

A Study on Impact of Financial Literacy on Personal Investment Decisions of Individual Investors in Kurnool City

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ABSTRACT

The present study has been undertaken to measure the financial literacy level of retail investors of Kurnool. The term financial literacy has evolved over the years and has become a focus area for researchers and policy makers across the globe in the recent years. This study seeks to explore the impact of different demographic factors on financial literacy and also to understand the variation between personal investment decision of the investors of different financial literacy level with respect to short, medium and long term. The data for the purpose of the study has been collected from 100 respondents with the help of a structured questionnaire. The collected data was analyzed with t-test, ANOVA and Friedman Test. The findings of this study indicated that overall, the investors had a medium level of knowledge and skills in financial literacy. Significant difference was observed between financial literacy among various age groups. The study also revealed that investment decisions were related to time period as the preference of investors of same level of financial literacy was different in different time period.

Key Words: Financial Literacy, Investment Decisions, Retail Investors, T-test

INTRODUCTION

A significant change in the social support structures across the world has on one hand increased individuals' responsibility in managing their own finances and securing their financial future and on the other hand has also reduced the role played by governments and employers in managing investments on behalf of individuals. In this changed financial landscape, where the range and the complexity of financial products continue to increase, developing an understanding of the world of finance is of paramount importance. Research around the world reported inadequate financial literacy which rose serious concerns about the ability of individuals to secure their financial well-being. The findings of poor financial literacy and financial outcomes have prompted a serious review of existing financial education programs and launch of new programs. The OECD had implemented various financial literacy (FL) programmes with the main aim of exposing, promoting and encouraging the study of financial education. Higher level of financial education was important as it promotes financial choice and socio-economic independence and enhances credit analysis and budgeting skills.

Investment is referred to as the concept of deferred consumption, which could be in the form of an asset, rendering a loan, keeping the saved funds in a bank account such that it

might generate lucrative returns in the future etc. The options of investments are huge; all of them having different risk-reward trade off. It has been established through research that financial literacy has a role to play in making sound investment decisions. Thus, it has become imperative to become financially literate to ensure well-being of individuals.

LITERATURE REVIEW

Some literatures were reviewed in the course of this study. These include the previous research on measurement of financial literacy among various target groups, the factors impacting the financial literacy level and the relation between financial literacy and investment decisions. A rich literature on this topic is available worldwide out of which few recent ones have been presented below:

Mahdzan Shehnaz Nurul and Tabiani Saleh (2013) in their paper, tried to examine the influence of financial literacy on individuals saving in the context of emerging market, Malaysia. The researcher conducted the survey of 200 individuals in Klang Valley, Malaysia. Using individual saving as independent variable and financial literacy, saving regularity, gender, age, children, and experience as dependent variables, the author found that there was a positive relationship between gender and the probability of positive saving indicating that men have a higher probability of positive saving as opposed to women, *ceteris paribus*, so it is important for policy makers to increase financial literacy of households by implementing various financial education programs.

Bhushan Puneet (2013) examined the awareness level and investment behavior of salaried individuals of Himachal Pradesh towards financial products. The author found that only 24.6% respondents had invested in pension funds, which means most of the

people do not plan for retirement which is not a very healthy sign. Also 77.7% people had invested in life insurance which means that people are aware about the importance of life insurance. Only 39.1% respondents invest in public provident fund. The researcher concluded that respondents were quite aware about traditional and safe financial products whereas awareness level of new age financial products among the population was low. Majority of the respondents park their money in traditional and safe investment avenues so people must be made more aware about new investment opportunities available in the market.

