

A STUDY ON FINANCIAL LITERACY AND FINANCIAL PLANNING FOR INDIVIDUAL INVESTOR

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ABSTRACT

Financial literacy furnish the individual investors with the ability to know, detect, and effectively use financial means to enhance the welfare and economic growth or sustainability for the himself, family, and one's business. The understanding of financial requirement enable one to know the structure, related financial literacy at several stages. The main objective of the study is to assess the awareness of Individual Investor on personal financial planning. Prepared questionnaire that compute the level of awareness about preparing financial planning, knowing economic and social benefits among the Individual investor. The study came to an end that though the research in the area of personal financial planning with individual investor has established that general education or literacy significantly increases investment in various instrument, income and retirement savings, it may not equip one with sufficient knowledge and skill for taking investment decisions.

1. Introduction

For an individual/Independent, understanding primary principles of finance and their implementation is a must for financial welfare. General attitudes toward disburse and saving behavior are troubling as well.

In India, from the previous era, all the regulatory bodies are working in the direction of boosting financial literacy, mainly the Reserve Bank of India, National Centre for Financial Education, National Institute of Securities Market, Insurance Regulatory and development Authority of India, Pension fund Regulatory Authority of India, Securities and Exchange Board of India etc. Banks and Asset Management Company are working towards uplift financial literacy among the Individual. Having encouraged the investor awareness programs over India, now they have realized the importance of financial literacy education at school level and many Universities come up with an initiative for Financial Literacy in the early stage.

This enables future generations ready to manage their finances remarkably and turn away problem while investing their money. The study pointed that Indians are very aware with regard to their savings and Investment and show highest saving rates amongst its global peers, but the awareness in individual investor about investments in financial market is moderate. According to the Reserve Bank of India project 'Project Financial Literacy', the position of financial literacy in India is not very good. More, the state in rural areas is very poor those areas people not much aware about Investment mean they having Less financial literacy.

1.1 Detailed Literature Review

“The What, Wherefor and In what way of Financial Literacy” (February, 2013) through Dr. K. C.Chakrabarty, ex Deputy Governor of the Reserve Bank of India, talked a rare key issues associated to financial literacy in a country like India. In his report at the stakeholders’ workshop on “Financial literacy”, prepared jointly by the United Nations Development Programmed, National Bank for Agriculture and Rural development and MicroSave, Mumbai he mainly strut about the importance of financial literacy, the target audience for financial literacy and the key ideas to improve the levels of literacy for the evolution and development of the nation. He structured his speech around. As Organization for Economic Co-operation and Development states financial literacy as a combination of financial awareness, familiarity, skills, insolvency and behaviors essential to make sound financial decisions and finally achieve individual financial well-being. Which means financial literacy is expected to provide the required understanding to individuals to make informed decisions when using financial services. “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)”[2], presents an enquiry of a study on the impact of various socio-demographic aspects on different proportions of financial literacy, amongst the working young in urban India.

Earlier field studies around the world discovery that majority of individuals has a low level of financial knowledge. There is also evidence that financial literacy is a multi-dimensional paradigm and separately gauging its diverse dimensions is important. Schicks (2014) finds that while over-indebtedness is lower for borrowers with good debt-literacy, general financial literacy and proficiency look insufficient to decrease over-indebtedness. The coordinated energies of Reserve Bank of India and the Government of India the last five years have concluded in providing access to banking services to a common of the Indian population. The formulation and application of the National Strategy for financial education consequently becomes a top importance for the country to educate the new participants into the financial system.

Research by Courchane (2005) presented that self-judged knowledge was one of the greatest important parts in defining financial behavior. Nevertheless, research has complete it clear that people do not continuously have a full understanding of their individual level of financial knowledge. Financial satisfaction is an individual’s particular insight of the capability of his or her own economic resources. Financial satisfaction has extensive been acknowledged as a element of happiness and has received attention in studies on wellness related stressors such as financial tension, risk management matters, position of control and employment issues.

