

## FINANCIAL LITERACY, BEHAVIOUR AND PERCEPTION OF PERSONAL FINANCES: A STUDY WITH REFERENCE TO PEOPLE OF CHENNAI

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### Abstract

Financial literacy and consequently financial stability of citizens are two key aspects for the economic development of a nation. Financial literacy potentially increases savings which in turn leads to higher investment. Increase in investments would facilitate effective utilization of untapped business opportunities by ways of increased economic activity through credit creation and results in the positive impact on GDP. This paper seeks to understand the levels of financial awareness and therefore saving and investment practices among the residents of Chennai. The study also attempts to understand any change in attitude and towards money and finances post Covid-19.

**Keywords:** Financial literacy, savings, investment, financial attitude

### I. INTRODUCTION

Financial literacy includes the ability to distinguish between wants and needs, manage a budget, meet out commitments in a timely fashion, save money and plan for a secure future. Anything resembling credit, interest rates and investing becomes intimidating with the lack of financial knowledge. As investment options are becoming more in number and complexity, it is important that people have enough literacy to make sound decisions. Awareness allows individuals to develop a healthy relationship with money and become financially responsible. Financial awareness is also particularly useful during unforeseen times like the Coronavirus pandemic.

#### A. *Global Financial Literacy*

Although financial literacy is higher among the wealthy, well-educated nations, a large proportion of the world's people are still not fully prepared to deal with the financial landscape. Only 1 in 3 adults show an understanding of basic financial concepts. Low financial literacy rates are a major barrier for economic growth in developing countries. For instance, in China, credit-card ownership has doubled from 8% in 2011 to 16% in 2015, but still only half of them can calculate the interest rates on their credit cards. European countries like Denmark, Sweden are the most literate financially followed by Canada and Israel[1].

#### B. *Financial Literacy in India*

According to a global survey[1], around 76% of the Indian population does not understand the basic financial concepts. This could act as a major drawback in becoming an economic superpower.

However, it is noteworthy that the GOI has been undertaking a series of calibrated measures to improve financial literacy and awareness like,

- Introduction of RBI's handbooks and booklets like FAME.
- SEBI's National Institute of Securities Markets (NISM) and other investor education programs like SMAC 2003 comprising of campaigns, workshops etc. These programs cover important topics like portfolio management, mutual funds, tax provisions, investor protection funds and derivatives etc.

- Setting up of Investor Protection Fund (IPF) to compensate the investors.
- Insurance regulatory and development authority's initiative to inform the rights and duties of policyholders through National Strategy for Financial Education (NSFE) program.
- RBI's formation of National Strategy for Financial Education (NSFE) for the year 2020-25 which aims to encourage saving habits of people and their high participation in financial markets.

These initiatives aim at building a financially literate population which ultimately leads to a greater improvement in the Gross Domestic Capital Formation and ultimately in the economic development through savings as it is a major component of economic growth.

## II. LITERATURE

According to the Financial Literacy and Education Commission (US), there are 5 key components of financial literacy: earn, spend, save& invest, borrow and protect[2]. *Earn* – Ability to bring in money; *Spend* – Spending frugally and living wisely; *Saving & Investing* –Producing a surplus and make that surplus grow; *Borrowing* – Acquiring debt to create assets & *Protecting* – Preventing fraud and buying insurance. This study seeks to understand the behaviour with respect to the first 4 aspects and fleetingly touches upon the 5<sup>th</sup> component.

Gender is the one of the demographic variables which has a major impact on investment patterns. The financial attitude of women is highly associated with financial literacy level[3]. The age and occupation of the respondent has an impact on the risk tolerance and respondent's perception of risk. Family and friends have a lot of influence on investment decisions. Lewel len et al. (1977) found that investors' age, gender, income and education affect their investment inclinations[4].

Individual investor behaviour was impacted during Covid-19 outbreak[5]. The monthly amount invested by respondents in SIPs dropped by 43%. The major reasons behind the decreased investment were decline in household income and retaining cash for emergencies. Saving and spending patterns have changed, people are oriented towards less spending and leaning more towards saving after the Pandemic[6].

## III. RESEARCH METHODOLOGY

### I. Objectives of the Study

- To understand the existing financial behaviour and habits of the respondents
- To assess the financial attitude and perception of savings and investment of the respondents
- To evaluate the relationship between demographics of age on deployment of savings and gender on levels of financial attitude
- To understand gender wise and age wise post Covid financial behaviour

### II. Sampling

This descriptive research study was conducted on a sample of 352 respondents living in Chennai city. The sample was chosen through non probability convenience sampling technique

### III. Research Instrument

The Organization for Economic Co-operation and Development is an intergovernmental economic organization with 37 members, founded in 1961 stimulate economic progress and world trade. It has set up International Framework for Financial Education (INFE). Through INFE it has developed a survey to assess the financial literacy among adults of the world. Assessing the levels of financial literacy of the population is an important element for a successful national strategy for financial education and enables policy makers design appropriate measures. This study has drawn heavily from the OECD survey toolkit[7] in the preparation of the questionnaire used. Accordingly,

the questionnaire comprised of 4 parts viz. PART 1: Demographics of the respondents PART 2: Current savings and investment pattern PART 3: Attitude towards money and finance and PART 4: Impact of Covid-19 on Savings and investment pattern