Ibrahim Mohamed. E, and Alqaydi Fatima R. (2013) examined the financial literacy among individuals residing in the United Arab Emirates (UAE). In this study researcher studied eight variables. The first variable, forms of personal debt, represented the dependent variable while the other seven variables represented the independent variables. Researcher used descriptive statistics and sample of 185 respondents was used in the analysis. The multiple regression technique was used for the task of statistically controlling the effect of interrelated variables and revealing the partial contribution of each independent variable to the explanatory power of the model. The results indicated that the average level of financial literacy in UAE was statistically significantly below the average level reported in the literature. However, there were no significant differences between the mean score of males and females. The results also indicated that individuals with strong financial attitude tend to borrow less from credit cards. UAE nationals were more likely to borrow from banks than using credit cards or borrowing from friends or family members.

Thilakam.C (2012) in his paper, tried to assess the financial literacy of rural masses in India. The researcher has analyzed the socio-

economic conditions of the rural masses and the correlation of the income, expenditure and savings pattern, the savings modes and investment avenues and its awareness among the rural masses, the various factors that determine the current savings/investment patterns of the rural masses. The researcher applied summery statistics (mean and standard deviation), CV and CGR to measure the average and distance variances in household savings components like; currency, bank deposits, investment in shares and debentures, investment in government claim, insurance funds, private provident funds and other means. Nonparametric Chi-square helped the researcher to define the association between rural investors' level of awareness towards various savings and investment avenues and their socio-economic status. The author applied Reliability analysis and F-test to prove the fact whether investors have similar or differences of opinion towards their perception on the factors that influenced them to choose a saving medium or investment venues. Rotation factor analysis was applied to depict a simplified datum on the factors influencing rural householders in selection of savings/investment medium. The author made an empirical analysis of rural investors, who were living in Coimbatore district of Tamil Nadu in India. The researcher concluded that today's financial world is highly complex when compared with that of a generation ago and in comparison to urban people the rural people have low level of awareness on finance matter.

Kumar K. Senthil (2012) analyzed the influence of the financial literacy level on individual investment decisions. The study was also done on the information sources or channels through which the individuals decide their investment on a particular investment product. The impact of individual's personality on their investment decisions was also analyzed. The switching

behaviour of the individual if any between the various investment products was also studied. The survey was conducted in both rural and urban paces of Tiruchirappalli district. Findings suggest that except the gender, there was a relationship between the socio-economic factors and the level of financial literacy possessed by the respondents. The female respondents possessed low financial literacy compared to the male respondents. The rural respondents were behind the urban respondents in the level of financial literacy.

Iqbal Bhabha Javed, Khan Shadiullah et.al. (2010) explored the financial literacy of working women as an important factor which affects the saving-investment behavior of female workforce in developing countries like Pakistan. The researchers had used hermeneutics, discourse and heuristic analyses to find the fact about the research questions. A computer based software was also used i.e. ATLAS for data analysis. The researcher found that financial literacy is of particular relevance to emerging economies. As these economies endeavor to improve the financial situation of their citizens by achieving higher economic growth rates, enhancement of financial literacy would help improve the financial well-being of their people even further through sound financial decision making. It was concluded that working-women in Pakistan are financially illiterate; female workers in Pakistan only know that they are depositing money in various institutions in order to get more wealth in name of profit but they don't know what exactly they are doing and they are ignorant about the functions and existence of financial markets.

RESEARCH METHODOLOGY

This study is descriptive in nature. Descriptive research is an exploration of certain existing phenomenon. It is mostly

done when a researcher wants to gain a better understanding of topic. The type of study is quite factual, accurate and systematic. Both primary and secondary data have been collected in this study. Primary data is collected through a survey. The survey is carried out by means of self-administered, structured questionnaire and secondary data is collected from articles, research papers of various journals.

Objectives of the Study

- a) To study the impact of different demographic factors on financial literacy.
- b) To study the variation between personal investment decision of the

investors of different financial literacy level with respect to short, medium and long term.

- c) To study the relationship between financial literacy and personal investment decisions.

Scope of the Study

The study was undertaken to access the level of financial literacy among the investors, to study the impact of different demographic factors on financial literacy and to study the variation between personal investment decision of the investors of different financial literacy level with respect to short, medium and long term. For this purpose, respondents from Kurnool were selected.

