. The obtained information is presented and analysed in the following tables.

TABLE 1.1 DEMOGRAPHIC AND SOCIO ECONOMIC STATUS OF HOUSEHOLDS

S.No.	Factors	Category	No.of Respondents	Percentage
1	Gender	Male	884	54.60
		Female	736	45.40
		Total	1620	100
2	Age	25-30	667	41.20
		31-35	344	21.20
		36-40	198	12.20
		41-45	93	5.70
		46-50	112	6.90
		51-55	143	8.80
		Above 56	63	3.90
		Total	1620	100
3	Marital Status	Married	1145	70.70
		Unmarried	475	29.30
4	Educational qualification	SSLC	267	16.50
		HSC	95	5.90
		Diploma/Technical Education	32	2.00
		Under Graduate	76	4.70
		Professional Qualification	388	24.00
		Post Graduate	653	40.30
		Others	109	6.70
		Total	1620	100

It may be noted from the information given in the tables that a higher percentage ie., 54.60 percentage of the sample investors were Male, who were belonging to the age category of 25-30 years. A majority of the respondents surveyed were married and were having post-graduation as their educational qualification.

Table 1.2 Demographic and Socio Economic status of Households

S.No.	Factors	Category	No.of Respondents	Percentage
1	Occupation	Daily wages	47	2.90
		Salaried	650	40.10
		Business	143	8.80
		Households	32	2.00
		Students	123	7.60
		Retired	32	2.00
		Professionals	529	32.70
		Others	64	4.00
		Total	1620	100
2	Monthly Income	Below 10000	289	18.40
		10001-20000	345	21.30
		20001-30000	809	49.90
		30001 & Above	168	10.40
		Total	1620	100
3	Family Size	2-4 Members	1196	73.80
		5-7 Members	312	19.30
		More than 7	112	6.90
		Total	1620	100

Information presented in Table 1.2 reveals that the respondent having salaried occupations are the highest about 40.10 percent followed by professionals about 32.70 percents. Most of the respondents ie., 809 out of 1620 are having a monthly income between 20000-30000. Other important fact revealed through this table was majority of the respondents had 2 to 4 members in their family.

To analyse the influence of demographic status towards the financial literacy levels in an Individual, the association between demographic profile of the households and financial literacy is studied and is furnished in Table 2.1.

ASSOCIATION BETWEEN DEMOGRAPHIC PRFOILE OF THE HOUSEHOLDS AND FINANCIAL LITERACY

Variables	Sources	Opinion of Financial Literacy Levels				Total
		Very familiar	Familiar	Not much familiar	Poor understanding	
Gender	Male	32(2.00)	306(18.90)	454(28.00)	92(5.70)	884(54.60)
	Female	78(4.80)	317(19.60)	280(17.30)	61(3.80)	736(45.40)
	Total	110(6.80)	623(38.50)	734(45.30)	153(9.40)	1620(100)
Age	25-30 years	62(3.80)	170(10.50)	343(21.20)	92(5.70)	667(41.20)
	31-35 years	32(2.00)	204(12.60)	108(6.70)	0(0.00)	344(21.20)
	36-40 years	0(0.00)	61(3.80)	91(5.60)	46(2.80)	198(12.20)
	41-45 years	0(0.00)	46(2.80)	32(2.00)	15(0.90)	93(5.70)
	46-50 years	0(0.00)	16(1.00)	96(5.90)	0(0.00)	112(6.90)
	51-55 years	16(1.00)	79(4.90)	48(3.00)	0(0.00)	143(8.80)
	Above 56 years	0(0.00)	47(2.90)	16(1.00)	0(0.00)	63(3.90)
	Total	110(6.80)	623(38.50)	734(45.30)	153(9.40)	1620(100)
Marital status	Married	64(4.00)	469(29.00)	551(34.00)	61(3.80)	1145(70.70)
	Unmarried	46(2.80)	154(9.50)	183(11.30)	92(5.70)	475(29.30)