1.2 Research Methodology

A descriptive research strategy undertaken to encounter the objective of the study. The population for this study is mainly Employed person and businessman. They include Literate people who are from Maharashtra state. This study has selected a sample of 50 respondents on convenience sampling. For the purpose of the study, Respondent are divided according to their qualification. To gather the related information from respondents, a survey mode was used with a planned schedule. The financial literacy level is measure amongst individual Investor in terms of a) financial knowledge, b) financial behavior and c) financial awareness about various Investment Product. financial planning is measured in terms of a) budgeting and tax planning, b) Retirement Saving c) investing savings and d) planning retirement and estate planning.

For that, Twenty Questions were asked to respondent. Data collected was evaluated and cleared from errors before being analyzed using various tools and presented in the form of tables and Descriptive statistics such as frequencies, percentages, were used. The responses were measured by taking liker five point scale, while tabulating the data ‘strongly agree’ option was assigned a weight of one and ‘strongly disagree’ was assigned a weight of five. In between these two extremes, other levels such as ‘disagree’, ‘neither disagree nor agree’ and ‘agree’ were assigned weights of two, three and four respectively.

1.3 Objective:

The Study objects achieving the succeeding objectives:

To study the levels of “financial literacy” amongst the Individual Investor of Investment and to know its impact on their personal financial planning or their Investment.

1.4 Hypothesis:

Based on objectives of the study, the following theories are formed.

1. There is no such important relationship between financial literacy and personal financial planning of individual Investor.
2. There is no effect of financial literacy on personal financial planning of Individual on their Investment.

1.5 Scope:

This research highlights the level of financial literacy of Individual Investor.

- The sample collected for this study would be from Literate investor.
- This study would be derived from primary data by giving questionnaires to Individual.

1.6 Limitations:

The all study is based on the only Primary data and the limitation of this is inaccurate response will be given by respondent.

This study accepts that complete data gathered for this research is accurate. The study also assumes that participants will be frank and authentic in their own responses but understands that there is an emotional topic repeatedly related with money discussions that from time to time reasons participants to be secured in their responses.

One more limitation of this study is the narrow geographical sample of respondent/participants filling out the survey.

1.7 Type of research:

Primary Research via Questionnaire

1.8 Type of data:

Primary Data

1.9 Method of data collection:

The researcher developed the survey, a email and a follow up email from participants information gathered from the literature review. The survey consist of 38 questions which took participants 15 minutes to complete. The survey was designed so that the respondent could assess each question complete their level of knowledge by using the Likert scale 4-point scale: Agree, Strongly Agree, , Disagree, and Strongly Disagree.

2. Research Methodology

2.1 Research Design

Research design is method for accompanying a research project. The design of the study is explanatory and descriptive research approaches. Explanatory study approach will be active to start how variables such as age, qualification, place has a influence on financial literacy and also to show how Investor knowledge in finance help them to make informed financial decisions as well as other factors that can result in having financial knowledge. The main research instrument used in this study is questionnaire. From this questionnaire respondent gives their answer accordingly.

2.2 Data Sources

For this study primary data will be used in the form of questionnaire. open ended questions will be designed and administered to respondents. The questions cover a mixture of various topics such as their knowledge, planning for short and long term financial goals and awareness and choice of financial products. The target population of the study will consist of Literate people who having a Income Sources both male and female. The study is intended to develop a survey instrument that will assess the financial literacy and awareness of various product or knowledge levels of the Individual investor.

2.3 Data Collection

This study's nature in the form of descriptive and explanatory. Primary sources (mainly) and secondary sources will also be used for this study. For the determination of this study the sources will be as follows:

- Primary Data sources: It will be collected with the help of questionnaire; it will filled by the participants/respondents.
- Secondary Data sources: It will be collected with the help of Books, Reports, Journals, Magazines, Newspapers, Websites and other published sources.

2.4 Universe of the study

Universe of the study will be the Financial Knowledge of the Investor

2.5 SAMPLING DESIGN

Sampling Technique are broadly divided into two groups as probability sampling techniques and non-probability sampling techniques.

