

Impact of Financial Literacy Initiatives on Educated Youth: An Empirical Study in Delhi-NCR Region

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Abstract—

TRACK 7 Financial literacy is the buzzword today and efforts are incrementally used universally, for improving the same in India and elsewhere in the world. It relates to awareness about financial planning, possibilities of risk, future scope and profits involved. It helps individuals to become self-sufficient and achieve financial stability in long term. But it has been widely noticed at a parallel level in both developed as well as emerging economies that uneducated as well as educated people have very limited awareness about financial literacy. In case of India it has been noticed that being a welfare government it has come up with several financial benefit schemes for the different targeted groups like women, unemployed, uneducated, senior citizens, etc. But lack of information about the plans and their importance in future reduces the intensity of success of the plans and fails to benefit the individuals. Experiences from various countries with better literacy rates have shown that financial literacy has little to do with education and therefore efforts are made at school and university level to improve the same. In this line, financial institutions from around the country at the state as well as central level such as SEBI and RBI have made certain initiatives for the same. Conducting workshops in schools and colleges is one of such efforts which is considered as quite effective as the students are receptive to listen to people coming from such established offices. This paper presents impact of one of such workshops conducted at college level with the post graduate students of Delhi-NCR region. The study was initiated in the month of October, 2016 to see the level of knowledge/financial literacy of the participants before and after the workshop using a questionnaire. The study intends to see the retention of this knowledge after a period of four months. Appropriate data analysis tools shall be used using SPSS16.

Keywords: Financial literacy, risks, awareness, financial planning household financial decision making, borrowing, saving.

JEL classifications: A290, D120, D140, D830, J130

INTRODUCTION

India is an emerging economy and the prime goal of the government is inclusive growth for all the strata of the population. It has been rightly realized by the government and the economic organizations of the nation to increase financial

capability of the growing population. It will help individuals to become self-sufficient to further achieve financial stability. India has a huge working age population and this forms the core of India demographic dividend. It is a must for the government and the young population to make sure that they are aware about better financial possibilities so that they can take up prudent decisions to have a stable present and future. Financial illiteracy affects all ages and all socioeconomic levels. Financial illiteracy causes many people to become victims of predatory lending, subprime mortgages, and fraud and high interest rates, potentially resulting in bad credit, bankruptcy or foreclosure.

The lack of financial literacy can lead to large amounts of debt and making poor financial decisions. For example, the advantages or disadvantages of fixed and variable interest rates are concepts that are easier to understand and make informed decisions. Based on research data by the Financial Industry Regulatory Authority, 63% of Americans are financially illiterate. They lack the basic skills to reconcile their bank accounts, pay their bills on time, pay off debt and plan for the future.

Financial literacy education should also include organizational skills, consumer rights, technology and global economics because the state of the global economy greatly affects the U.S. economy. Further it has been claimed by the researchers that Japan being one of the developed nation of Asia and having 98% literacy, ends up having less than 50% of financial literacy. Given these data it can be deciphered that emerging economies like India have even more chronic financial illiteracy among the educated, leave apart the uneducated ones.

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ⁱSome researchers have also claimed that the levels of financial literacy are best guided by the parents. Educated parents have been an important source of awareness about financial planning to their children who might be qualified and related to varied streams of employment. Parents become the role model of financial planning for their children and inculcate the borrowing and saving habits among them.

REVIEW OF THE LITERATURE;

Various surveys show that the level of financial literacy of Indians is low.

ⁱⁱ India stands in the 23rd position out of 27 countries in the recent survey conducted by Visa. Our government and other agencies have taken various steps to overcome the gap. The following are some of the initiatives taken:

- Inclusion of Financial literacy in School curriculum
- 658 Financial literacy centers are operating all over India to spread financial literacy.
- SEBI initiated nationwide campaign to spread financial education to various target segments such as students in schools and universities, working executives, home makers, retired personnel, self-help groups, etc
- More than 3,500 workshops were conducted
- Essentials of Investing': A set of 11 booklets
- 'Markets in Motion': A weekly briefing on major developments in economy and finance.
- Many programs and competitions are conducted among the kids to develop the awareness of financial literacy
- Seminars on various aspects like savings, investment, financial planning, banking, insurance, retirement planning, etc..

Increased variety of products and the instability of the global economy in twenty first century caused increasing complexity of financial decisions and also caused consumers faced with the challenge in economic and financial activities. For this reason, in the last decade, the importance of financial management skills in personal and work life has increased and researches in this area has been done.

The following section gives the general studies made related to financial literacy.