**IV. DEMOGRAPHIC PROFILE OF RESPONDENTS**

40% of the respondents were under the age of 35 years, 29% between 36-45 years and 31% above the age of 45. 52.5% of the respondents were males. 64% of the respondents were married. Only 4.83% of the respondents were not degree holders, while 43% of the respondents had a post graduate or professional qualification. Around One-fourth (26%) of the respondents were employed in private sector. About one fifth (23%) were employees in government sector, 15% self employed, 16% of them were students. The rest were retired or homemakers not having an active income. In this study, Majority were dual (38%) or more than dual income families (37%). Only one-fourth were single income families. Majority of the respondents (54%) had two people financially dependent on them while 22.7% had more than 2 dependents.

This demographic profile reveals that the findings of this study are applicable to a young and educated population comprising equally of both genders and having some degree of financial responsibility towards family as well.

**V. FINANCIAL BEHAVIOUR**

**A. Income of the Respondents**

TABLE 1: TABLE SHOWING INCOME OF RESPONDENTS

<b>Annual Income (INR)</b>	<b>Percentage of Respondents</b>
Below 2,50,000	17.33
2,50,001-5,00,000	46.02
5,00,001-10,00,000	21.31
10,00,001-15,00,000	6.82
Above 15,00,001	8.52

This study pertains to lower to middle income respondents. The income levels could be due to the young age of majority of the respondents who may have just started their careers.

**B. Ownership of Assets**

TABLE 2: TABLE SHOWING OWNERSHIP OF PERSONAL ASSETS

<b>Assets</b>	<b>Numbers Owned</b>		
	<b>None</b>	<b>One</b>	<b>More than one</b>
Car	26	65	9
House	10	75	15
Bike	18	68	14

It is remarkable that ¾ th of the respondents are house owners .

**C. Usage of Credit Cards**

36% of respondents had one credit card, 13% more than one while it was remarkable to note that 51% of the respondents did not possess any credit card. This maybe owing to the income levels and financial status of the respondents.

**D. Debt Commitments**

80% of the sample had some type of debt commitment of which 40% of the respondents had taken personal loan (these attract highest rate of interest) and 27% had taken loan from friend or relatives instead of institutional finance .

**E. Locus of control for financial decisions**

16% of the sample took financial decisions by themselves while 21% allowed their parent / spouse to take financial decisions on their behalf. 63% of the respondents said that day to day decisions about money are joint decision. Therefore, financial literacy programs, any advertisements by financial companies, or promotions relating to financial literacy should be targeted at the entire family.

**F. Preparation of household budget**

More than 75% of the respondents prepare a household budget. Any financial literacy program should include the nuances of the household budget preparation. Banking and financial companies as well as government should introduce several apps available to the public, thereby household budget can be prepared very easily. Out of the 266 respondents who prepare a budget, 60% of them prepare the budget only before any major purchase. Only 13% prepare a budget monthly. Financial literacy campaigns should talk about the benefits of people preparing monthly budgets so that they save enough money for any major purchase.

**G. Saving pattern**

Nearly 70% of the respondents save monthly while only 6% save at the time and for the purpose of tax planning. This could be because majority respondents are salaried and belong to the lower and middle-income groups.

**H. Investment of savings**

TABLE 3: TABLE SHOWING FREQUENCY OF INVESTMENT IN VARIOUS ASSET CLASSES

Asset Class	Frequency of Investment			
	Invest Regularly (%)	Invested Once/Twice (%)	Heard but Not Invested (%)	Never Heard Before (%)
Fixed Deposits	<b>63.50</b>	24.43	12.50	57.57
Recurring Deposits	23.58	33.24	38.92	4.26
Mutual Funds	32.10	30.97	33.24	3.69
Gold and Silver	<b>50.57</b>	35.23	13.92	0.28
Government Bonds	17.05	26.14	<b>48.86</b>	7.95
Post Office Savings Scheme	19.32	19.60	<b>40.06</b>	21.02
Public Provident Fund	14.20	15.63	<b>43.75</b>	26.42
Commercial Real Estate	13.64	15.63	55.11	15.63
Other Real Estate	21.31	15.06	46.31	17.33
Insurance Scheme	<b>43.18</b>	32.67	13.64	10.51
National Pension Scheme	11.08	10.51	26.99	<b>51.42</b>

Equity Linked Savings Scheme	9.38	9.94	33.52	<b>47.16</b>
Stocks and Shares	<b>50.28</b>	16.19	11.93	21.59

**VI. FINANCIAL ATTITUDE - PERCEPTION OF SAVINGS & INVESTMENT**

**A. Source of Influence**

When asked to rank the various sources that influenced the respondents while making decisions relating to savings and investment, the following were the majority ranking