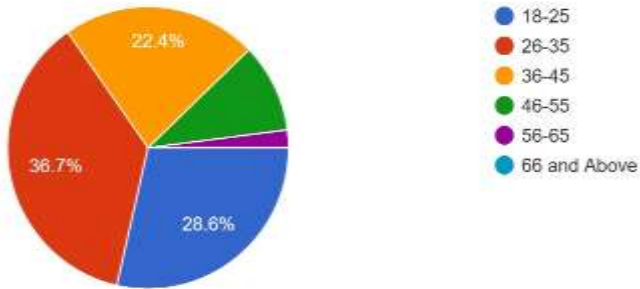
For the current study, Convenience sampling is chosen.

- Sampling Technique: Convenience sampling
- Sample Frame: Maharashtra (Mainly Pune and Ahmednagar District)
- Sample Size: 53

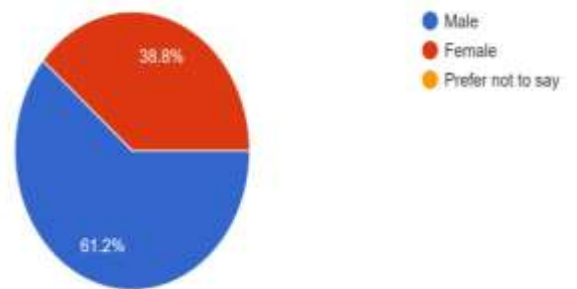
2.6 Data Analysis:

Data Analysis is done through various techniques.

1. Respondent Age



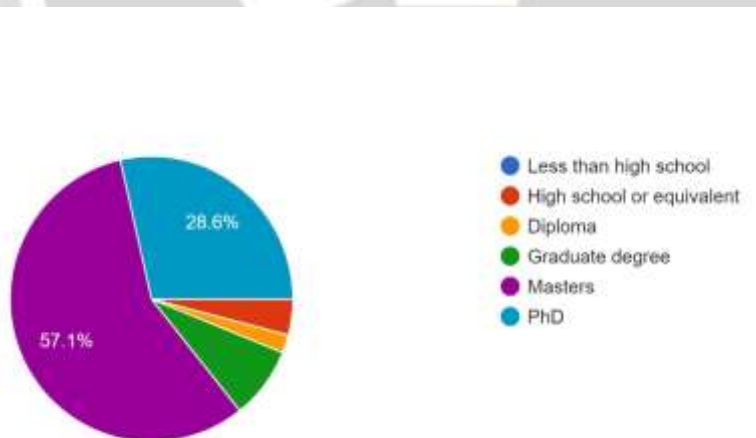
2. Gender



In this data analysis most of the respondent from age group of 26-35, 18-25, 36-45, 46-55, 56-65 which was 18, 14, 10, 6 and 1. This all respondent having a literate or employed person. All respondent has a young or they all having a job in their hand.

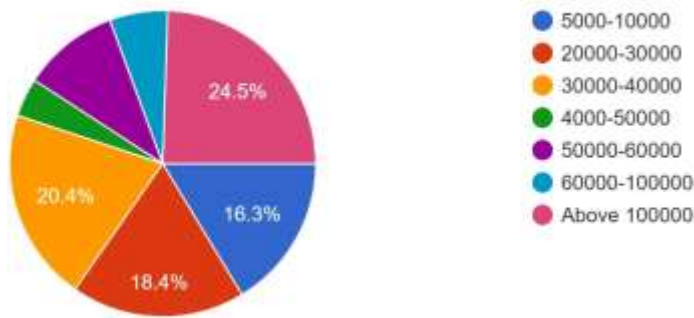
Out of 49 respondents Male are 30 and female are 19.

2. Educational level



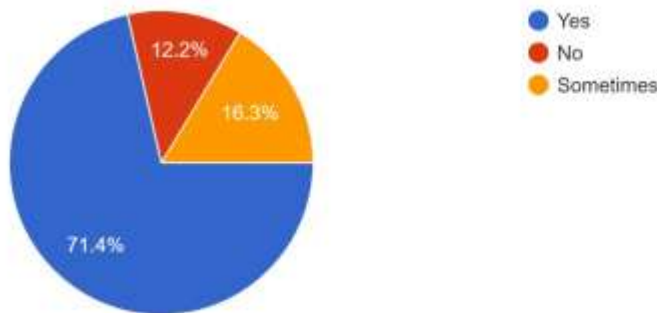
In this data analysis most of the respondents have completed their Masters i.e. 57.1% and there are 28.6% of respondents completed their PhD then few of them have completed their graduation and there is very less no of respondent have completed Diploma, High school and less than high school Education.

