

**Project Dissertation on**  
**Financial literacy**

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## CERTIFICATE FROM THE INSTITUTE

This is to certify that project titled **Financial literacy** is a bonafide work carried out by **Mr. Piyush Gupta** who is a student of **MBA 2012-2014 batch**. The project is submitted to Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-110042 in partial fulfillment of the requirement for the award of degree of Masters of Business Administration

Signature of Guide

Signature of Head (DSM)

Seal of Head

Place

Date

## DECLARATION

I **Piyush Gupta**, student of MBA 2012-14 of Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-110042 declare that project report on **Financial literacy** submitted in partial fulfillment of Degree of Masters of Business Administration is the original work conducted by me.

The information and data given in the report is authentic to the best of my knowledge.

This report is not being submitted to any other University for award of any Degree, Diploma and Fellowship

(Piyush Gupta)

Place:

Date:

## ACKNOWLEDGEMENT

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## EXECUTIVE SUMMARY

Financial literacy as defined by OECD is “a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.” Together with Financial Inclusion and Consumer Protection, Financial Literacy forms a triad, which is necessary for ensuring financial stability. Thus, financial literacy has significant relevance for financial inclusion and consumer protection. Without financial literacy, we cannot expect to make major headway in either financial inclusion or consumer protection. RBI the country’s financial headquarter has taken a number of initiatives to improve the level of financial literacy in India.

The research aims at finding the financial literacy level of people of Delhi and National capital region. The research assesses three important factors of financial literacy that is people financial knowledge, their financial behavior and ability to understand the concepts of risk, return and risk diversification.

To measure the financial literacy level a questionnaire was designed and was distributed amongst the respondents. A total of 80 responses were received while only 64 were received complete. Further analysis is made to calculate the respondents’ average financial score, average financial behavior and average risk analyzing ability score. Respondent were also asked questions about their age, educational qualification, gender and salary range. Attempts were also made to draw relationship between respondents’ demographic factors and the responses that they have provided.

In the end recommendation are made on what steps RBI should take to improve the financial literacy level of the people of India.

## Contents

CERTIFICATE FROM THE INSTITUTE .....	ii
DECLARATION .....	iii
ACKNOWLEDGEMENT .....	iv
EXECUTIVE SUMMARY .....	v
LIST OF FIGURES.....	viii
LIST OF TABLES .....	ix
CHAPTER 1: INTRODUCTION.....	1
1.1 What is financial literacy?.....	1
1.2 Why is financial literacy necessary .....	2
1.3 Who needs to be financially literate and in what respect? .....	3
1.4 How to spread financial literacy? .....	5
CHAPTER 2: RESEARCH OBJECTIVE.....	11
CHAPTER 3: RESEARCH METHODOLOGY .....	13
3.1 Significance of the project .....	13
3.2 Scope/limitations of the study .....	14
3.3 Questionnaire development .....	14
3.4 Data collection and sample design .....	15
CHAPTER 4: LITERATURE REVIEW .....	16
CHAPTER 5: DATA ANALYSIS, INTEPRETATIONS AND FINDINGS .....	22
5.1 Respondents' analysis .....	22
5.1.1 Respondents Gender profile .....	23
5.1.2 Respondents age profile.....	23
5.1.3 Respondents annual household income profile.....	24
5.1.4 Respondent education profile .....	25
5.2 Responses analysis.....	26
5.2.1 Respondents' financial knowledge.....	27
5.2.2 Respondents financial behavior .....	29
5.2.3 Respondents risk analyzing ability.....	30

5.3 Relationship between respondents' demographic factors and their responses..... 30

    5.3.1 Relationship between gender and responses..... 31

    5.3.2 Relationship between educational qualification and responses..... 32

CHAPTER 6: RECOMMENDATIONS AND CONCLUSIONS..... 33

REFERENCES ..... 35

ANNEXURES 1..... 36

## LIST OF FIGURES

Figure 1: Respondents' gender profile.....	25
Figure 2: Respondents' age profile.....	26
Figure 3: Respondents' annual salary profile (Rs).....	27
Figure 3: Respondents' education profile.....	28



## LIST OF TABLES

Table 1: Respondents' responses regarding various banking products.....	30
Table 2: Relationship between respondents' gender and its financial literacy.....	33
Table 3: Relationship between respondents' gender and their decision for choosing a bank.....	33
Table 4: Relationship between respondents' education and financial literacy .....	34

## CHAPTER 1: INTRODUCTION

### 1.1 What is financial literacy?

While there are a number of definitions of financial literacy, the one given by OECD is the most appropriate as, it defines this concept as “a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.” Financial literacy is expected to impart the wherewithal to make ordinary individuals into informed and questioning users of financial services. It is not just about markets and investing, but also about saving, budgeting, financial planning, basics of banking and most importantly, about being “Financially Smart”.

Financial literacy is a complex concept, and it is important to understand its full import. In fact, as a society, we are yet to fully recognize the need and potential of financial literacy. Financial illiteracy permeates across all levels of society and economic strata. The nature of illiteracy and its manifestations may vary, but it gets reflected in the everyday financial choices that many of us make. The lack of basic knowledge about financial products and services and their risk-return framework is one common instance of financial illiteracy that is widely observed. The greed for higher returns eventually culminates into a crisis involving larger number of retail investors. This basic lesson holds true not just for an individual investing his hard earned savings in financial products, but also for a bank or financial institution that manages public funds and channels them, either as investments or loans. Thus, appreciation of various aspects of financial literacy and how it impacts our lives holds the key to prudent financial planning and welfare maximization, both- at the individual level and for the society as a whole <sup>1</sup>.

## 1.2 Why is financial literacy necessary

Together with Financial Inclusion and Consumer Protection, Financial Literacy forms a triad, which is necessary for ensuring financial stability. Not only do the three have a bearing on financial stability, they also have a strong interplay among each other, with each having a vital impact on the other. Thus, financial literacy has significant relevance for financial inclusion and consumer protection. Without financial literacy, we cannot expect to make major headway in either financial inclusion or consumer protection.

