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Impact of Financial Literacy Intervention on Financial Attitude of Individuals: An Empirical Study

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ABSTRACT

The recent global 'subprime- mortgage crisis arose due to inadequate understanding of features of financial products due to financial illiteracy. Such a crisis reminds us of the critical importance of Financial Literacy for financial stability in a country (Ben Bernake, 2000). Rational financial decisions among individuals require proper knowledge and understanding of financial concepts to navigate the financial system. Since sound financial decisions make an individual life fill with prosperity and economic wellbeing. The present multi-disciplinary experimental study aims to observe impact of Financial Literacy intervention onFinancial Attitude for goals(FAG) of individuals and prevalence pattern of FAG Pre and Post- Financial Literacy Intervention. The study is conducted on working people in tricity Chandigarh in the age group of 21 to 60 with a representative sample size of 308. It is observed that after financial literacy intervention, the mean high score for Financial Attitude for goals of individuals has improved for each statement.Two-tailed paired sample, t-test revealed that there is a significant impact of financial literacy on financial attitude for goals of individuals.

Key words: Financial attitude, Financial Behaviour, Financial perception, Financial Planning, Investor behavior, Investor attitude, Investor perception

INTRODUCTION

Locke, E.A. (1969) propounded the 'Financial goals setting theory' that considered financial goal setting a driving force for efficient financial management behavior among individuals.

Behavioural Finance researches focus on understanding the psychology of financial behavior and financial attitude(Porter,1990; Hayhoe and Wilhelm,1998) among Individuals related to financial goals like saving (Webley, et.al.,2010), consumption, debt-management, taxation compliances and investment decision in a given state of an economy. Primary economic conditions impact individuals' economic behavior at the psychological level.

Economic Systems of various countries are backed by a robust banking system and others are by financial markets. Financial Systems are mainly prejudiced by the prevalent culture among the citizens of that country. Economic attributes in the culture affect the design of its financial system (Kwok, &Tadesse,2006). The financial system and individual economic behavior are interrelated at a micro-level. Financial markets dominate the financial system of countries like the U.S.A., where the attitude among the natives is of Anglo-Saxon (risk-taker) (Siepel, Josh., Nightingale, Paul,2012). In nations where the attitude of the community is of uncertainty avoidance, the financial systems rely on the banks (Solomon,et.al,2005). In the absence of social security benefits, natives tend to adopt indifferent economic behavior that may impact the economy.

Financial Attitude: The literal meaning of 'attitude' is a person's behavior towards other people, things, incidents or happenings. The study of Investor attitude is to know investing habits, his successful investment growth, observed behavior under different circumstances.

The term 'Financial Attitude towards financial goals' can be defined as the settled way of thinking about achieving financially wellbeing and lifestyle targets like retirement planning, marriage, saving and education for kids and others. The study of the allocation of scarce financial resources by human races can be termed as finance. It aims to study how financial resources are managed, acquired and invested over a while. The allocation of financial resources demands a great deal of financial knowledge possessed by an individual investor at the micro-level and financial institution at large. The financial literacy and computational skills are primarily available with the institutional investors, professionals, active investors and market participants. Access to such skills is limited to individuals; this creates the demand for financial education.

The need for Financial Literacy has rapidly growing to protect financial consumer due to new developments in the economic environment like deregulation of financial markets and easy availability of credits and loans. Financial literacy is considered a tool to empower people to make efficient financial decisions for present and long term financial well-being.The study recognized the importance of financial literacy in understanding financial products, services and concepts (Garcia,2013).

LITERATURE REVIEW

Financial attitude was found to be a better predictor than financial knowledge for financial management.On the basis of age,Investor lifestyle and Investment character, investor behavior can be segmented as an active investor as well as a passive investor (Ramaswamy,2000). A theoretical model is presented (Browning,2000) for the determination of preferences for saving and investment portfolio behavior in households. **Benhabib (2002)** highlighted in his study that in given choice relating to saving or consumption, agents' decision may base on their preference for choices or self-control rather than based on rationality. **Gourinchas (2002)** revealed that as the income grows in middle age they tend to accumulate money. The financial decision behavior becomes optimal due to age-related cognition, choices of cohort or peer groups. **Ranganayaki (2003)** conducted the study title "Investor's perception towards Investment with special reference to women investor".This was concluded that females in Sulur prefer those investment avenues that provide safety and liquidity, and other benefits. Women like to invest in post office saving and bank recurring deposits. The opinion 'women prefer to invest in gold ornaments instead of any other investment' has been disapproved under the Study.