4. Income Level per Month



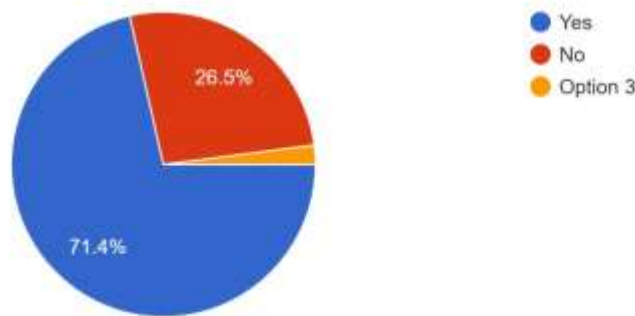
In this pie chart we can see that many respondents have their monthly income 1,00,000 i.e. 24.5%, 30,000-40,000 i.e. 20.4%, 20,000-30,000 i.e. 18.4%, 5,000-10,000 i.e. 16.3% and then others.

5. Do you prepare and follow the budget for your household?



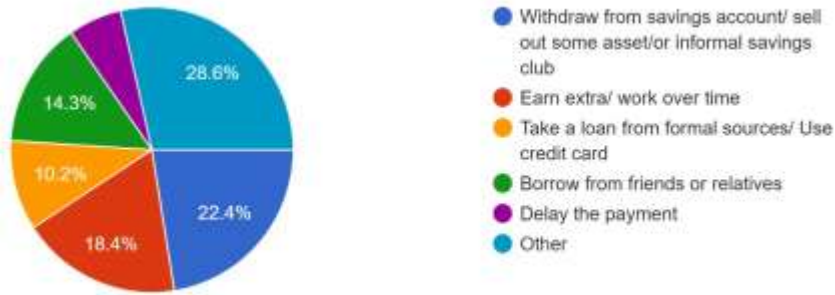
In this pie chart we can see that there is 71.4% of respondents prepares and follows their household budget. And 16.3% follows it sometimes then 12.2% respondents are not following their household budget.

6. Have you come across a situation where your income falls short to meet your expenses?



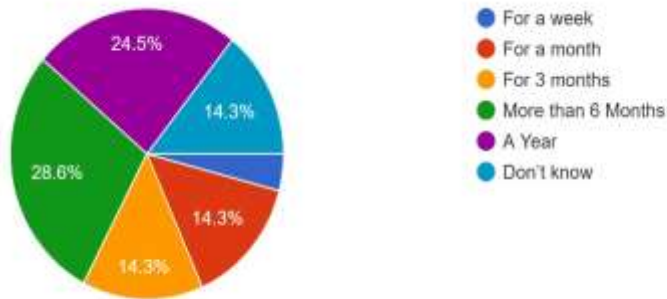
In this chart we can see that there is 71.4% of respondents have come across a situation where their income falls short to meet their expenses and 26.5% have not.

7. If Yes how do you overcome it?



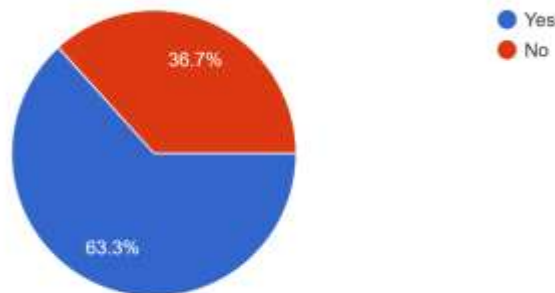
In this chart we can see that there is 28.6% of people choose other option to overcome this situation and there are 22.4% people are withdrawing their money from saving account or they sell their assets and 18.4% people are doing overtime and 14.3% of people are borrowing money from friends or relatives and 10.2% people are taking loan or using credit card to overcome a situation where their income falls short to meet their expenses.