Financial inclusion, essentially, involves two elements, one of access and the other of awareness. It is a global issue, and the relative emphasis on the two elements varies from country to country. For developed countries with widespread financial infrastructure, the access to financial products/services is not a matter of concern. It is more of a financial literacy issue in that market players/consumers are required to be educated about the characteristics of the available financial products/services, including their risks and returns. In developing countries like India, however, the access to products is lacking. Therefore, here, both the elements, i.e. access and awareness need to be emphasized, with improving access assuming greater priority.

Financial Stability, as a policy objective, refers to the avoidance of financial crises as also to the ability of the financial system to limit, contain, and deal with the emergence of imbalances before they pose a threat to the economic processes<sup>2</sup>. The recent global financial crisis is a glaring example of how lack of financial literacy can impact financial stability. The genesis of the crisis was in the sale of inappropriate mortgage products to sub-prime borrowers, who did not understand the product characteristics. The crisis was also fanned by the creation of sophisticated financial products by seemingly expert market participants, without understanding the underlying risks involved. Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System, remarked "In light of the problems that have arisen in the subprime mortgage market, we are

reminded of how critically important it is for individuals to become financially literate at an early age so that they are better prepared to make decisions and navigate an increasingly complex financial marketplace”<sup>3</sup>.

Financial literacy is an essential pre-requisite for ensuring consumer protection. The low levels of transparency and the consequent inability of consumers in identifying and understanding the fine-print from a large volume of information leads to an information asymmetry between the financial intermediary and the consumer. In this context, financial education can greatly help the consumers to narrow this information divide. Besides, knowledge about the existence of an effective grievance redress mechanism is essential for gaining the confidence of the unbanked population and overcoming apprehensions they may have about joining, what would appear to be a complex and unfriendly financial marketplace. For the population group that would have newly entered into the formal financial system through our financial inclusion initiatives, awareness about the consumer protection mechanism is critical as any unsavory experience could result in them being permanently lost to the financial system.

### **1.3 Who needs to be financially literate and in what respect?**

Everyone associated with the financial system needs to be financially literate. This includes all users of financial services, be it the financially excluded resource-poor, the lower and middle income groups or the high net worth individuals; the providers of services; and even the policy makers and the regulators.

For the resource-poor population, which operates at the margin, vulnerability can be acute due to constant financial pressures. Household cash management can be daunting under difficult circumstances, with few resources to fall back upon. Financial literacy efforts, in case of such population groups, essentially, involves educating them about the benefits of being part of the formal financial system and managing short term

volatility in incomes and meeting unexpected emergencies without getting trapped in unnecessary debt. To cite one example, a study by NCAER and Max New York Life has shown that in India, around 60 per cent of laborers surveyed stored cash at home, while borrowing from moneylenders at high interest rates; a pattern of saving money that is bound to aggravate financial vulnerability of these laborers<sup>4</sup>. The process of educating these excluded sections would involve addressing deep entrenched behavioral and psychological factors that are major barriers to participating in the financial system.

For the middle and lower-middle income groups that are participating in financial markets as either savers or borrowers or both, i.e. the financially included, financial literacy efforts should aim at enhancing their knowledge about the market and new products/services. For instance, there is a large section of our population that has a bank account but refrains from participating in the capital market on account of lack of knowledge. Financial literacy, in such cases, would focus on creating awareness about the way the capital market functions and also about the fact that the equity market provides relatively higher returns as compared to other investments, over a longer time horizon.

Similarly for high net worth individuals, better knowledge about the financial markets, new and innovative products and instruments is important as it helps them in making better use of the available avenues in the financial markets. This knowledge is also useful for fetching greater returns from their investments in the market and to avail credit at relatively cheaper rates. However, whether saving or investing, the basic lesson that “higher return implies higher risks” should not be lost sight of.

While the need for financial literacy for the users of financial products/ services is a well-accepted fact, I would like to emphasize that even banks, financial institutions and other market players need to be financially literate and be fully aware of the risk and return framework. Financial literacy for the providers of financial services would involve understanding the risks involved in their businesses and in the products that they offer

to their customers. As market players, they need to understand risks inherent in complex financial products and choose wisely while committing funds. For service providers, financial literacy also involves understanding the needs of existing and potential customers and creating products and services suited to those needs.

Finally, one can also argue that financial literacy is also relevant for opinion makers and policy makers. Literacy is a must to gauge the needs of the population and financial institutions; to understand the risks inherent in products and markets; and to create a policy environment conducive to attainment of the national goals. Only such an approach would ensure that physical and financial resources are put to their optimum use to generate higher economic growth, while minimizing the financial stability risks.

#### **1.4 How to spread financial literacy?**

World over, countries have targeted programs for schoolchildren, teachers, research institutions, among others. Further, they have also launched mass media campaigns/websites providing simplified information, often in vernacular mediums, which can be used by the public to learn about the monetary and banking system. A global problem requires a global approach. Realizing this, the Organization for Economic Cooperation and Development (OECD) created the International Network on Financial Education (INFE) in 2008 to promote and facilitate international co-operation between policy makers and other stakeholders on financial education issues worldwide. Currently, more than 200 institutions from 90 countries have joined the OECD/INFE.

In view of the sheer magnitude of the task at hand, it is beneficial to have a strong institutional architecture guiding and coordinating the efforts of various stakeholders towards spreading financial literacy. In India, we have that advantage through the Financial Stability and Development Council (FSDC), which is chaired by the Union

Finance Minister with heads of all financial sector regulatory authorities as members. FSDC is mandated, inter alia to focus on spread of financial inclusion and financial literacy. The Reserve Bank, besides its role as a member of the FSDC, has also taken numerous initiatives for spreading financial inclusion and financial literacy, both in terms of creating an enabling policy environment and providing institutional support.