Table 1: Summary of Research Methodology

Research Design	Descriptive
Population/ Universe	Retail Investors in Kurnool
Sample Size	100
Sampling Technique	Convenience
Project Approach	Survey Method
Instrument Used	Structured Questionnaire
Data Type	Primary and Secondary
Statistical Tools Employed	ANOVA, t-test and Friedman Test

Hypothesis

In order to achieve the objectives of the study the following hypothesis were formulated

- a) H_{0a}: There is no significant difference between male and female financial literacy level.

- b) H_{0b}: There is no significant difference between financial literacy levels on the basis of age.

- c) H_{0c}: Investors are indifferent towards investment options for different time periods.

DATA ANALYSIS AND PRESENTATION

Table 2: Demographics of Respondents

Gender	Number of Respondents
Male	67
Female	33
Occupation	
Service	30
Professional	9

Student	23
Business	33
Home maker	5
Level of Education	
Secondary School	4
Senior secondary	6
Graduate	29
Post Graduate	50
M.Phil/PhD.	11

Majority of the respondents i.e. 67% were males and the rest 33% were female respondents. Most of the respondents surveyed, belonged to business class (33%), followed by service class (30%), students (23%), professionals representing 9% and the rest 5% respondents were house makers.

Nearly half of the respondents were post graduates, followed by 29% graduates, 11% above post graduate level i.e. M.Phil/PhD and rest 10 % consisted of those who were below graduation level.

Table 3: Financial Literacy Score

Interval	Number of Respondents
30-45	18
45-60	71
0-75	11



Interpretation: Majority of the respondents' i.e.71 respondents were in the interval of 45-60 (medium level of financial literacy), 18 respondents were in interval of 30-45 (low level of financial literacy) and 11 respondents were in the interval of 60-75 (High level of financial literacy).

preferred property as the best means of investment because the mean rank value was 3.11 and moderate financial literacy level investors were more inclined towards Savings Account and had mean rank score of 2.56 while investors with high financial literacy level opted for Shares with the mean rank of 2.91.

Interpretation: From fig., it could be inferred that low financial literacy level investors

Hypothesis Testing

H_{0a}: There is no significant difference between male and female financial literacy level.

Table 4: Descriptive Statistics

Gender	N	Mean	Std. Deviation	Std. Error Mean
Male	64	49.4063	6.26332	.78291

Female	36	51.2222	7.07152	1.17859
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Table 5: Results of t-test

	Levene's Test for Equality of Variances		t-test for Equality of Means			t-test for Equality of Means	
	F	Sig.	t	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference
							Lower
Equal variances assumed	.269	.605	-1.328	.187	-1.81597	1.36737	-4.52948
Equal variances not assumed			-1.283	.204	-1.81597		1.41493

The mean financial literacy score of males is 49.43 and that of females is 51.22 which mean that females score more on financial literacy. The sig (2- tailed) value was 0.187, which is more than the usual threshold value (0.05). This indicates that null hypothesis

could not be rejected.

H_{0b}: There is no significant difference between financial literacy levels on the basis of age.

Table 6: Descriptive Statistics for Financial Literacy and Age

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1.00	34	48.2059	5.23843	.89838	46.3781	50.0337	34.00	61.00
2.00	36	51.1389	7.07169	1.17861	48.7462	53.5316	39.00	65.00
3.00	12	47.1667	6.54819	1.89030	43.0061	51.3272	33.00	55.00
4.00	16	54.0000	6.60303	1.65076	50.4815	57.5185	42.00	65.00
5.00	2	48.0000	.00000	.00000	48.0000	48.0000	48.00	48.00
Total	100	50.0600	6.58866	.65887	48.7527	51.3673	33.00	65.00

Levene Statistic	df1	df2	Sig.
1.155	4	95	.336

Table 8: Results of ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	516.109	4	129.027	3.241	.015
Within Groups	3781.531	95	39.806		
Total	4297.640	99			

Interpretation: The mean financial literacy score is highest for investors belonging to age 46-55 years, followed by those in age 26-35 years and least for those in the age group 36-45 years. The significance value for ANOVA (from TABLE 8) is 0.015 which is less than the usual threshold value (0.05). This

indicates that null hypothesis could be rejected in favor of alternate hypothesis.