8. If your income source is lost how long can you cover your living expenses without borrowing money from anyone.



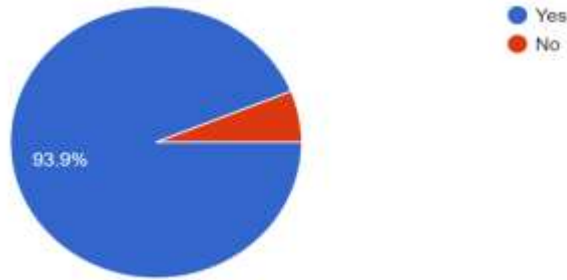
In this chart we can see that there are very less respondents can cover their living expenses without borrowing money from anyone but there are many respondents can cover their living expenses without borrowing money from anyone.

9. Have you planned for your expenses after retirement?



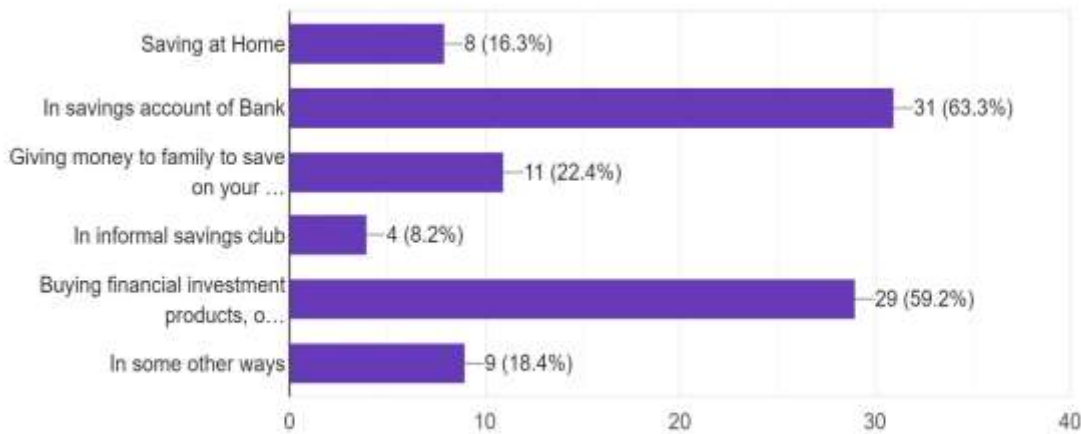
In this chart we can see that there are 63.3% of respondent have planned their expenses after retirement. And 36.7% respondent have not planned their expenses after retirement.

10. Do you save money?



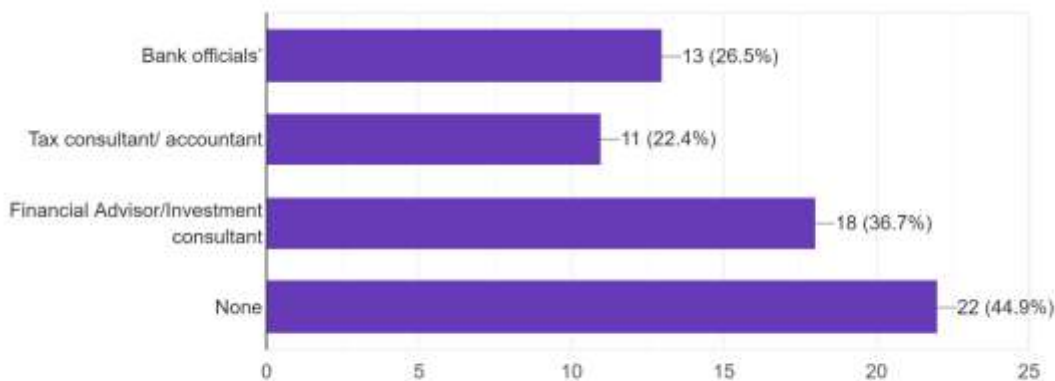
In this chart we can see that there are 93.9% respondents saving their money. They understand the uncertainty of the future.