Under the aegis of the FSDC, the draft National Strategy for Financial Education (NSFE) for India has been prepared. The Strategy envisages ways of creating awareness and educating consumers on access to financial services; availability of various types of products and their features; changing attitudes to translate knowledge into responsible financial behavior; and making consumers of financial services understand their rights and obligations. The Strategy calls for active involvement of individuals, financial sector regulators, educational institutions, NGOs, financial sector entities, multilateral international players and the Government at both Centre and State.

The Strategy envisages a time frame of five years for its massive financial education campaign. It envisages that financial education will be delivered to different target groups through trained users. Basic financial education is aimed to be included in school curricula up to senior secondary level. This is based upon the premise that the most effective way is to weave financial education into the normal content of curriculum. Accordingly, we are engaging with the curriculum setting bodies like the National Council of Educational Research and Training (NCERT), Education Boards like the Central Board for Secondary Education (CBSE), Central and State Governments to try and embed such concepts in the school curriculum.

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National Council of Educational Research and Training (NCERT), Education Boards like the Central Board for Secondary Education (CBSE), Central and State Governments to try and embed such concepts in the school curriculum.

Since the challenge in India is to link large number of financially excluded people to the formal financial system, the focus of our strategy at the base level is to create awareness of basic financial products. Some of the steps that have been taken by the Reserve Bank and other stakeholders to promote financial literacy in India are as under:

- Outreach visits by Top Executives of Reserve Bank of India to remote villages: The objective of these visits is to understand the ground level position, spread awareness about benefits of being connected to the formal financial system and disseminate information about the functioning of RBI.
- RBI website - A link on Financial Education in the RBI website, containing material in English, Hindi and 11 vernacular languages, which includes comic books on money and banking for children, films, messages on financial planning, games on financial education and link for accessing the Banking Ombudsman Scheme.
- Awareness - distributing pamphlets, comic books, enacting plays and skits, arranging stalls in local fairs, exhibitions, participation in information / literacy programs organized by Press. Books on financial planning for students and new professionals have also been released.
- Financial Literacy Centers (FLCs) have been opened by various banks with focus on the spread of Financial Literacy, to create awareness about financial products and provision of counseling facilities for customers of banks. There were 575 FLCs in the country as on September 30, 2012. Conducting Town Hall events across the country, including in Tier II and smaller cities, bringing together commercial banks and other stakeholders.



- Newsbition on Mint Road Milestones has become the focal point for financial literacy activities with all activities relating to financial literacy coalescing at a common forum at each center
- Setting up of a monetary museum by RBI to create awareness about money and banking among general public and spread knowledge about the history of money.
- Use of mobile Financial Literacy vans by banks in the North Eastern States
- Awareness programs on various Government Sponsored self-employment schemes involving bank loans and subsidy by Government agencies like KVIC, DICs and SC/ST corporations.
- Mass media campaign tie ups with educational institutes, financial awareness workshops/ help lines, books, pamphlets and publications on financial literacy by NGOs, financial market players, etc.
- National and State level rural livelihood missions have large number of field functionaries for proper handholding support to large number of Self Help Groups.
- Large number of websites/portals of banks/ State Level Bankers Committees disseminating information on banking services
- Conduct of Financial Literacy programs by Rural Self Employment Training Institutes

In line with the 'catch them young' strategy for our financial education initiatives, the Reserve Bank launched the RBIQ, an all India inter school quiz competition, in 2012. The quiz seeks to be an effective platform for disseminating financial education by creating awareness and sensitization about the history and role of the Reserve Bank, about banking and finance, economics, current affairs, etc., besides seeking to build a 'connect' between the Reserve Bank and the young student community enrolled in schools across the country.

As part of its efforts to gain from international perspectives on financial literacy initiatives, the Reserve Bank, in association with the World Bank and the OECD, is

organizing a Regional Conference on Financial Education in New Delhi next month. The Conference is among the various events organized globally to disseminate the knowledge and products developed through the Financial Literacy and Education Trust Fund, managed by the World Bank and the OECD, for strengthening the capacity for planning and implementation of financial education programs.

One of the objectives of the NSFE is to standardize the messages that various stakeholders seek to disseminate through their financial education initiatives. The draft NSFE document identifies certain simple messages such as why save; why invest; why insure; why save with banks; why borrow within limits; why repay loans in time; why borrow for income generating purposes, what is interest and how moneylenders charge very high interest rates, etc. It is a well-recognized fact that the standardization will help in ensuring consistency in the messages reaching the target audience from various sources and making them more focused and powerful.

The Reserve Bank has released on its website on January 31, 2013, a comprehensive Financial Literacy Guide, which, banks have been advised to use as a standard curriculum to impart basic conceptual understanding of financial products and services. The financial literacy guide consists of Guidance Note for trainers, Operational guidelines for conduct of financial literacy camps, and financial literacy material, including posters. The guide also contains a financial diary to be distributed to the target audience, so as to enable them to keep a record of their income and expenses, as a first step towards financial planning.

While a number of measures have and are being taken across the country, given the enormity of the task, a lot of ground still needs to be covered. Apart from the Government and the regulatory bodies, there is a need for involving the civil society and all other stakeholders in spreading financial literacy. We need to evolve distinct strategies targeting the school children and the adult population. We are still evolving a formalized curriculum for schools, which teaches the schoolchildren the basic principles of money, credit, savings and investments and introduces them to the way our financial

system operates. After all, while one-time, targeted programs are useful, including financial education into school curriculum in an on-going manner would hold the key to making our future generations financially literate. We all must congratulate the UNDP, NABARD and MicroSave for their contributions to improving the quality of lives of the poor through their financial literacy initiatives. However, the widespread existence of financial illiteracy indicates that we need to do a lot more.

## CHAPTER 2: RESEARCH OBJECTIVE

The purpose of this study is to assess the level of financial literacy among the people residing in Delhi and National Capital Region (NCR). OECD defines Financial Literacy as “a combination of financial awareness, knowledge, skills, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”. People achieve financial literacy through a process of financial education.

The key components of financial literacy efforts could be to spread across country some of the following simple messages of day to day finance.