H_{0c} : Investors are indifferent towards savings account as an investment option for different time periods.

Table 9: Descriptive Statistics (Rank of Savings Account as an investment option)

	N	Mean	Std. Deviation	Minimum	Maximum
SHORTTERM	100	4.2200	2.21373	1.00	7.00
MEDIUMTERM	100	3.8900	1.90637	1.00	7.00
LONGTERM	100	4.6300	1.95740	1.00	7.00

Table 10: Ranks

	Mean Rank
SHORT TERM	1.95
MEDIUM TERM	1.81
LONG TERM	2.25

Table 11: Test Statistics^a

N	100
Chi-Square	14.185

Df	2
Asym. Sig.	.001

Friedman's test was applied to the example data to see whether there are differences between groups. This test shows that there is a statistically significant finding. The p-value (asympt. Sig. in the TABLE 11 above) is $p = 0.001$. (A p-value less than 0.05 is said to be statistically significant. Thus null hypothesis could be rejected in favor of alternate hypothesis. Also, it can be inferred that Savings account is preferred mostly by investors in the medium term and short term and not so in the long term period.

MAJOR FINDINGS AND DISCUSSIONS

- It was found that the overall financial literacy level of the respondents was medium as out of 100 respondents 71 were in the range of medium level of financial literacy.
 - It was found that the male and female financial literacy levels do not differ significantly as the t-test (1.328) significance value was 0.181 ($p > 0.05$).
 - The significance value for ANOVA (0.015) was less than the usual threshold value (0.05) which showed there was a significant difference in financial literacy level among various age groups.
 - In short term, the low financially literacy investors preferred property as the best means of investment because the mean rank value was 3.11 and moderate financial literacy level investors were more inclined towards Savings Account and had mean rank score of 2.56 while investors with high financial literacy level opted for Shares with the mean rank of 2.91
- e) The study revealed that investment decisions were related to time period as the preference of investors of same level of financial literacy was different in different time period.

SUGGESTIONS AND SCOPE FOR FURTHER STUDY

Researcher investigated relationship between the demographic factors and financial literacy, difference in personal investment decision for different time period. This study was limited to Kurnool investors with only 100 respondents so further Studies can be done as extension of the same study with large number of respondents or at the different states of India. Other studies can also focus on different factors like attitude of the investors towards financial literacy.

RECOMMENDATIONS

A majority of the respondents had not only shown better skills in managing their financial budget but were also confident of facing any financial impediments in future. All these developments could be attributed as a result of initiatives taken by the Reserve bank of India, SE government. But the negative side of these pointed by ING consumer resourcefulness survey states that 98% of

Indian citizens still do not have a demat account. The country where 48% of the population still lives on day to day earnings cannot dream of savings and life insurance. However these inequalities could be overcome if more and more enthusiastic and coordinated efforts are launched by the

aforesaid agencies who are party to financial sector of the country. In this context, the following recommendations are worth notable to increase the financial literacy of the country.

- a) Financial Education should be provided at secondary and senior secondary level of education as it was found financial literacy and educational level was related.
- b) Government should support financial literacy programs and schemes as it was found that such programs and scheme help investors in improving their financial literacy.
- c) Global guidelines and standards for financial literacy initiatives and consumer protection frameworks in financial markets should be formulated.
- d) Campaigns for spreading awareness about financial inclusion and financial literacy need to be intensified. This can be done through innovative dissemination channels including films, documentaries, pamphlets and road shows. Stakeholders, including the regulators and policy makers, may launch large scale awareness programmes.

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