

## THE EFFECT OF FINANCIAL LITERACY ON INVESTMENT DECISIONS (with special reference to Alpha Pvt Ltd)

**Varsha Gupta\***

Assistant Professor, School of Management Studies, BUEST, Baddi

**Diptanu Sutradhar\*\***

Student, Masters of Business Administration, School of Management Studies, BUEST, Baddi

---

### ABSTARCT

The financial education of a country in terms of awareness, abilities and attitude can be crucial for a healthy economy both at micro and macro level. It not only contributes towards reduced risk of financial exclusion rather informed decision helps to increase liquidity in financial market, thus improvise the strengthening of the economy. The concept designed to encompass different facets of the financial education is labelled as financial literacy that is needed not only to convert savings into return generating investment but also for deciding the investment pattern. The study will try to find out impact of financial literacy on investment pattern of employees in Alpha. Further the study will link their investment made towards expected future requirement with their current earning so as to assess its probable impact on their job satisfaction. The research study used a descriptive research design. The study used primary sources of data. Data was collected through the use of semi structured questionnaires. Secondary data was obtained from internet, journals and newspapers

**KEYWORDS:** *Financial literacy, financial exclusion, Investment, Knowledge.*

---

### INTRODUCTION

Financial literacy is the major challenge faced by all countries globally specially developing countries like India, Bangladesh, Iran, and Armenia. Financial literacy is closely connected to an individual's emotional, personal, social, economic, and employment success. An individual needs to understand the basics of money management, and use financial resources appropriately to function well in society at a personal, professional, business and community level. In a broader sense, youths need to identify and discuss significant economic issues, important to society and to the world. They should practice examining the consequences of change in economic conditions and public policies.

Financial literacy is mainly concerned with better planning of current earning, retirement life, gradual wealth accumulation and better financial decision making. So to be financially literate becomes important from the initial stages of one's career. But due to some personal or

professional hindrances they become financially illiterate. This leaves them with inadequate knowledge about financial dealings, inappropriate decisions etc., So, they have to be enhanced with financial knowledge and tools which are needed to make informed decisions. Financial literacy impacts the promotion of financial inclusion which ultimately results in financial stability of any economy. The need for financial literacy in India has gained importance because of low level of literacy and large section of population which is financially excluded from the formal financial set up.

Doing the good investment is challenging for people with minimal or without having awareness and experience about investing. Severe losses can be the result of not making right decisions which further leads to non fulfilment of future expected goals. As all investment comprises of risk we one raise at cost of their salary/ income earned from their profession. Risky investment generates exaggerated outcomes either in form of positive or negative returns. In other hand less risk associated with investment will leads towards negligible gain to neutralize for the low risk related with the investment. so if one suffer losses or earns nothing, it will lead towards dissatisfaction from current income generated.

#### **LITERATURE REVIEW**

Popescu (2008) posits that investors are financial literate whereby they have sufficient information and knowledge about the financial products in the securities market. Monticone and Chiara (2010) established that individual's poor financial performance to a very great extent impacted by financial literacy. Kuhberger, Schulte- Mecklenbec and Perner (2002) show that individuals exposed to financial education in learning institutions or work environs plans and save more than those who lacked such exposure.

Michael (2009) argues that "A lack of financial literacy can hamper the ability of individuals to make well-informed financial decisions. For people who exhibit problems with financial decision making, financial advice has the potential to serve as a substitute for financial knowledge and capability".

The report, "Financial Literacy among Working Young in Urban India" (2013), by Sobhesh Kumar Agarwalla, Samir K. Barua, Joshy Jacob, Jayanth R. Varma(IIM-A), presents an investigation of a financial literacy, among the working young in urban India. The study also investigates the relationship between the dimensions of financial literacy. Adding to the growing empirical understanding of financial literacy across countries, the study provides an analytical basis for enunciating policy to enhance financial literacy of the youth in India.

Agarwalla Sobhesh Kumar, et.al. (2012) conducted a study among 3000 individuals, and found that " Financial knowledge among Indians is very low than the International standards.

But the financial behaviour and attitude of the employees and retired seems to be positive. The financial knowledge among the women are marginally high than the men. Greater access to consumption credits has influenced the financial behaviour of young employees”.

Amisi (2012) investigated the effect of financial literacy on investment decision making by pension fund managers in Kenya. The study was based on a sample of 16 fund managers. The study revealed financial literacy and investment decisions have a significant relationship. The study concluded that financial literacy positively influences investment decision making

### **NEED OF THE STUDY**

Many of the studies has been talking about factors affecting the investment decisions and investment behaviour of individuals, some of the factors are demographic factors, risk tolerance, financial literacy, qualification, income level and past experience with investment avenue. The current study basically focuses on impact of financial literacy and income level of person on their investment behaviours.

### **OBJECTIVE OF THE STUDY**

1. To analyse the various measures taken by government for facilitating and creating financial literacy amongst people in India.
2. To assess the level of financial awareness amongst working people in Alpha India Pvt ltd.
3. To analyse the impact of income level and financial literacy on investment pattern of employees and in turn on their job satisfaction.