11. If yes in which of the following ways you prefer to save?



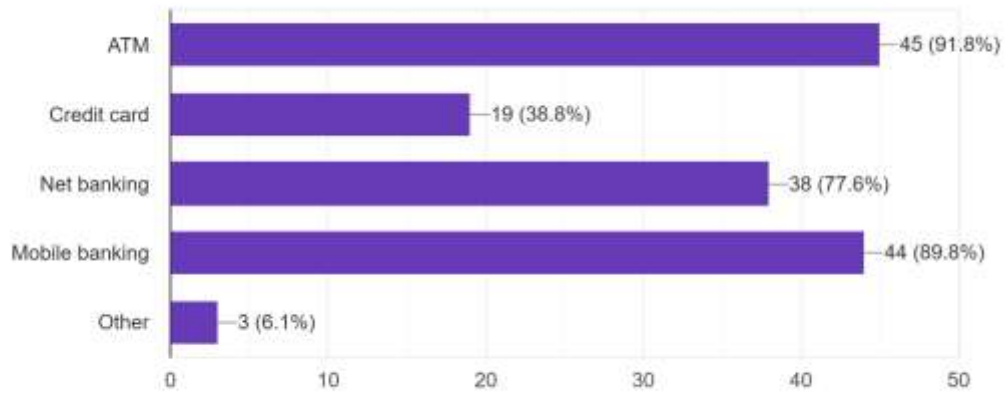
In this chart we can see that most of the people give their 1st preference to save their money in savings account of the Bank and their 2nd preference is to buying financial investment products.

12. Have you ever used advice of any of the following for your investment decision?



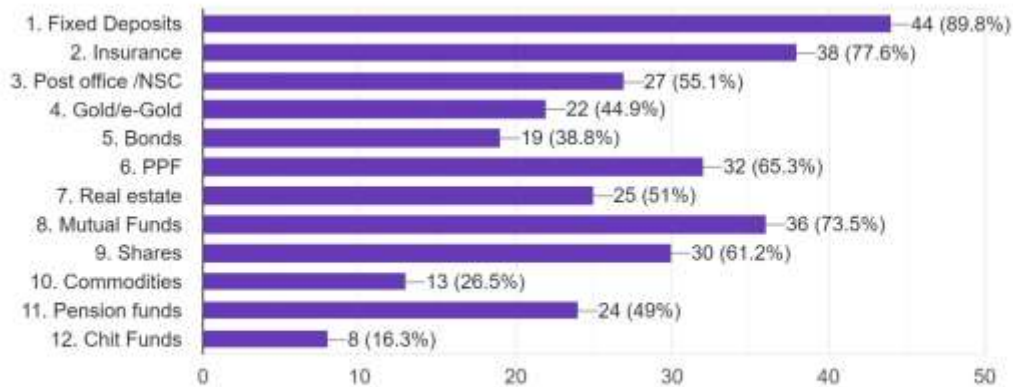
In this chart we can see that most of the respondent are not taking advice of anyone then the second preference of respondent is financial advisor/investment consultant, then their third preference is to bank officials and there is very less people are taking advice of tax consultant/accountant.

13. Which of the following banking facilities do you use?



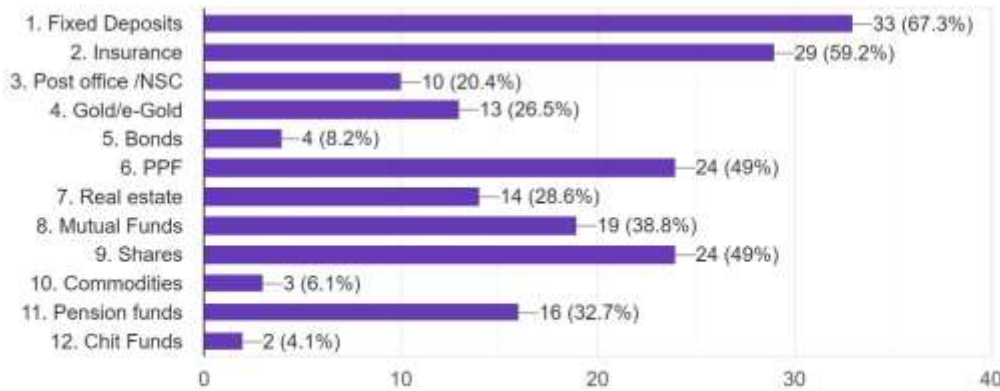
In this chart we can see that more than 80% of people are using banking facilities and there are very less number of people are using other facilities which is given by bank.