- Why Save?
- Why invest?
- Why insure?
- Why you will need regular stream of income post working life –pension?
- Why save or invest regularly and consistently?
- Why insure fully?
- Why save with banks?
- Why borrow within Limits?
- Why borrow from banks?
- What is the difference between saving and investment?
- Why borrow for income generating purposes?
- Why repay loans?
- Why repay loans in time?
- Why do you need insurance?
- What is interest? How moneylenders charge very high interest rates?

With a help of a questionnaire research is carried out which judges the respondents on various components of financial literacy such as

- There basic understanding of computation of interest rates and compound rates
- Understanding of various financial products offered by banks in India
- Financial behavior of the respondents that is there spending behavior.
- There basic understanding of risk & return relationship and concept of risk diversification.

The research also aims to find out any relationship that exists between the respondent's financial literacy level and there demographic characteristics.

## CHAPTER 3: RESEARCH METHODOLOGY

Research is a quest for knowledge through diligent search or investigation or experimentation aimed at the discovery and interpretation of new knowledge (WHO). Research is an art of scientific investigation.

The purpose of this study is to assess the level of financial literacy among the people residing in Delhi and National Capital Region (NCR).

### 3.1 Significance of the project

Financial literacy has assumed greater importance in the recent years, as financial markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to the latter finding it increasingly difficult to make informed choices.

Financial literacy is considered an important adjunct for promoting financial inclusion and ultimately, financial stability.

Both developed and developing countries, therefore, are focusing on programs for financial literacy/education. In India, the need for financial literacy is even greater considering the low levels of general literacy and the large section of the population, which still remains out of the formal financial loop.

**This research aims at finding the level of financial literacy of people in Delhi and NCR region. Thus the results of the study will check the efficiency of steps taken by RBI under its National Policy of Financial Education and will help in designing of such policies In future.**

### 3.2 Scope/limitations of the study

The scope of the study determines the sample size to be taken or the sample population to be covered. In this study, the area chosen was Delhi and NCR region. Thus the respondent belong to the urban class. The questionnaire was distributed to around 80 person out of which only 64 completed the survey. Thus the research depicts the financial literacy level of these 64 respondents and it will be wrong to say that the results of the research shows financial literacy level of Delhi and NCR citizens. The research have following limitation:

- As the research also tests the financial behavior of the respondents there may be personal biases in the responses.
- Due to time limitation the only 80 questionnaires were distributed out of which only 64 replies were received. Thus it can't be said that result present the complete picture of financial literacy level of the citizens of Delhi and NCR region.
- As the questionnaire was distributed online there may be biasness in the responses as all the respondents must have the basic knowledge of working on computer and accessing the internet.

### 3.3 Questionnaire development

Having read the literature and after having discussed with the guide of the study and an expert from the banking industry, a questionnaire was developed. The questionnaire consists of 4 subsections:

1. First 4 question analyses the respondents' ability to compute simple bank compound and simple interest. It also check respondents know how of various

financial products and what affects the respondents decision to choose a product/service from a particular bank

2. Second section includes only a single question which includes a set of statements to judge the financial behavior of the respondent
3. Third section judges the respondents ability to understand the concepts of risk, risk diversification and risk & return relationship
4. The fourth section is to collect information about the demographic profile of the respondents

### **3.4 Data collection and sample design**

Data is a collection of information. Data collection is the process of collecting data for conducting the study. Data can be collected from various sources. These sources can be primary data sources such as focus group interviews, personal interviews or questionnaires or secondary data sources such as newspapers, magazines and internet. The primary research includes the responses that were collected by publishing the questionnaire over internet, thus the data collection was not based on personal interaction. A total of 64 respondent filled the questionnaire. Responses were received from a diverse set of people belonging to different age groups and having different education and salary levels. Furthermore the responses was extracted using google docs on a excel sheet. Then the data is analyzed and the financial literacy level of the respondents was recorded. Moreover using the data relationships between various demographic parameters of the respondents and their responses was driven.



## CHAPTER 4: LITERATURE REVIEW

Financial literacy has been studied in many countries from different aspects. Hussein A.Hassan Al –Tamimi and Al Anood Bin Kalli’s research study (2009) on Financial Literacy in UAE, the study finds that financial literacy of UAE investors is well below the needed level. As well as it analyses the relationship between the financial literacy and the influence of the factors that affect the investment decisions. The study found that a significant difference in the level of financial literacy was found between the respondents according to their gender. Women were found to have lower level of financial literacy then men. Also, the result indicates that there is significant relationship between financial literacy and investment decisions.

Chen and Volpe (1998) examined the financial literacy of 924 college students from 13 colleges in USA. Also; they investigated the relationship between the financial literacy level and gender, age, nationality, race, income, work experience, academic discipline and class rank. The result of the study indicated that subgroups of academic discipline, class rank, and years of work experience were significantly different in terms of financial literacy level. Non -business majors, women, students in the lower class ranks, under age 30, and with little work experience have lower levels of knowledge.

Also, Volpe et al. (2002) conducted a study to analyse the investment literacy of online investors. The study included 530 online investors for the study to find out the difference in financial literacy level on the basis of age, gender, experience, education and income and previous online experience. The study came with the results that level of financial literacy varied with people’s age, gender, experience, education and income. Also, online traders had higher knowledge than others.

An international OECD study was published in late 2005 analysing financial literacy surveys in OECD countries. A selection of findings included:

- In Australia, 67 per cent of respondents indicated that they understood the concept of compound interest, yet when they were asked to solve a problem using the concept only 28 per cent had a good level of understanding.
- A British survey found that consumers do not actively seek out financial information. The information they do receive is acquired by chance, for example, by picking up a pamphlet at a bank or having a chance talk with a bank employee.
- A Canadian survey found that respondents considered choosing the right investments to be more stressful than going to the dentist.
- A survey of Korean high-school students showed that they had failing scores - that is, they answered fewer than 60 per cent of the questions correctly - on tests designed to measure their ability to choose and manage a credit card, their knowledge about saving and investing for retirement, and their awareness of risk and the importance of insuring against it.
- A survey in the US found that four out of ten American workers are not saving for retirement.