Devasena (2006) conducted the Study titled "Risk perception and portfolio management of equity Investors" and revealed that Investors are not aware of portfolio management, i.e. minimizing the risk and maximize returns in Tirupur Karvy. Investors have little understanding of the key concepts like the risk and importance of portfolio management.

Lusardi, 2003 conducted a Study on 'saving and the effectiveness of financial education. The author examined the financial condition of old household and evidence of no or little wealth accumulation at the age of retirement. He explained that retirement seminars had a significant impact in fostering saving for retirement in a low and middle household. Thus Financial Education helps in improving financial behavior.

Lusardi and Mitchell 2007, Financial Literacy and Retirement Planning: New Evidence from Rand American Life Penal In the Study, financial literacy is considered as a key determinant for retirement planning for worker's potential earning years if they expose to financial education programs. The study emphasized the importance of Financial Literacy and education for efficient financial behavior as the study showed that the adult generation possesses a low level of Literacy and even not aware of basic economic concepts like compounding factor of interest, Risk measurements and diversification, the concept of Inflation, mortgages and other Debt Instruments.

Cole and Shastry, 2008, 'If you are so smart, why aren't rich? The effect of education, financial literacy and cognitive ability on financial market participation. The study attempted to find out non-Neo-classical factor of household limited participation behavior in Financial markets. The authors studied the effect of financial education on Investment Income and found a significant impact on education.**Lusardi, 2008,** 'Financial Literacy, An Essential Tool for Informed Consumer Choice'.The Study highlighted the reasons for failure, related to unplanned retirement, low stock market participation and poor borrowing behavior, are related to low awareness of financial concepts.

Hypothesis

H_0: There is no significant impact of Financial Literacy on the Attitudes of Individuals.

Research Design

As it is experimental research, financial literacy intervention in the form of a formal lecture introduced to the respondentsin the age group of 21 to 60with a representative sample size of 308 working people in tri-city Chandigarh. The questionnaires were distributed before financial literacy intervention among the working people of Tri-city Chandigarh.For quality response, the questionnaire was read and discussed with the respondents to ensure completeness and accuracy of the information. The respondents were asked to fill their responses for the statements on 5-point Likert scale in the questionnaires pre-and post-financial literacy intervention.

RESULTS

Financial Attitude towards goals (FAG) contains ten statements linked to retirement planning, spending wisely, generating passive income, borrowing, investing with tax savings purposes. The responses were measured on a 5-Likert scale that was 1= almost never, 2=not often, 3=neutral, 4= often, and 5= almost always for each statement of financial awareness under both situations pre-and post-financial literacy intervention.

Table 1 depicts comparison of responses (%) for the high score of financial attitude in both situations pre-and post-financial literacy intervention. It can be observed that responses for high scores of financial attitude among the working people have been increases in post-financial literacy interventions. It can be observed from that financial attitude among working people found to be optimistic and with FL-Intervention, financial attitude has shown improvement.

