# Financial Literacy: A Study of Rural People in Malwa Region of Punjab

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**Abstract**

*Financial Literacy has been playing a very important role in the lives of people, especially in the developed nations. A plethora of multifarious and complicated financial services and products at the disposal compounded by an acute absence of financial knowledge and financial planning among the masses pose a huge hindrance in the process of smart saving, rational borrowing and wise investment which might ensure better retirement benefits and heightened risk cover. The development of the nation does not necessarily guarantee the financial literacy of its people. However, various national and international agencies are working towards promoting awareness in this matter by conducting workshops, programmes and seminars etc. on financial education. A lack of financial literacy has huge adverse effects on the financial decision making of the individual as it leads to a lack of financial knowledge which results in an inability to plan finances in an optimally profitable and desirable manner. On top of it, it impacts the macro-economic concerns adversely as well as it lesser participation in financial markets, leads to wealth inequality, trenching financial growth and hampering the overall financial health of a nation. The present research is expected to contribute immensely to the socio-economic growth sustenance and overall development of the society.*

**Keywords:** *Financial Literacy, Financial Behaviour, Savings, Investment, Punjab*

## Introduction

Change is the law of nature and financial needs of the society vary with the changing time. Gone are the days when people believed in destiny but today they take rational decisions by conducting cost benefit analysis and financial planning to minimize the future financial risk. There is a vast change in life-styles of individuals, as now they want more comfort, convenience, status consciousness and luxurious life for achieving name and fame in the society. To minimize the risk of uncertainties in future and for a better financial wellbeing, an individual has to take number of financial decisions regarding budgeting, saving, borrowing sand investment. Inpresent dynamic business

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environment, individual shave to take such decisions in context of complex financial markets and sophisticated financial products as compared to past business circumstances (Lusardi, 2015). As such, the concept of financial literacy is gaining importance worldwide.

Various authors have defined the term 'financial literacy'. Lusardi (2015) has defined it as the ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, pensions, etc. Furthermore, according to Cull and Whitton (2011), financial literacy is a broad term and encompasses a basic level of knowledge and skills in areas such as superannuation, taxation, estate planning, home ownership, investments, debt and risk management, annuities and welfare benefits. Organization for Economic Cooperation and Development (OECD) defines financial literacy "as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual wellbeing" (OECD, 2011). To be very precise, financial literacy means "the knowledge of some basic financial concepts in order to take financial decisions" It is an art that includes understanding of some basic financial concepts such as numeracy, interest compounding, inflation etc. and entails to develop the ability to empower money management skill. Financial literacy makes the person aware of various available investable opportunities, saving avenues and borrowing options. It helps in accumulation of wealth and management of liabilities. Managing situation before it gets out of control is always appreciable. Requirement of products and services changes through various stages of life thus a person should also keep on changing the habits of managing personal finance. Since the 1990s, behavioural economics and behavioural finance theories have explored the specific cognitive biases that are likely to lead to poor financial choices, such as the discounting of future value (Cull and Whitton, 2011). And, it is argued that these biases can be alleviated by financial literacy education (Thaler and Sunstein, 2009). As such, the promotion of financial literacy can be seen as a means for the state to mitigate the social welfare issues which stem from poor financial decisions (Cull and Whitton,2011)

Despite widespread concept of financial literacy, still the phenomenon of financial illiteracy is extensively prevalent in India per se and in the state of Punjab in particular. Moreover, there are a few explicit demographic groups which are known to be financially illiterate, for instance economically disadvantaged, illiterates and persons with low educational accomplishments, females and the old particularly in the rural areas the young and the old, and those with low educational attainment. And, this obliviousness to financial literacy is hasimmense spill-over affect sandas such it is likely to affect, rather causing an effect on the well-being of the people. In this context, Lusardi (2015) underscored that the ignorance about basic financial concepts can be linked to lack of retirement planning, lack of participation in the stock market, and poor borrowing behaviour. In addition to these, the low levels of financial literacy have been linked to high levels of personal and household debt; adverse health choices and poorer general life outcomes (Cull and Whitton, 2011). Thus, the broader implications of meager financial literacy levels are too grave to be overlooked.