The Australian Government<sup>5</sup> established a National Consumer and Financial Literacy Taskforce in 2004, which recommended the establishment of the Financial Literacy Foundation in 2005. The foundation created an educational website titled "Understanding Money" shortly thereafter the task force also recognized the need for a social marketing campaign. In 2008 the functions of the Foundation were transferred to the Australian Securities and Investments Commission (ASIC). The Australian Government also runs a range of programs (such as Money Management) to improve the financial literacy of its Indigenous population, particularly those living in remote communities.

United Kingdom<sup>6</sup>: The current state strategy involves the FSA spending about £10 million a year across a seven-point plan in United Kingdom. The priority areas are:

- New parents
- Schools (a program being delivered by pfeg)
- Young Adults
- Workplace
- Consumer communications
- Online tools
- Money advice

A baseline survey conducted 5,300 interviews across the UK in 2005. The report identifies four themes:

- Many people are failing to plan ahead
- Many people are taking on financial risks without realizing it
- Problems of debt are severe for a small proportion of the population, and many more people may be affected in an economic downturn
- The under-40s are, on average, less financially capable than their elders

There are also numerous charities in the United Kingdom working to improve financial literacy such as Credit Action, The Talking Economics Project, Citizens Advice Bureau and the Personal Finance Education Group.

The Financial Services Act 2010 included a provision for the FSA to establish a Consumer Financial Education Body, known as CFEB. CFEB will continue the work of the FSA's Financial Capability Division independently of the FSA from April 26 2010.

United States<sup>7</sup>: The US Treasury established its Office of Financial Education in 2002; and the US Congress established the Financial Literacy and Education Commission

under the Financial Literacy and Education Improvement Act in 2003. The Commission published its National Strategy on Financial Literacy in 2006. Additionally, automobile finance companies and retailers provide consumer education through Americans Well informed on Automobile Retailing Economics.

Research conducted by the Money SENSE Financial Education Steering Committee in 2005 to find the financial literacy level of the Singapore people. The objective of the survey was to find whether Singaporeans have knowledge about financial products and if they are able to take effective financial decisions. The study found out that they have sound knowledge about investments.

Dr. Duvvuri Subbarao, Governor, Reserve Bank of India stated in a Valedictory address at the FICCI-IBA annual Conference "There are barriers to access financial services emanating from both demand side and supply side factors. From the demand side, the big barriers are the lack of awareness about financial services and products, limited literacy, especially financial literacy of the populace, and social exclusion. Many of the generic financial products are unsuitable for the poor and there is not much of an effort to design products suitable to their needs. On top of that, exorbitant and oftentimes non-transparent fees, combined with burdensome terms and conditions attached to the financial products, also dampens the demand.

From the supply side, the main barrier is the transaction costs that the bankers perceive. Because of current low volumes, banks find that extending financial services is not cost effective. Furthermore, lack of communication, lack of infrastructure, language barriers and low literacy levels all raise the cost of providing services and inhibit bankers from the supply side"<sup>8</sup>.

A conference was organized by Reserve Bank of India and OECD on 22nd and 23rd March 2010 in Bangalore, a few findings regarding the financial literacy program in developed and developing countries came out as following (as per the article in Business Line; Wednesday, Apr 28, 2010 by Tanushree Mazumdar- Former Deputy Director, Academic Affairs, Indian Institute of Banking & Finance, Mumbai):

There was, however, a difference in the thrust of financial literacy/education drives in these countries vis-à-vis developing countries like India. So far, in India, the emphasis has largely been on financially educating the rural poor and illiterate. Whether it is the business correspondent/business facilitator (BC/BF) model or the technology-driven banking model that the regulators and banks are currently encouraging, the main focus remains the rural poor.

These models have a two-pronged focus: include the financially excluded in the mainstream financial system and financially educate the rural masses about banks, their products, services, procedures, and so on.

In developed countries (OECD to be precise), there is greater focus on educating an average family — helping it balance its budget, build assets, save for children's education and retirement planning. Financial literacy there takes the form of guiding consumers through the maze of complex financial products, taking confident financial decisions and safeguarding their financial interests, and resisting marketing pitches of financial companies by asking the right questions.

There is another difference in the objectives of financial education programs in the developed and developing countries. In the developed countries, financial literacy is linked to consumer protection. Better information disclosure, they believe, would go a long way in strengthening regulatory standards for consumer protection.

In India, financial literacy is seen as a means to achieve financial inclusion. The thrust is on rural areas. This is not surprising, given that 5.7 lakh out of the six-lakh villages don't have a bank branch. There is, however, a strong case for extending the efforts of financial inclusion to urban areas as well. The Economic Survey 2009-10, says that poverty ratio in urban areas is 25.7 per cent which is only somewhat lower than the 28.3 per cent poverty ratio in rural areas.

Today, there are many complex financial instruments available in the country and there is need to take serious initiatives (by regulators, public and private companies) to make more and more people financially literate so that there is no miss-selling in the market.

## CHAPTER 5: DATA ANALYSIS, INTERPRETATIONS AND FINDINGS

The Analysis is divided into two sections i.e. Respondents analysis and responses Analysis. Respondent analysis is to show the demographic profile of all the respondents. The responses analysis will show the analysis of the respondents' financial literacy level on various parameters. Also analysis is made to find relationship between respondents' age, gender, education status and salary with the responses they had provided in the questionnaire.

### 5.1 Respondents' analysis

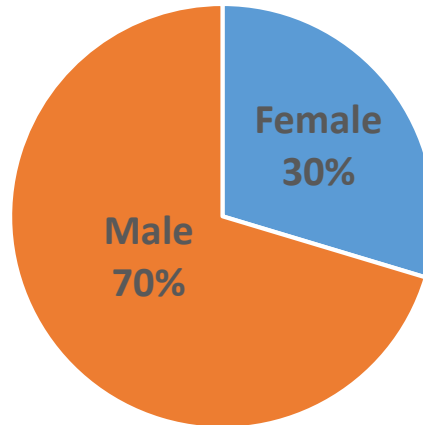
This section includes the analysis of the demographic profile of the respondent. The following figures shows the respondent analysis on the basis of the data collected about them. The respondent were asked 4 questions to collect this data. The questions were about their gender i.e. male or female, there annual household income in rupees, there age in years and there educational qualification.