TABLE 4: TABLE SHOWING RANKING OF THE VARIOUS SOURCES OF INFLUENCE

Rank	Source ( % of respondents)
1	Parents/Family/Relatives ( 75%)
2	Friends/Colleagues ( 70%)
3	Newspaper/Magazines/Media( 59%)
4	Professional Advisor/Auditor ( 58%)
5	Office Advisor/Accountant ( 59%)

**B. Risk Perception**

TABLE 5: TABLE SHOWING RISK PERCEPTION

Risk Perception Statements	True*	False*
An investment with a high return is likely to be high risk.	43	<b>57</b>
High inflation means that the cost of living is increasing rapidly.	39	<b>61</b>
Investing in stock market is very risky	31	<b>69</b>
It is usually possible to reduce the risk of investing in the stock market.	<b>81</b>	19
Only people with high knowledge can invest in stock markets	<b>74</b>	26
People who are wanting to invest need to seek professional help	33	<b>67</b>
Traditional investments like bank deposits are safest and best	42	<b>58</b>
Investment in real estate properties is very good	<b>86</b>	14
Every person should have at least one house property	<b>82</b>	18
Investing in gold and silver cannot go wrong	<b>84</b>	16
I prefer government securities like PPF, Post Office Savings Scheme even if it gives me lower returns.	<b>77</b>	23
Tax saving angle is very important	<b>93</b>	7

\*Percentage of responses

The results above indicate a conservative attitude and low risk propensity of the respondents.

**C. Attitude towards money and finances**

The respondents were asked to rate their agreeableness towards the following statements on a 5 point scale with 5 indicating strongly agree and 1 being strongly disagree

TABLE 6: TABLE SHOWING THE WEIGHTED AVERAGE OF THE ATTITUDES OF RESPONDENTS TOWARDS MONEY AND FINANCE

Statements	Weighted Average
Before I buy something, I carefully consider future outflows	<b>4.82</b>
I plan my finances keeping my future plans in mind	4.17

I am a lot apprehensive about risking my money while making an investment	4.03
I periodically do an assessment of my financial status	4.07
I feel credit cards are safe and risk free	3.55
<b>I believe that my online financial information is safe</b>	<b>2.94</b>
I am influenced by my family/peers when it comes to saving and investing	3.88
I want my investment money to be safe even if it means lower returns	3.51
I set long term financial goals and strive to achieve them	3.55
I am comfortable not paying my credit card bills in full, as long as I make the minimum payment	3.06
I feel that mobile banking is not very secure	3.62
I do not like taking loans	3.80
I am more concerned about my long-term financial security	4.15
I believe credit cards are also a form of loan	3.10

The respondents were grouped as Conservatives ( score >4), Neutral ( between 3-3.99) and Risk Takers ( < 2.99) based on their average score for a series of statements that reflected their financial attitude. 90% of the respondents proved to be neutral which meant that they had no strong attitude or opinions in matters of personal finance. This result can be used to the nation’s advantage. If financial literacy programmes are well planned savings and investment into desired channels can be stimulated. Conservatives and risk takers were only 5% each out of the respondents.

**VII DEMOGRAPHICS & FINANCIAL BEHAVIOUR**

**A. Age and deployment of savings**

A chi square test was conducted to understand the relationship between age of the respondent and what they did with the savings. The null hypothesis was accepted as  $X^2(20, N = 352) = 27.28, p = .127 > .05$ . Hence it was concluded that there was no association between age and how savings were deployed

**B. Gender and Financial attitude**

A null hypothesis( Ho) was framed to state that there is no significant difference in mean scores of financial attitude based on gender. Results of independent T test revealed that the 167 women ( M= 3.2, SD = 1.006) demonstrated slightly more conservatism in financial attitude compared to the 185 male respondents ( M=3.1, SD=1.36) . Results being  $t(350) = 0.78, p < 0.001$

**VIII POST COVID FINANCIAL BEHAVIOUR**

**A. Age of the respondent and Post Covid financial behaviour**

A chi square test of independence was performed to examine the relationship between age of the respondent and post covid financial behaviour. The relation was significant  $X^2(12, N = 352) = 32.29, p = .001$

TABLE 7: TABLE SHOWING THE CROSS TABULATIONS BETWEEN AGE AND POST COVID FINANCIAL BEHAVIOUR

Age	Post Covid Tendencies			
	To save more	To spend more	Want professional guidance	Unchanged
18-25	54%	14%	3%	29%



26-35	44%	39%	4%	13%
36-45	53%	21%	11%	15%
46-60	47%	15%	5%	33%
Above 60	51%	30%	5%	14%

**B. Financial attitude and Post Covid Behaviour**

Using chi square it was found that there is significant association between attitude level and post covid behaviour  $X^2 (6, N = 352) = 17.56, p = .007$

TABLE8:SHOWINGTHE CROSSTABULATION BETWEEN ATTITUDESTOWARDSMONEY AND POSTCOVID-19PERCEPTION

Attitude Groups	Post Covid Tendencies			
	Likely to save more	Likely to spend more	Needs professional guidance	Spending habits remain unchanged
Conservatives	37.5%	6.3%	6.3%	50.0%
Neutral	52.2%	24.1%	5.6%	18.1%
Risktakers	18.8%	31.3%	12.5%	37.5%

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