### **SCOPE AND SIGNIFICANCE OF THE STUDY**

The study has tried to find out the level of knowledge and attitude of the employees in Alpha towards fund allocation and utilization based upon their earning and household consumption. Further the study has tried to link their investment made towards expected future requirement with their current earning so as to assess its impact on their job satisfaction.

Data for analysing financial literacy level amongst working group of people has been collected from employees of Alpha Pvt ltd, Baddi Unit using semi structured questionnaire. Approx 50 no of employees responded to questionnaire. Descriptive research design was appropriate for this study as it intended to investigate the effect of financial literacy on investment decisions. Secondary data has been collected from journals, books, and other published sources. A cross tabulation has been done to suit the research objectives.

### **Government initiatives for enhancing financial literacy in India**

Financial education play a vital role in making demand side respond to the initiatives of the supply side interventions and stronger the economy. It is one of the top most policy priorities of the Government of India. Ministry of Finance under the Government of India takes several

strategies to spread the knowledge & education to the wide range of population in this country. Government has launched various flagship social security schemes with an objective of broadening financial inclusion in India. This was done to make financial services such as banking, insurance, and others available to the Indian citizens especially from the low & middle class category at an affordable cost and make them financially secure. Schemes like Pradhan Mantri Jan Dhan Yojna(PMJDY),Pradhan Mantri Suraksha Bima Yojna(PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojna(PMJJB),Atal Pension Yojna(APY),Suknya Samridhi Yojna(SSY).

### **Initiatives of RBI on Financial Literacy**

The Reserve Bank of India has undertaken a project titled "Project Financial Literacy". The objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defence personnel and senior citizens. The project envisages a multi pronged approach. The project has been designed to be implemented in two modules, one module focusing on the economy, Reserve Bank and its activities, Financial Education and Reserve Bank of India and the other module on general banking. The material will be created in English, Hindi, and regional languages. It would be disseminated to the target audience with the help, among others, of banks, local government machinery, schools and colleges through presentations, pamphlets, brochures, films, as also, through the Bank's website. The Bank has also created a link on its web site for the common person to give him the ease of access to information, in 13 regional languages, which he can use in his dealings with banks.

### **Initiatives of SEBI on Financial Literacy**

Securities Exchange Board of India has embarked financial education on a nationwide campaign to school students, college students, working executives, middle income group, home makers, retired personnel, self help groups etc.,

- The Resource Persons are given training on various aspects of finance and equipped with the knowledge about the financial markets.
- More than 4000 workshops have been already conducted in various states covering around 2,60,000 (two lakh and sixty thousand) participants.
- Investor education programs are conducted by SEBI through investor associations all over the country.

- SEBI has a dedicated website for investor education wherein study materials are available for dissemination. SEBI also publishes study materials in English and vernacular languages.

### **IRDA'S Initiatives on Financial Education**

Insurance Regulatory and Development Authority has taken various initiatives in the area of financial literacy.

- Awareness programmes have been conducted on television and radio and simple messages about the rights and duties of policyholders, channels available for dispute redressal etc have been disseminated through television and radio as well as the print media through sustained campaigns in English, Hindi and 11 other Indian languages.
- IRDA conducts an annual seminar on policy holder protection and welfare and also partially sponsors seminars on insurance by consumer bodies.
- IRDA has got a pan India survey on awareness levels about insurance carried out through the 13 NCAER in a bid to improve on its strategy of crating insurance awareness.
- IRDA has also brought out publications of 'Policyholder Handbooks' as well as a comic book series on insurance.
- A dedicated website for consumer education in insurance is on the verge of launch IRDA's Integrated Grievance Management System (IGMS) creates a central repository of grievances across the country and provides for various analyses of data indicative of areas of concern to the insurance policyholder

### **Market players Initiatives on Financial Education:**

Commercial banks are increasingly realizing that they are missing out on large segment of financially illiterate and excluded segment of prospective customers. Also, in view of the national emphasis on electronic benefit transfer the commercial banks have initiated various measures for creating awareness through Financial Literacy and Counselling Centres and Rural Self Employment Training Institutes on financial literacy. The objective of these centres is to advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counselling people who are struggling to meet their repayment obligations and help them resolve their problems of indebtedness, helping in rehabilitation of borrowers in distress etc. Some of these credit counselling centres even train farmers/women groups to enable them to start their own income generating activities to earn a reasonable livelihood. Even top management of commercial banks is undertaking Outreach visits to villages with a view to spread financial

literacy. Similarly, many Stock Exchanges, Broking Houses and Mutual Funds have initiatives in the field of financial education that spawns conducting of seminars, issuance of do's and don'ts, and newspaper campaigns. Insurance companies too, carry out campaigns and other educational activities for generic education in insurance. It will be necessary to collate all the material developed by these institutions and classify it in the light of the approach outlined in this strategy paper. The cleaned material suitably augmented should form the kernel of knowledge base envisaged in the strategy.