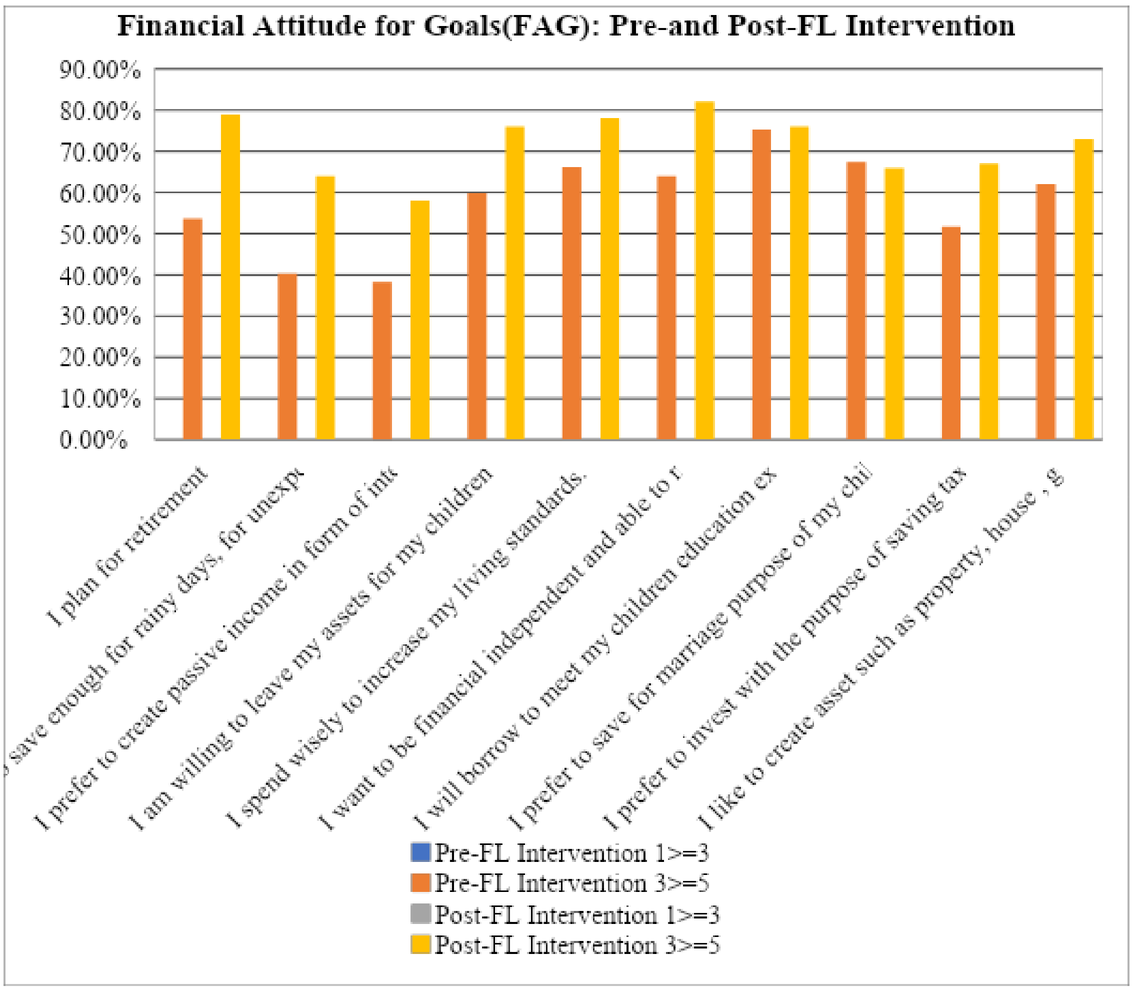

Figure 1 Comparing responses for the high score of Financial Attitude (FA) in both situations Pre-and Post-FL Intervention

Fig.1 shows the comparison of the responses (%) for the high level of financial attitude in both situations pre-and post-financial literacy intervention. It can be observed that responses for high scores of financial attitude among the working people have been increased in post-financial literacy interventions. There is improvement in responses (%) of high score in post-financial literacy intervention when compared with responses (%) in the pre-financial literacy intervention situation. It means that there is a positive impact of financial literacy intervention on financial attitude.

Table 1: Financial Attitude for Goals (FAG) Pre- and Post-FL Intervention (Responses in Percentage)

Sr. No.	Financial Attitude for Goals (FAG)	5-Likert Scale* Ranking Share From 1= almost never to 5= almost always			
	Statements	Pre-FL Intervention		Post-FL Intervention	
		1>=3	**3>=5**	**1>=3**	**3>=5**
1	I plan for retirement	46.40%	53.60%	21%	79%
2	I able to save enough for rainy days, for unexpected expenses	59.80%	40.30%	35%	64%
3	I prefer to create passive income in the form of interest and increase the market value of assets	61.70%	38.30%	42%	58%
4	I am willing to leave my assets for my children to inherit	40.20%	59.80%	24%	76%
5	I spend wisely to increase my living standards	33.70%	66.20%	22%	78%
6	I want to be financially independent and able to make choices Post-retirement	36.00%	64.00%	18%	82%
7	I will borrow to meet my children education expenses in future	24.60%	75.30%	24%	76%
8	I prefer to save for the marriage purpose of my children	32.40%	67.50%	34%	66%
9	I prefer to invest with the purpose of saving tax	48.30%	51.70%	33%	67%
10	I like to create asset such as property, house , gold etc rather than investing in share market	37.90%	62.10%	27%	73%