Notwithstanding that the phenomenon of financial literacy and illiteracy has been examined by various researchers, but it is still blossoming. As such, it is important to carry out more in-depth research, particularly focusing the socio-economically and educationally backwards areas, where the issue of financial illiteracy is more prevalent among various population groups. Keeping these arguments in view, the present study focuses on the Malwa districts of the state of Punjab, which comprises of numerous socio-economically and educationally backward districts, besides a few developedareas.

**1. Objectives of the Study**

The following are the main objectives of this paper:

• To study the awareness level of Financial Literacy among Rural populace in the Malwa region ofPunjab.

• To find the correlation between Financial Literacy and Financial Behaviour of rural people.

• To suggest the measures to bring more people within the ambit of financial literacy and ensuring their overall socio economic development.

**2. Review of Literature**

Those who have more financial knowledge are likely to show more desirable financial behaviour (Hilgert & Hogart 2003; Robb & Woodyard 2011; Agarwalla et al., 2013; Alhenawi & Elkhal, 2013). The people should be aware of the risks and rewards so that they can make an informed choice regarding the financial matters. Financial literacy, in that sense, enables an individual to improve the management of one's finances and avoid distress (Atkinson and Messy 2012). Gupta et al. (2014) established, by analyzing micro Entrepreneurs of Kangra district (Himachal Pradesh) that many of them possessed low financial skills which was reflected in deficient record keeping, poor cash management, improper savings habits, less awareness on financial products. Engstrom and McKelvie (2017) found that financial literacy is a predictor of financial performance, but not growth in caseofmicro-enterprises ininformal economy. Bahadur(2015) found that level off in ancialliteracy is very low among the surveyed 202 respondents from Mumbai and Thane districts, and suggested to encourage financial literacy from school level, national level programs and seep effort to the grass root level. Naidu (2017) observed that the financial literacy level in India was very low, especially among women and youngster population groups, and suggested that basic financial skills, awareness, knowledge, attitude and good demonstrated behavior are important to achieve the desire dout come.

**3. Materials and Methods**

Area/Locale of the Study: Malwa region of Punjab state has been be selected on random basis and top three districts having the Rural population with the highest literacy rate has been selected in the following manner.

| Districts | Rural Population in proportion to theTotal Population of District | Literacy Rate |
|---|---|---|
| Moga | 36.50 % | 70.7 |
| Faridkot | 38.92 % | 69.6 |
| Bathinda | 32.44 % | 67.8 |

(http://www.punjabdata.com)

Sample Size: A sample of 600 respondents has been taken by selecting 200 respondents from each selected district. In the present study primary data has been collected with the help of a self structured schedule. The secondary data has been collected through various sources viz; previous studies, websites, books, magazines, journals, reports etc.

**Tools for Analysis**

Descriptive statistics has been used to analyze the data and hypothesis testing will be done with the help of appropriate statistical techniques such as t-test, Correlation and Regression analysis.

**5. Results andDiscussions**

In this section of the research paper the analysis and interpretation has been done in the following manner:The above table depicts the results of persons' correlation which clearly establish that apart from money management the rest of the dimensions have positive but moderate relationships between financial literacy and financial behaviour. In other words the level of financial management on Savings, Investment, Credit, Insurance are positively correlated with the level of financial literacy and behaviour since all four correlation values are around 0.3 to 0.5 while having p values less than 0.05. However the correlation value of Money Management dimension shows a weak and insignificant relationship between two variables.

Table1 Pearson Correlation between Financial Literacy and Financial Behaviour Dimensions

| Financial Literacy and Financial Behaviour | Pearson Correlation | Sig (2-tailed) |
|---|---|---|
| Savings | 0.345 | 0.043 |
| Investment | 0.487 | 0.012 |
| Credit | 0.492 | 0.008 |
| Insurance | 0.543 | 0.000 |
| Money Management | 0.164 | 0.283 |

Source: Primary Survey Data

To analyse the impact of each dimensions of financial literacy on financial behaviour multiple linear regression is utilized. According to the model summary results illustrated in Table 3 R square is 0.85 which can be interpreted as 85 percent of the variance of dependent variables (financial behaviour) can be explained by independent variable (dimensions of financial literacy).