As mentioned above a total of 80 questionnaires were distributed online while 16 were rejected as they were received incomplete. Thus in total we have to analyze responses of the 64 respondents who completed the questionnaire. (For questionnaire see annexure 1)

### 5.1.1 Respondents Gender profile

Out of the 64 responses received 19 were females while 45 were males. The following pie chart depicts the same.

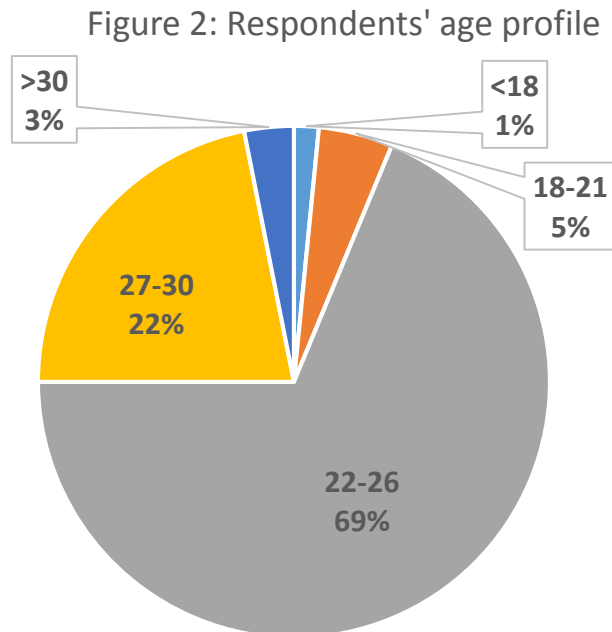
Figure 1: Respondents' gender profile



### 5.1.2 Respondents age profile

Out of total of 64 respondents maximum respondents belong to age range of 22-26 years i.e. 44 respondents fall in the age range of 22-26 years. 14 respondents belong to the age group of 27-30 while 1, 3 and 2 respondents belong to age group of <18, 18-21, >30 years respectively. The following pie chart depicts the same.

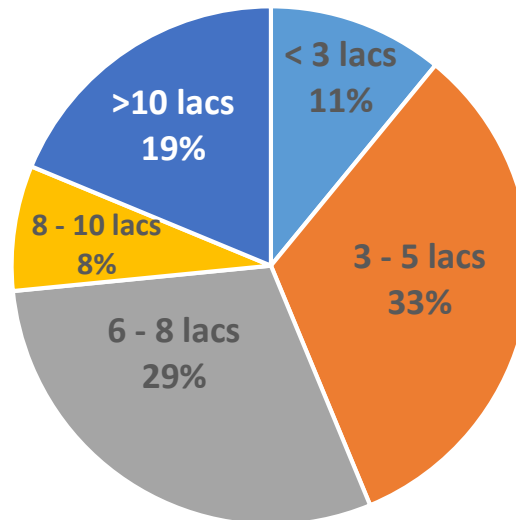




### 5.1.3 Respondents annual household income profile

As far as income of the respondents is concerned, maximum respondents belong to the salary range of 3-5 lacs per annum i.e. 21 respondents stated that their annual household income falls in the range 3-5 lacs per annum. While 19 respondents stated that their annual household income falls in the range of 6-8 lacs per annum. 7, 5 and 12 respondents stated that their annual household income falls in the range of < 3 lacs per annum, 8-10 lacs per annum and > 10 lacs per annum respectively. The following pie chart depicts the same.

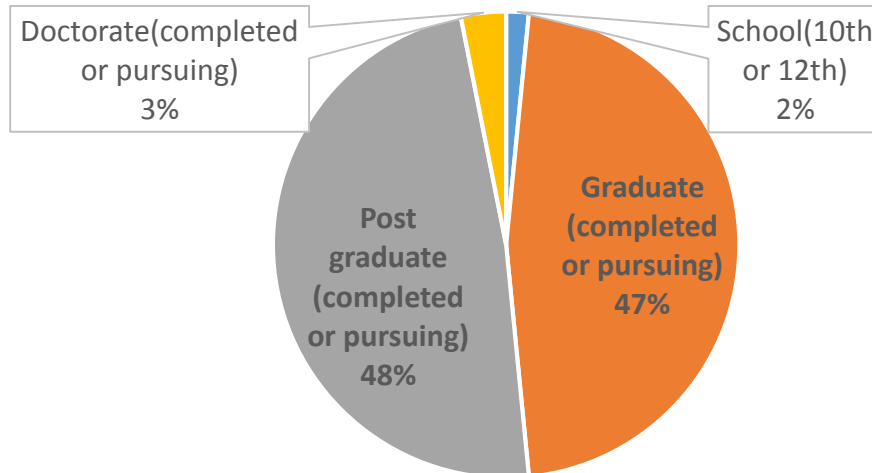
Figure 3: Reposndents' annual salary profile( Rs)



#### 5.1.4 Respondent education profile

As already mentioned data was also collected for the respondents' educational qualifications. There were 31 respondents which stated that they have either completed their post-graduation or are pursuing it, while 30 respondents have said that they have either completed their graduation or are pursuing it. There were 2 respondents who were either pursuing their doctorate or have completed it while only 1 respondent have just completed its schooling. The following pie chart depicts the same.

Figure 4: Respondents' education profile



## 5.2 Responses analysis

There were 3 set of questions that were used to check the financial literacy level of the respondents on various parameters. 1<sup>st</sup> set of questions include 4 questions which check respondents basic financial knowledge their ability to calculate basic bank interest rates and there understanding and knowhow of various banking products offered in India, further they were also asked on what basis they choose a particular bank for using its product and services. 2<sup>nd</sup> set of questions judges the respondents' financial behavior. Through a set of statements respondents were judged on their saving and expending behavior. 3<sup>rd</sup> set of questions checks respondents' understanding of risk & return concept and risk involved in various basic investment options.

