

*Short Communication***A note on financial literacy and socio-demographic factors**B.KRISHNAKUMARE<sup>1</sup>, SAURABH SINGH<sup>2</sup> and S.NIRANJAN<sup>3</sup>

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Financial literacy is becoming a substantial part in accomplishment of financial inclusion in the economy. Financial literacy is not only essential for an investor but also for the common man in the country. Financial literacy is the base and primary step for financial inclusion. It provides knowledge on merits and demerits of financial products and services. Based on this knowledge, an individual can select the right product which suits his/her needs. Financial literacy plays a vital role in financial inclusion, inclusive growth and sustainable prosperity. It ensures that the financial services should reach the unreached sections of the society.

Despite its importance, many studies around the world indicated that much of the world's population still suffers from financial illiteracy (Lusardi & Mitchell, 2011; Atkinson & Messy, 2012; Brown & Graf, 2013; Thaler, 2013; World Bank, 2014). For improving financial literacy, initially there must be a model that allows the researcher in determining the individuals' financial literacy level.

For improving awareness of financial literacy in India, several schemes were implemented by the Reserve Banking of India, the Security and Exchange Board of India, Insurance Regulatory Development Authority, and Pension Fund Regulatory and Development Authority (PFRDA). These bodies are engaged in various financial education programs that focus on improving financial literacy thereby improving financial inclusion. Various strategies are also being implemented for the improvement of financial literacy in India. These include introducing financial education in school curriculums especially government schools in rural areas, and financial-literacy training programs set up by commercial banks in urban and semi-urban areas. Village adoption programs have also been established by educational institutions in rural areas.

**THEORETICAL FRAMEWORK***i. Financial Literacy and its Components*

The term financial literacy was first coined in 1787 in the USA, when John Adams in a letter to Thomas Jefferson self-confessed the need for financial literacy for overcoming the confusion and widespread distress in America that had arisen due to lack of knowledge towards credit, circulation etc. (Financial Corps, 2016). Subsequently, several developments took place and the term financial literacy was used repeatedly by different researchers, organizations and governments and was addressed in their own way (Hung *et al.*, 2009). Remund (2010) studied various research studies since 2000 and deliberated that conducting research on financial literacy would be a big challenge as there was no well-defined standard definition of financial literacy in the collected works.

Researcher like Huston (2010) argued that financial literacy had two dimensions: understanding, which epitomized personal financial knowledge or financial education, and its use, i.e. the application of such knowledge in personal financial management. Several researchers considered financial literacy synonymous to financial knowledge (Hilgert *et al.*, 2003; Lusardi and Mitchell, 2011; Bucher-Koenen *et al.*, 2016). Lusardi and Mitchell (2011) conceptualized financial literacy as the knowledge of basic financial concepts and ability to do simple calculations. Mandell (2007) defined financial literacy as "the ability to evaluate the new and complex financial instruments and make informed judgments in both choice of instruments and extent of use that would be in their own best long-run interests".

Although research in the financial literacy field has increased over the years, there is little consistency in the way how it is defined, as several authors addressed the

topic differently, assigning different connotations to it (Hung *et al.*, 2009). Also, studies highlighted the ambiguous use of financial literacy, especially in grasping the differences between those constructs, i.e. financial knowledge or financial education. Robb *et al.* (2012) made a distinction between the terms by claiming that the main focus of financial education was knowledge, while financial literacy involves, in addition to knowledge, the individuals' behavior and financial attitude.

A definition that properly covers this idea is proposed by the Organization for Economic Co-operation and Development (OECD), where financial literacy is regarded as a blend of awareness, knowledge, skill, attitude, and behavior needed to make sound financial decisions and ultimately achieve individual financial well-being (OECD, 2013). Thus, the OECD addresses financial literacy in three dimensions: financial knowledge, financial behavior, and financial attitude. Financial knowledge is a particular type of human capital which is acquired throughout the life cycle, by learning subjects that have an effect on the ability to effectively manage revenues, expenses, and savings (Delavande *et al.*, 2008). Financial behavior is a key element of financial literacy, and it is undoubtedly the most important (OECD, 2013). According to Ajzen (1991), financial attitudes were established through economic and non-economic beliefs held by a decision maker on the outcome of a certain behavior and therefore they were a key factor in the personal decision-making process.

Hence, it would be noticed that various authors conceptualized financial literacy as another word of financial knowledge or financial education. However, some researchers theorized it broadly through other aspects viz. financial attitude, financial behaviour and financial knowledge.