14. Which of the following products you are aware about.



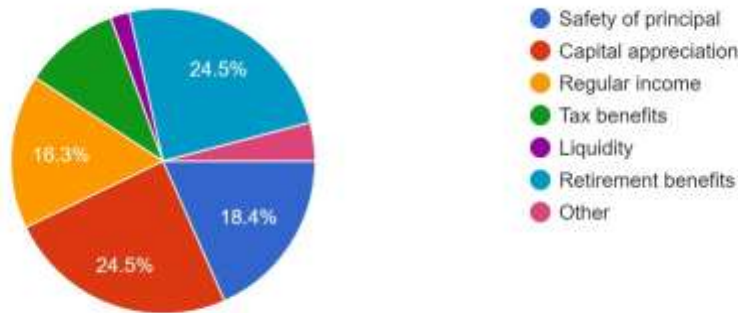
Here, we can see that most of the people are aware about Fixed Deposits, Insurance, Mutual Funds, PPF, Shares these people are between 30-50.

15. Your current investment options.



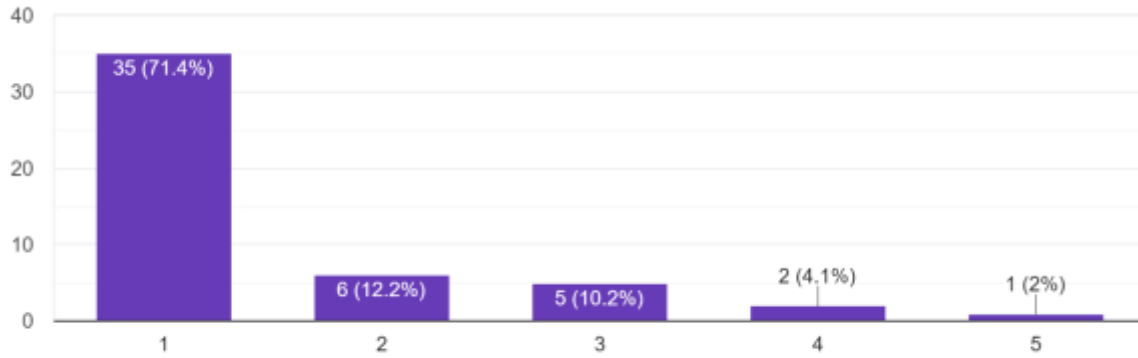
Here, we can see that most of the people are investing in Fixed Deposits, Insurance, PPF, Shares, Mutual Funds then Pension Funds.

16. What is your prime objective behind investment?



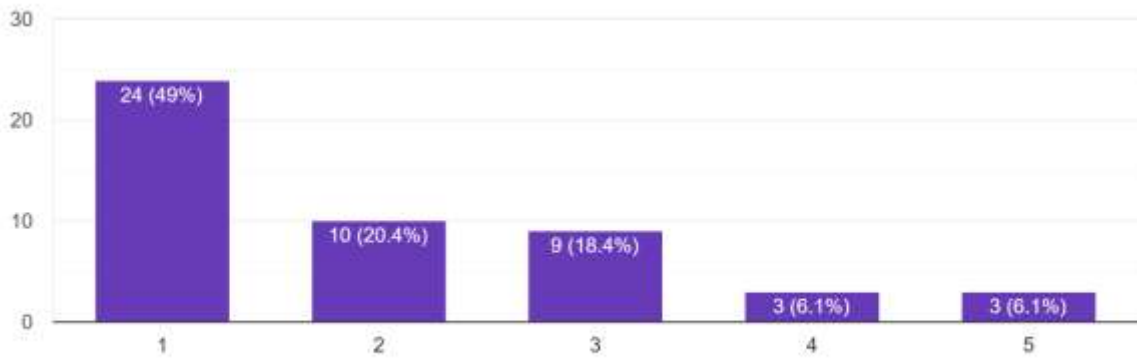
In this chart we can see that the main objective of doing the investment is for getting Retirement benefits and Capital Appreciation then Safety of principal.