### 5.2.1 Respondents' financial knowledge

In this set of question respondents were asked four question. First two question involves calculation of how bank calculates interest on the money that we deposit in bank and also check respondents' ability to understand the concept of inflation and time value of money. Third questions ask respondents' about their knowledge of basic banking products and services and further judges that whether the respondent is using that product or service or not, whether the respondent knows about that product or service or not. Fourth question asks how respondents chose a particular bank for using its products and services, whether the decision is based on respondents' friends and family recommendation or the respondents itself have compared products of various banks and then had taken the most rational decision.

(For questionnaire see annexure 1)

#### Analysis of respondents' ability to calculate interest rates

Here responses of first 2 question is analyzed. A score of 1 is given for the right answer while 0 is given for the wrong answer. Average score of 1.7 is thus obtained for all the 64 respondents. Only 4 respondent gave wrong answer for the 1<sup>st</sup> question while 14 respondents were not able to answer correctly the 2<sup>nd</sup> question. Thus it can be said that most of the respondents knows how bank calculates interest on the savings that are deposited while 21% of the respondents were not able to understand the concept of inflation and time value of money.

Analysis of respondents' understanding of various banking products and services

Table 1: Respondents' responses regarding various banking products

Banking product or service	Currently using it	Currently not using it but know about it	Don't know about it
Savings account	87.5%	12.5%	0%
Credit/debit card	75%	23.5%	1.5%
Current account	29.6%	64%	6.4%
National saving certificate	6.3%	57.8%	35.9%
Insurance policy	50%	48.4%	1.6%
Stocks and shares	17.2%	78.1%	4.7%
Money market account	6.2%	50%	43.8%
PPF	31.2%	56.2%	12.6%
Term loan/working capital loan/ other credit services	14%	61%	25%

The above table clearly depicts the respondents' status about various banking products and services. It can be clearly seen that among the respondents very few have knowledge about money market account and national saving certificate, while some also claims that they don't know about various credit services that are offered by banks. Banking products such as savings account, current account insurance policy, credit/debit cards etc. are quite known to customers with more than 80% saying that they know about these products.

### Analysis of respondents' response about how they choose a particular bank for utilizing its products and services

In this the respondents were asked whether the decision they choose a particular bank for utilizing its products and services depends upon family and friends recommendation or they themselves compare products from different bank and take the most rational decision. Among the respondent 30 agree to the fact that their decision depends on the family and friends recommendation while rest all say that they have taken the most rational decision about choosing a bank for using its product and services. Although it is a commonly seen that family head or friends recommendation greatly influence the decision about choosing a particular bank. Here also we can see that almost 50% of respondents claiming the same.

#### **5.2.2 Respondents financial behavior**

In this 8 statements were presented in front of the respondent and they were asked to rate it on a scale i.e. whether they completely agree, somewhat agree, neutral, somewhat disagree or completely disagree with the current statement. This the financial behavior of the respondents is noticed. A score of +2 to -2 is assigned. Negative score is assigned when the respondents reply depicts a negative financial behaviors that is not saving much, not willing to invest, not planning financially, not thinking before buying a particular products etc. while a positive score is assigned when the response depicts a positive financial behavior.

(See annexure 1 for questionnaire)

Following this convention it was observed that for all the 64 respondents a mean score of .05 is obtained. It was also observed that 24 respondents were seen to be having a negative financial behavior. Also 9 respondent have a zero score depicting a neutral financial behavior.

Thus it can be said financial behavior of the respondent is above the neutral level and respondent depicts a positive financial behavior. This also is in line with the general perception about Indians which are believed to be more inclined toward saving and thinking carefully before spending money unlike people in western countries where generally reverse financial behavior is observed.

### **5.2.3 Respondents risk analyzing ability**

Under this respondents were asked 4 question. 1st two questions judges the respondents ability to identify which is more risky investment option. In 1st question stock and mutual funds are compared while in 2nd question stock and investment bonds are compared. 3rd question judges the respondents knowledge on risk diversification while 4th question ask respondents about the relationship between the risk and return. A score of 1 is given for a right answer while a core of 0 is given for a wrong answer. Respondents who scored 2 or less than 2 will be considered as not having sound knowledge of concepts of risk, return and risk diversification.

For all the 64 respondents average score of 2.4 is obtained. A total of 31 respondents have scored 2 or less than 2. Thus it can be seen that almost 50% of the respondents don't know about these concepts and financial literacy level in this regard is pretty low.

### **5.3 Relationship between respondents' demographic factors and their responses**

This section of data analysis, interpretation and finding deals with finding out the relationship between the respondents' demographic data i.e. their age, educational qualification, gender, salary range with the responses they have given.

### 5.3.1 Relationship between gender and responses

We have deduced relationship between whether the respondents is male or female and their financial literacy level. According to the responses collected it is found that male are more financially literate than the females. They have scored well in terms of their financial knowledge, financial behavior and also their risk analyzing ability. Also it was found that percentage of male respondents are more as compared to female which have taken the most rational decision in choosing a bank to utilize its products and services. The following table depicts the same relationship

Table 2: Relationship between respondents' gender and its financial literacy

Gender	Average financial behavior score	Average financial knowledge score	Average risk analyzing ability score
Male	0.08	1.8	2.6
Female	-0.02	1.3	1.7

Table 3: Relationship between respondents' gender and their decision for choosing a bank

Decision for choosing a bank	Male	Female
Depends on family and friends recommendation	37.7%	68.4%
Decision depends on comparing various banks products and services and thus taking a most rational decision	62.2%	31.6%

It is seen from the above table that male have a positive financial behavior while females have shown to possess a negative financial behavior. Also males have a higher score as compared to female when we look at average financial knowledge score and average risk analyzing ability score. Also from table 3 it can be clearly seen



that the % of males are more when taking a rational decision in choosing a bank for using its products and services as compared to females.