	Total	110(6.80)	623(38.50)	734(45.30)	153(9.40)	1620(100)
Educational qualification	SSLC/Metric	30(1.90)	111(6.90)	96(5.90)	30(1.90)	267(16.50)
	HSLC	0(0.00)	79(4.90)	16(1.00)	0(0.00)	95(5.90)
	Diploma/Technical education	0(0.00)	16(1.00)	16(1.00)	0(0.00)	32(2.00)
	Undergraduate	0(0.00)	16(1.00)	60(3.70)	0(0.00)	76(4.70)
	Professional qualification	16(1.00)	123(7.60)	203(12.50)	46(2.80)	388(24.00)
	Post graduate	64(4.00)	232(14.30)	280(17.30)	77(4.80)	653(40.0)
	Others	0(0.00)	46(2.80)	63(3.90)	0(0.00)	109(6.70)
	Total	110(6.80)	623(38.50)	734(45.30)	153(9.40)	1620(100)
Nature of occupation	Daily wager	0(0.00)	16(1.00)	16(1.00)	15(0.90)	47(2.90)
	Salaried	80(4.90)	261(16.10)	264(16.30)	45(2.80)	650(40.10)
	Business	0(0.00)	95(5.90)	48(3.00)	0(0.00)	143(8.80)
	Households	0(0.00)	32(2.00)	0(0.00)	0(0.00)	32(2.00)
	Students	30(1.90)	0(0.00)	93(5.70)	0(0.00)	123(7.60)
	Retired	0(0.00)	32(2.00)	0(0.00)	0(0.00)	32(2.00)
	Professionals	0(0.00)	171(10.60)	265(16.40)	93(5.70)	529(32.70)
	Others	0(0.00)	16(1.00)	48(3.00)	0(0.00)	64(4.00)
	Total	110(6.80)	623(38.50)	734(45.30)	153(9.40)	1620(100)
Monthly income	Below ₹10000	0(0.00)	143(8.80)	140(8.60)	15(0.90)	298(18.40)
	₹10001-₹20000	46(2.80)	110(6.80)	174(10.70)	15(0.90)	345(21.30)
	₹20001-₹30000	48(3.00)	309(19.10)	344(21.20)	108(6.70)	809(49.90)
	Above ₹30001	16(1.00)	61(3.80)	76(4.70)	15(0.90)	168(10.40)
	Total	110(6.80)	623(38.50)	734(45.30)	153(9.40)	1620(100)

Size of the family	2-4 members	110(6.80)	482(29.80)	451(27.80)	153(9.40)	1196(73.80)
	5-7 members	0(0.00)	61(3.80)	251(15.50)	0(0.00)	312(19.30)
	More than 7 members	0(0.00)	80(4.90)	32(2.00)	0(0.00)	112(6.90)
	Total	110(6.80)	623(38.50)	734(45.30)	153(9.40)	1620(100)

It can be seen from the table 2.1 that i) Female respondents are familiar with the financial instruments, their saving and investment than the Male respondents. ii) The respondents who belonged to the age category of 25-30 years are more knowledgeable towards the saving, investment on various financial instruments. iii) The respondents who are married and settled are highly literate on financial instruments. iv) The postgraduates are financially literate than the other respondents having other qualification. v) The respondents with fixed income as salary are highly knowledgeable on financial literacy influences. vi) A monthly income ranging from 20000-30000 enables them to be more interested in saving and investment. vi) A small size family of 2-4 members who have more interest in knowing the financial products than other respondents.

Suggestion

- ❖ In spite of various measures initiated by the RBI from time to time towards imparting knowledge on financial literacy, the empirical findings of the study reveals that more than 54.70 percent of the households surveyed are not well educated in terms of financial management.

Thus it is suggested that RBI, banks various financial institution and agencies should be committed to provide financial literacy training to the common man in India. i.e., focusing on Micro level segment investors in both urban and semi urban regions.

- ❖ Financial planning for an individual ensures right amount of money at the right point in the future to achieve the desired goals and objectives. Effective financial planning can be done only with adequate financial literacy. Therefore every household should realize its importance and try to gain more knowledge on it.

Conclusion

Financial literacy is an important predictor of financial behavior in the developing countries around the world. Indeed, even within the relatively homogenous Indian

population, levels of financial literacy vary greatly, and that financial literacy predicts financial behavior.

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