## DATA ANALYSIS

**Table-1 Demographic profile of employees**

Age	18-25	26-45	46-60	Total
Frequency	3	22	25	50
Percent	6	44	50	100

Table-1 stated that most the employees working in company are above 26 years old and approx. 50 percent of total employees have age in between 45-60 years. 40 percent of the employees are post graduate only while 48 percent are either graduate or diploma holder.

**Table-2 Awareness about financial Instruments**

	MF	Ins	Corporate FD	real estate	gold	share market
not aware	9	5	19	9	9	9
Partial aware	26	14	18	28	31	30
Fully aware	15	31	13	13	10	11
Total	50	50	50	50	50	50

Table-2 stated that more than 50 percent of the employees are partially aware about investment in financial instruments like mutual funds, corporate FDs, real estate, Digital gold buying and investment in share market. There is maximum awareness about insurance as an investment option amongst all employees.

**Table-3 Proportionate consumption expenses**

Percentage of monthly income spent on household expenses					
	Annual household income (From all sources)				Total
	1.5 to 3 lacs	3 to 5 lacs	5 to 10 lacs	>10 lacs	
Min 25% of the income	0	1	0	0	1
26% to 50% of the income	1	4	2	1	8
51% to 75% of the income	2	13	2	0	17
76% to 90% of the income	4	5	9	1	19
above 90% of the income	0	2	0	2	4
Total income	0	1	0	0	1
Total	7	26	13	4	50

Table-3 indicates that majority of employees (52 percent) comes under 3-5 lakh p.a. income bracket while just 34 percent earns more than 5 lakh per annum. Just 14 percent employees

earn below 3 lakh p.a. Approx 72 percent employees spend their more than 50 percent income on household expenses so left with less saving for making investment.

**Table-4 Future Investment Planning**

	Frequency	Percent	Valid Percent
For children education (Higher studies)	24	48.0	48.0
For child/Children marriage	6	12.0	12.0
For your retirement	5	10.0	10.0
For critical illness	3	6.0	6.0
Others	12	24.0	24.0
Total	50	100.0	100.0

The above table states that 48 percent employees have made sufficient investment planning for their children's education while very few of them (16 percent) have made planning for their retirement and critical illness irrespective of the fact that they work in private sector. Approximately 66 percent of employee's belief that they have not made sufficient future planning so they are very dissatisfied.

**Table-5**

	Highly Agree	Agree	Neither agree nor disagree	Disagree	Highly disagree
My organization provide me sufficient scope for future growth and development	17	10	11	6	6
My current salary justify the job profile given to me	6	10	24	9	1
I make adequate investment out of salary given by my organization.	6	9	16	5	4
I rarely postpone my current consumption due to shortage of funds	10	13	14	9	4
My organization provide adequate incentive and bonus as per industry norms	9	5	19	14	3

Most of the employees feel that they get adequate scope for future growth and development but they were silent on part of salary given against job profile, investment made out of it and incentives/ bonuses given by organization.

### **FINDINGS AND CONCLUDING REMARKS**

It is concluded from the study that although government has been taking many initiatives all over the India but still the level of financial literacy is not found to be 100 percent for financial instruments other than banking products. Even the working employees in companies don't find sufficient time to obtain knowledge about instruments' available and the one who has knowledge don't get sufficient time to invest in financial options. That is one of the major reasons that lead to dissatisfaction amongst employees regarding their inappropriate investment towards their future plans. The study found out that people who are dissatisfied

from their investment pattern are still happy in their job. This indicates that their salary earned from their job is not the major factor affecting their investment pattern rather, financial illiteracy leads to improper management of their funds.

## REFERENCES

- Bahadur L.R.(2015). Financial Literacy: The Indian Story. *World Journal of Social Sciences*. Vol. 5. No. 3. September 2015 Issue Pp.45 – 57.
- Iowa Core K-12 21st Century Skills: Essential Concepts and Skills. August, 2010. Pp. 36-51
- Bhardwaj.B & et.al (2013).Income, saving and Investment Pattern of Employees of Bahra University, Solan. *IJMBS Vol. 3, Issue 1, Jan - March 2013*.
- Sekar.M & Gowri. M. A Study on Financial Literacy and its Determinants among Gen Y Employees in Coimbatore City.(2015). Vol 9 , No 1 , March 2015
- Lusardi, A., Mitchell, O.S., and Curto, V. (2006). Financial literacy among the young. *Journal of Consumer Affairs*, 44(2), 358–380.
- Huston, Sandra. J. 2010. Measuring Financial Literacy. *The Journal of Consumer Affairs*. 44: 296-316.
- Zait.A, Berteau P.E(2014).Financial Literacy – Conceptual Definition and Proposed Approach for a Measurement Instrument. *JAM vol .4,no.3(2014)*.
- Brown, J., Liang, N. and Weisbenner, S. (2007) Individual account investment options and portfolio choice: Behavioral lessons from 401(k) plans, *Journal of Public Economics*, **91**, 1992-2013.
- Byrne, A. (2007) Employee saving and investment decisions in defined contribution pension plans: survey evidence from the UK, *Financial Services Review*, **16**, 19-40.