Studies by Marcolin and Abraham (2006); Schuchardt et al., (2008); Remund (2010) and Huston (2010) found that despite the rapid growth of interest in and funding for financial literacy and financial education programs, it remains the case that the field of financial literacy has a major obstacle to overcome: the lack of a widely disseminated measure of financial literacy, developed through rigorous psychometric analyses.

Michael (2009) argues that a lack of financial literacy can hamper the ability of individuals to make well-informed financial decisions. For people who exhibit problems with financial decision making, financial advice has the potential to serve as a substitute for financial knowledge and capability.

Ansong and Gyensare (2012) conducted a study among 250 UG and PG University students of Cape Coast reveals that the age and work experience are positively related to Financial literacy. Also, mother's education is positively correlated with respondents' financial literacy. But, level of study, work location, father's education, access to media and the source of education on money has no influence on financial literacy.

In addition, *Koshal et al.(2008)* reported that the difference between Indian MBA students' grades does not show a statistically significant effect on economic literacy score.

Study by Martin Samy (2007) revealed that determinants of credit card are significantly dependent on a student's year of study, credit card status and daily routine, which has a strong relevance to respondents' knowledge of credit cards.

Bernanke (2011), discussed before a congressional hearing committee in April 2011, Ben Bernanke highlighted the need for continual updating of financial literacy across all age groups because of the dynamic nature of financial products and services as well as the changing needs and circumstances of individuals with time (Bernanke 2011). He observed that exposing young people to financial concepts is particularly important as they are vulnerable to the temptations of taking excessive debt.

Sheresberg, C.B. (2013), in the paper on the topic "Financial Literacy and financial behaviour among young adults: Evidences and implications" concluded that the US population is mostly financially illiterate. Only 34% of the people possess financial literacy. The author also found that there is significant difference between men and women in US on the terms of financial education. One can say that men are more financially literate than women, thus women are the best target to provide financial education. "the paper also analyses how financial literacy relates to 3 financial behaviour which form the base of the well-being of young adults it includes use of high cost borrowing methods, rainy day funds and retirement planning." The paper suggested that the young adult with higher financial literacy will take care of all the three aspects. The person who demonstrates higher financial literacy will never go for high cost borrowing also will have the rainy day funds in place to meet the sudden or unpredictable expenses.

Along with this these people will have a better retirement planning. The author concluded that “there is a growing gulf between the amount of financial responsibility given to the young adults and their ability to manage the finance and take advantage of financial opportunities. Thus financial literacy not being properly imparted is becoming a major concern for the financial markets as it cannot efficiently operate in such a situation and neither it can make the youth participate completely in the financial markets”. Thus it can be inferred that in absence of financial literacy the financial acumen cannot develop to the full.

Lusardi, A. et.al (2014) in their work on the topic “The economic importance of financial literacy: Theory and evidence.” Have proved that how financial literacy forms the base of financial independence and financial freedom along with economic growth. They concluded that the world is facing lack of financial knowledge. Efforts are made to cover the gaps of financial knowledge, efforts are on to “identify individuals who are most in need of financial education and the best way to improve that education.” The US study by the author proved that Americans lack the basic finance skills necessary to develop and maintain budget, to understand the clauses or credit and rate associated with it, the Americans lack the knowledge in understanding investments in all they lack in basic financial knowledge and knowledge which can help them to prevail in crisis situation. The author also states that financial markets are complex and financial education is must to understand these complexities. A financially educated individual can be one’s own advocate and can take much better decision as compared to one who just had an informed advisor. The individuals have less information about various financial products and are mostly financially illiterate. The researcher has suggested various dimensions to understand the financial literacy of the individuals which can guide to understand whether the individual is financially literate or not.

The above studies very well disclose the fact that the young generation in the present world is not equipped with proper financial knowledge. We can say that the students who study business or economics are better placed but they also cannot be termed as financially literate. We need to focus a lot on the financial literacy of the youth. As the days are not far it corrective steps are not taken now it will result into financial disaster. The youth of today will be forming the future of tomorrow if the youth is not prudently aware in matters concerning finance it will affect the economy of the nation in future. Also parents need to play a vital role in developing the financial acumen of the youth. No doubt educational institute can provide theoretical knowledge but its on the parents to provide the practical insight to the youth. The parents being the first teachers can imbibe the habits of financial planning from an early age.

ⁱ The influence of parental financial teaching on saving and borrowing behavior Annewil Mettien Homan1 Thesis, MSc.