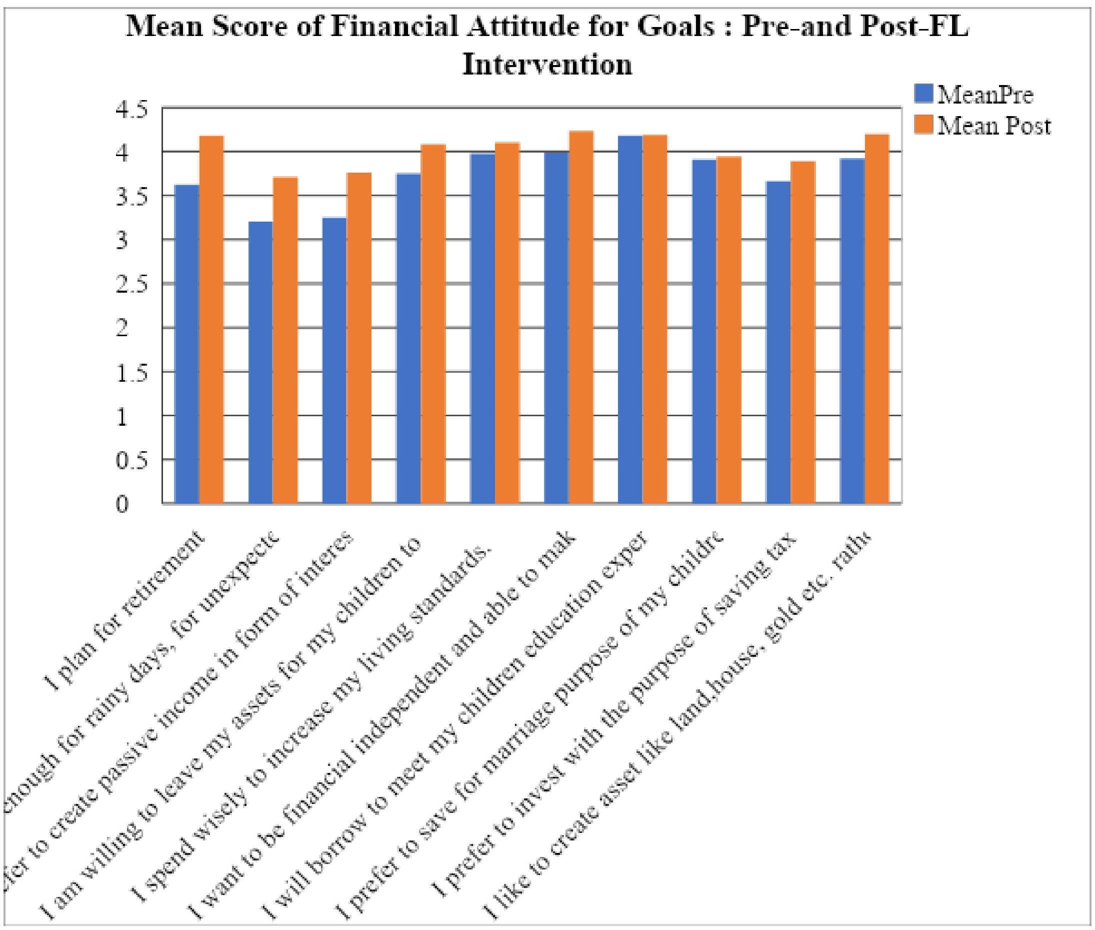

Figure 2: Comparing mean score of Financial Attitude in both situations Pre-and Post- Intervention

Figure 2 showing the comparison of mean scores of responses for each statement for variable financial attitude for pre- and post-financial literacy intervention. It can be observed from the figure that there is an improvement in mean scores for each statement of financial attitude for post-financial literacy intervention.

Hypothesis Testing
H09: There is no significant impact of Financial Literacy on the Attitudes of Individuals.

Table 2 Paired t-test of Financial Attitude

S. No.	Pair	Mean difference	S.D. (Σ)	Paired t-value	Significance (2-tailed)
Pair 4	FAG PRE - FAG POST	-.27983	.652	-7.529	.000 H0: Not accepted

The paired t-test has been performed to test pre- financial literacy intervention and post- financial literacy intervention resilience means of financial attitude among working people are equal or not. Correlation between the two situations, i.e. pre- and post-FLI, was estimated at $r = .436$ and $p = .000$ i.e., $p<.01$, suggesting that a dependent samples t-test is appropriate in this case. The paired t-test was performed to test the impact of financial literacy intervention on individuals' attitude towards financial goals.

Mean, and Standard deviation for financial attitude among individuals for both situation pre and post financial literacy intervention are M=3.746(Pre), S.D. (Σ)= .6128(Pre) and M=4.0256(Post), S.D. (Σ)= .54399 (Post).Correlation between the two situations was estimated at $r = .436$ and $p = .000$, i.e., $p<.01$ (Table-1), which suggest that the dependent samples t-test is appropriate in this case.

From table 2, it can be observed that the null hypothesis stands not accepted. Two-tailed paired sample t-test revealed that there is a significant impact of financial literacy on financial attitude of individuals' post-financial literacy intervention with mean difference=-.2739, S.D. (Σ) = .6128, t- value= -7.529, $p = .000$ which is $p < .05$.

CONCLUSION

It can be observed that responses for high scores of financial attitude among the working people have been increased in post-financial literacy interventions. There is improvement in responses (%) of high score in post-financial literacy intervention when compared with responses (%) in the pre-financial literacy intervention situation. It means that there is a positive impact of financial literacy intervention on financial attitude.

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