### 5.3.2 Relationship between educational qualification and responses

Under this we draw relationship between respondents' educational status and their responses. From the data collected it had been found that respondent which have claimed that they are either post-graduate or are pursuing a post-graduate course are having greater average score in terms of financial behavior, financial knowledge and risk analyzing ability when compared to respondents which claims to be either pursuing or completed a graduate course. The following table depicts the same.

Table 4: Relationship between respondents' education and financial literacy

Respondents educational status	Average financial behavior score	Average financial knowledge score	Average risk analyzing
Post-graduate (completed or pursuing)	0.09	1.83	2.83
Graduate (completed or pursuing)	0.008	1.63	2.03

Thus it can be clearly seen from the above table that education qualification has a direct relationship with the financial behavior, financial knowledge and risk analyzing ability. As we can see that respondents which are pursuing or completed their post-graduation have performed better as compare to respondents which are pursuing or completed their graduation.

## CHAPTER 6: RECOMMENDATIONS AND CONCLUSIONS

On the basis of analysis that has been done from the responses collected the following are the key conclusions of this research project:

- The financial literacy level in regard of financial knowledge i.e. computation of interest by bank and further concept of time value of money & inflation is sufficient that is most of respondents has an understanding of this concept. Moreover it can be seen that respondents' knew about the basic banking financial products such as savings account, current account, debit/credit cards, stocks/bonds, etc. however most of the respondents doesn't knew about products like NSC and money market account.
- As far as financial behavior is concerned average financial behavior score of all the respondents is positive but the magnitude was very less.
- When we look at respondents' ability to understand the concepts of risk & return, risk diversification, average score of 2.4 was obtained. Thus more that 50 % of respondents knew about this concepts.
- When we look at relationship between respondents' demographic factors and their responses it was found that female have a low financial literacy level as compared to males, also it was observed that respondents' who have either completed or are pursuing post-graduation are more financially literate as compared to respondents' who have either completed or are pursuing graduation.

On the basis of drawn conclusion that are listed above following steps should be taken by financial institutions of the country such as RBI, various state banks, stock exchanges like NSE/BSE.

- Banks should increase customer awareness about all their products through advertisements, conferences, and education sessions so that customer's

knowledge about various banking products can be increased and thus they can take the best rational decisions according to their financial goals

- Although financial behavior is found to be positive but still efforts can be made in regard of educating people about the benefits of saving and investing to the economy as well as themselves. RBI and other financial institutions should conduct workshops in both urban and rural places to increase the awareness about these products. Advertisements must be published about various investment options so that financial behavior score can be increased.
- More than 50% of the respondents were able to identify the concepts of risk, return and risk diversification but still efforts should be made to educate citizens of India about the risks involved in various investment options, how an investor can diversify its risk by spreading its investment across various assets.
- Efforts should also be made to improve the financial literacy level of females as it was found to be pretty low, as more and more women are joining the working force, they must also be made aware about these concepts and their financial literacy should be at par with the male counterparts.
- As we can see that education level has direct impact on the financial literacy level, so concepts relating to financial literacy should be included in curriculum at the school level. As the financial system of the country is evolving it is becoming more complex and people are becoming more financially independent that is they take decisions of investing and financing themselves. Thus concepts relating to financial literacy should be included in the school curriculum so that young generation has maximum exposure to these concepts and they can independently take their financial decision.

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## ANNEXURES 1

1) Suppose you had Rs100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow \*

*Mark only one oval.*

- More than Rs 102
- Less than Rs 102
- Exactly 102
- Don't Know

2) Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, you be able to buy: \*

*Mark only one oval.*

- More than today with the money in this account
- Exactly same as today with the money in this account
- Less than today with the money in this account
- Don't know

3) The following is a list of various banking products and services. Please mark in appropriate box \*

*Mark only one oval per row.*

	I currently don't use it but know about it	I am currently using it	I don't know about it
A savings account	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A credit/debit card	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A current account	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
National saving certificate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Insurance policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stocks and shares	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Money market account	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
PPF	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Term loan/working capital loan/ other credit products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

4) Which of the following statements best describes how you last chose a banking product or service \*

*Mark only one oval.*

- I compare that product from various banks and then take the most rational decision
- The decision depends on my family and friends recommendation

5) Mark in the appropriate boxes

*Mark only one oval per row.*

	Completely agree	Somewhat agree	Neutral	Somewhat disagree	Completely disagree
Before I buy something I carefully consider whether I can afford it	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
. I tend to live for today and let tomorrow take care of itself	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I find it more satisfying to spend money than to save it for the long term	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I pay my bills on time	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am prepared to risk some of my own money when saving or making an investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I keep a close personal watch on my financial affairs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I set long term financial goals and strive to achieve them	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Money is there to be spent	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

6) Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund." \*

*Mark only one oval.*

- True
- False
- Don't Know

7) Do you think that the following statement is true or false? "Stocks are normally riskier than bonds" \*

*Mark only one oval.*

- True
- False
- Don't Know

8) When an investor spreads his money among different assets, does the risk of losing money: \*

*Mark only one oval.*

- Increases
- Decreases
- Remains same
- Don't know

9) Is the following statement true or false: as the risk increases there are more chances of getting the higher return?

*Mark only one oval.*

- True
- False
- Don't know

10) In which age band do you belong? \*

*Mark only one oval.*

- <18
- 18-22
- 22-26
- 26-30
- >30

11) Please specify the category you belong to at present \*

*Mark only one oval.*

- School(10th or 12th pass)
- Graduate(completed or pursuing)
- Post-graduate(completed or pursuing)
- Doctorate(completed or pursuing)



12) Gender \*

*Mark only one oval.*

- Male
- Female

13) Please specify the category you belong to at present according to your annual household income \*

*Mark only one oval.*

- < 3 Lacs
- 5 lacs
- 6 - 8 lacs
- 8 - 10 lacs
- >10 lacs