Finance University of Groningen Supervisor: Dr. M.M. Kramer January 2016

ⁱⁱ A STUDY ON FINANCIAL LITERACY AMONG YOUNG EMPLOYEES IN COIMBATORE CITY. <http://www.grgsms.ac.in/wp-content/uploads/2014/03/Gowri-WP-201403001.pdf>

OBJECTIVES OF THE STUDY

To estimate the financial literacy of the youth.

To measure the effectiveness of workshops conducted by SEBI on financial literacy in educational institutions.

Hypothesis

The following hypothesis was taken up to be tested

H₀: there is no significant impact of the workshop on the financial literacy of the respondents

METHODOLOGY

Data was collected using questionnaire regarding the financial literacy in three areas. One concentrated specifically on the knowledge related to interest, inflation and risks. The second related to calculating interest rates, simple and compound. The third aspect was regarding the behavioral aspects of the respondents with respect to managing their finances using the available resources. A camp on financial literacy was organized in the academic set up in collaboration with SEBI and the data was collected before organizing this camp. The second session of data collection was done after about four months to check the retention of the knowledge gained during the financial literacy camp. Paired t-test was applied to check the hypothesis using SPSS 16.

ANALYSIS AND DISCUSSION

The results show that the aforesaid financial literacy workshop was extremely effective. the change in the correct answers after the workshop were found to be highly significant as is shown in the table 4 in the annexures. This is probably because the respondents were taken from the programme of economics and also the workshop was conducted in a very conducive environment in formal academic setup. Further, the students also underwent with the formal courses related to economics that gave them better understanding of what ever was presented in the workshop.

The researchers therefore suggest that financial literacy of the respondents can be effectively increased with the help of financial literacy workshops if the students take up courses related to these in their formal studies and if the workshops are conducted in formal academic setup.

The table 3 and subsequently table 4 indicate that the null hypothesis that, workshop is not effective, has been rejected.

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Annexures

Table 1 Notes		
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Comments		
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	Filter	<none>
	Weight	<none>
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Missing Value Handling	Definition of Missing	User defined missing values are treated as missing.
	Cases Used	Statistics for each analysis are based on the cases with no missing or out-of-range data for any variable in the analysis.
Syntax		T-TEST PAIRS=KLAW KLBW KLIBW FBBW WITH KLBW KLIBW KLIAW FBAW (PAIRED) /CRITERIA=CI(.9500) /MISSING=ANALYSIS.
Resources	Processor Time	00:00:00.02
	Elapsed Time	00:00:00.01

Table 2 Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Total scoreKnowledgeAW	17.7700	100	1.81384	.18138
	Total scoreKnowledgeBW	22.6900	100	3.16130	.31613
Pair 2	Total scoreKnowledgeBW	22.6900	100	3.16130	.31613
	Total Score BW Knowledge of Intrest calculation and others	15.7200	100	2.72319	.27232
Pair 3	Total Score BW Knowledge of Intrest calculation and others	15.7200	100	2.72319	.27232
	Total Score AW Knowledge of Intrest calculation and others	11.7600	100	1.52501	.15250
Pair 4	Total ScoreBW financial behaviour and perception	34.0000	100	3.83235	.38323

	Total ScoreAW financial behaviour and perception	33.7200	100	3.49337	.34934
Table 3 Paired Samples Correlations					
		N	Correlation	Sig.	
Pair 1	Total scoreKnowledgeAW & Total scoreKnowledgeBW	100	.024	.809	
Pair 2	Total scoreKnowledgeBW & Total Score BW Knowledge of Intrest calculation and others	100	.411	.000	
Pair 3	Total Score BW Knowledge of Intrest calculation and others & Total Score AW Knowledge of Intrest calculation and others	100	-.092	.364	
Pair 4	Total ScoreBW financial behaviour and perception & Total ScoreAW financial behaviour and perception	100	.943	.000	

Pair 3	Total Score BW Knowledge of Intrest calculation and others - Total Score AW Knowledge of Intrest calculation and others	3.96000	3.24090	.32409	3.31694	4.60306	12.219	99	.000
Pair 4	Total ScoreBW financial behaviour and perception - Total ScoreAW financial behaviour and perception	.28000	1.27984	.12798	.02605	.53395	2.188	99	.031

Table 4 Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Total scoreKnowl edgeAW - Total scoreKnowl edgeBW	4.92000	3.60606	.36061	5.63552	4.20448	13.644	99	.000
Pair 2	Total scoreKnowl edgeBW - Total Score BW Knowledge of Intrest calculation and others	6.97000	3.21441	.32144	6.33219	7.60781	21.684	99	.000