Table2 Regression Model Summary

| Mode | R | R-Square | Adjusted R-Square | Durbin-Watson |
|---|---|---|---|---|
| 1 | 0.852345 | 0.726492 | 0.726 | 2.035 |

Durbin Watson range is between 1.5 and 2.5. In this analysis Durbin Watson value of 2.035, which is between the acceptable ranges, show that there were no auto correlation problems in the data used in thisresearch.

Table3 Results of the Regression Analysis of Equation1

| Model | Un standardized Coefficients | | t | Sig. |
|---|---|---|---|---|
| | B | Standard Error | | |
| FLS Scale | 1.756 | 0.587 | 1.237 | 0.001 |
| FLI Scale | 2.614 | 0.536 | 3.452 | 0.000 |
| FLB Scale | 2.957 | 0.594 | 4.258 | 0.000 |
| FLIC Scale | 1.328 | 0.541 | 4.159 | 0.002 |

Results of the multiple regression model is illustrated in Table 4 Beta value between Financial behaviour and Savings, Investment, Borrowings & credit and Insurance 1.756, 2.614, 2.957, 2.726, 1.328 respectively. Moreover the Beta values are at significant at 0.05 levels ($P < 0.05$). Therefore Independent variables Savings, Investment, Credit and Insurance have a significant influence on financialbehaviour.

Table4Model Summery for the impact of Financial Literacy andFinancial behaviour

| Mode | R | R-Square | Adjusted R-Square | Durbin-Watson |
|---|---|---|---|---|
| 2 | 0.82785 | 0.68534 | 0.685 | 1.8782 |

Regression analysis between two main variables explains the overall impact on level of financial literacy of Rural people in Malwa region of Punjab on financial behaviour. The model summery for simple linear regression model is illustrated in Table 5. The second model has R square value 0.685 which explains that the 68.5 percent of the financial behaviour of Rural people can be explained by level of financialliteracy.

Table5 Regression Results of Model 2

| Model | Un standardized Coefficients | | t | Sig. |
|---|---|---|---|---|
| | B | Standard Error | | |
| FL Scale | 0.825 | 0.032 | 24.03 | 0.001 |

The above Table 6 represent the single linear regression between financial literacy and financial behaviour. The beta coefficient of independent variable, financial literacy is .825 with a P value of 0.001 which confirms that there is a significant positive impact of financial literacy of financial behaviour.

Table6 Hypothesis Testing

| | | |
|---|---|---|
| There is low level of financial literacy among Rural people in the Malwa region of Punjab. | Accepted | P value >0.05 |
| There is relationship between financial literacy on savings and financial behaviour of rural populace | Rejected | P value <0.05 |
| There is relationship between financial literacy on investment and financial behaviour of ruralpopulace | Accepted | P value >0.05 |
| There is relationship between financial literacy on credit and financial behaviour of rural populace | Accepted | P value >0.05 |
| There is relationship between financial literacy on insurance and financial behaviour of rural populace | Rejected | P value <0.05 |

Summary of the data analysis given through the hypotheses testing is illustrated in Table 7. The above table shows that the P value is greater than 0.05 in case of level of financial literacy which signifies that the level of financial literacy among Rural people in the Malwa region of Punjab is very low. P value is less than 0.05 in case of savings and insurance which signifies that there is relationship between financial literacy on savings & insurance and financial behaviour and financial behaviour of rural populace. On the other hand there is no significant relationship between financial literacy on investment and financial behaviour of rural populace and also on financial literacy on credit and financial behaviour of rural populace.

## Conclusion

Despite widespread concept of financial literacy, still the phenomenon of financial illiteracy is extensively prevalent in India per se and in the state of Punjab in particular. Moreover, there are a few explicit demographic groups which are known to be financially illiterate, for instance economically disadvantaged, illiterates and persons with low educational accomplishments, females and the old particularly in the rural areas the young and the old, and those with low educational attainment. And, this obliviousness to financial literacy is has immense spill-over affects and as such it is likely to affect, rather causing an effect on the well-being of the people. It is further concluded that the level of financial literacy among Rural people in the Malwa region of Punjab is very low and hence needs improvement. It can be done by creating awareness among the rural populace by organizing various seminars, awareness programmes on the part of thegovernment.

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