## ***ii. Relationship between Socio-Demographic Factors and Financial Literacy***

A noteworthy feature related to the issue of financial literacy would be the recognition of its relationship with socioeconomic and demographic variables. Several studies sought to recognize these relationships. Results shown by Chen and Volpe (2002), Lusardi and Mitchell (2011), Atkinson and Messy (2012), the OECD (2013), Brown and Graf (2013) and Jeyaram and Mustapha (2015) pointed out that women have lower financial literacy levels than men.

Chen and Volpe (1998) found out that college students had an inadequate knowledge level, especially in relation to investments. In turn, Thaler (2013), Homan (2015), and Agarwalla *et al.* (2015) suggested that financial literacy was highly correlated with other factors and, among them higher education might be the key. Atkinson and Messy (2012) observed that financial literacy tends to be higher among adults in the middle of their life cycle, and it was usually lower among young and elderly individuals. Results reported by Arora (2016) suggested that single

**Table 1: Relationship between socio-demographic factors and financial literacy**

Variables	Relation with Financial Literacy	Authors
Gender	<ul style="list-style-type: none"> <li>Women generally have lower financial literacy than men.</li> <li>Women are less likely to answer the questions correctly and more likely to say they do not know the answer.</li> </ul>	Chen and Volpe (1998); Agarwal <i>et al.</i> (2009); Lusardi and Mitchell (2011); Atkinson and Messy (2012); OECD (2013).
Age	<ul style="list-style-type: none"> <li>The average age from 30 to 40 years is associated with higher financial literacy levels.</li> <li>Financial literacy is low among young and elderly.</li> </ul>	Agarwal <i>et al.</i> (2009); Lusardi and Mitchell (2011); Atkinson and Messy (2012); OECD (2013).
Marital status	<ul style="list-style-type: none"> <li>Singles are more prone to have lower financial literacy levels than married individuals.</li> </ul>	Research (2003); Brown and Graf (2013).
Occupation	<ul style="list-style-type: none"> <li>Individuals with longer labor experience have higher financial literacy because of greater familiarity with economic and financial subjects, while unskilled or unemployed workers show less desirable attitudes and behaviors.</li> </ul>	Chen and Volpe (1998); Research (2003);
Educational level	<ul style="list-style-type: none"> <li>Those with higher educational levels are those with higher financial literacy levels.</li> </ul>	Chen and Volpe (1998); Lusardi and Mitchell (2011).
Parental educational level	<ul style="list-style-type: none"> <li>Parents influence their children's literacy.</li> <li>Individuals learn more about money management with their parents.</li> </ul>	Liao and Cai (1995); Mandell (2007).
Income	<ul style="list-style-type: none"> <li>Low income levels are associated with low financial literacy levels.</li> </ul>	Monticone (2010); Atkinson and Messy (2012).

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women were significantly more likely to have higher financial literacy than married women. Monticone (2010) and Atkinson and Messy (2012) found that low income levels are associated with low financial literacy levels.

Garg and Singh (2018) observed low level of financial literacy among the youth across most part of the world. Filipiak and Walle (2015) showed a significant positive relationship between age and financial knowledge. Several researches attempted to discover the socio-economic and demographic variables that seem to influence financial attitude. Regarding age, it was found that youth were less likely to think much about retirement planning (Van Rooij *et al.*, 2011) and were more likely to have negative attitude towards financial planning (Lusardi and Mitchell, 2011). In context of employment status, employment stability had a direct impact on individuals' ability to access low cost borrowing (Huston, 2010).

Regarding the components of financial literacy, Chaulagain (2017) stated that there exists an inter relationship between financial literacy, financial attitude and financial behaviour whereas Agarwalla *et al.* (2015) found a significant positive association between financial knowledge and financial behaviour but found negative relationship between financial behaviour and financial attitude and found no association between financial knowledge and financial attitude. Table 1 gives the relationship between socio-demographic factors and financial literacy reported by various authors.

## CONCLUSION

After going through various studies related to financial literacy, it has been observed that financial literacy has been of paramount interest to various researchers, organizations and economies since last two decades. Various studies have been conducted focusing on the different dimensions of financial literacy and also to assess the impact of different individual's socio-demographic factors on their financial literacy level and it has been generally revealed that there exists a significant relationship between them. Studies were done so as to understand the influence of various factors influencing financial literacy because understanding the factors that contribute or weaken the acquirement of financial literacy could help in making policy interventions to enhance their financial well-being.

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