17. Before I buy something I carefully consider whether I can afford it.



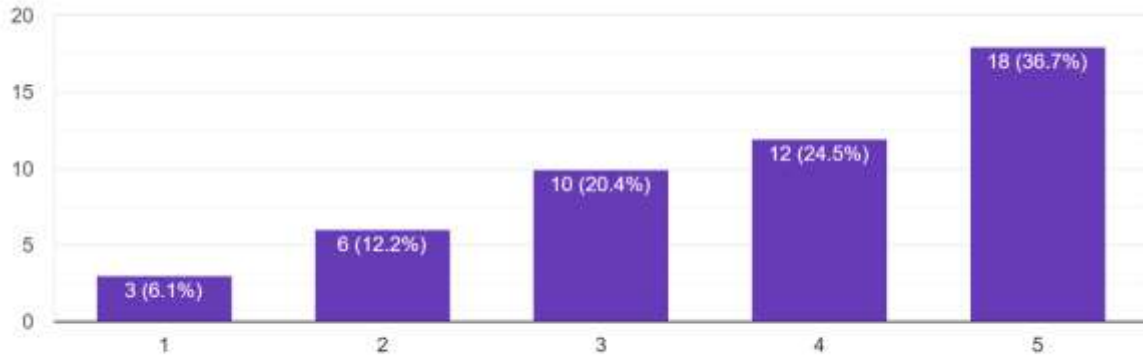
Here, Before buying something there is 71.4% of people are considering that whether they can afford it or not.

18. I keep a close personal watch on my financial affairs



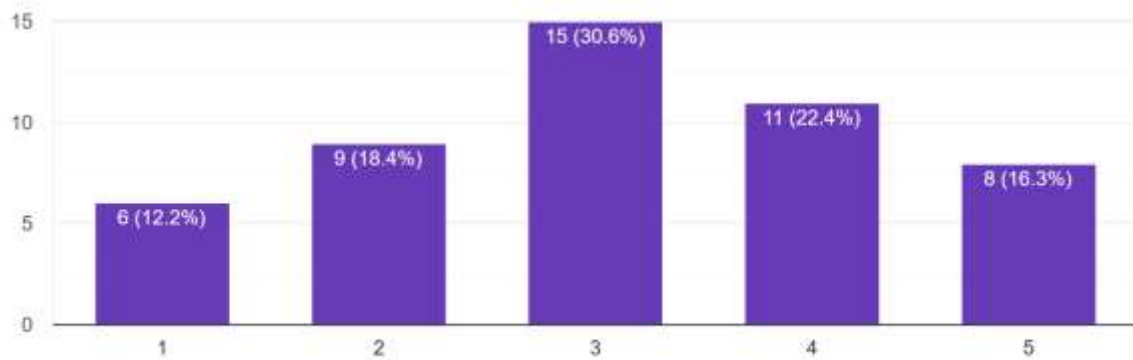
Here, There are 49% of people are keeping a close watch on their financial affairs.

19. I find it more satisfying to spend money than to save it for the long term



In this chart we can see that most of the people are satisfying to save money for the long term than spend.

20. I am not prepared to risk my own money when saving or making an investment.



In this chart we can see that most of the people are not prepared to risk their own money when saving or making their investment and that are of 30.6% and very few people are prepared to risk their money when saving or making an investment.

3. Findings and Discussions:

This study examined the relationships between financial knowledge, self-assessed, awareness about financial product, income, education and financial behavior that can be identified as best practices of financial planning with financial satisfaction. The Questionnaire was available online for two weeks in March 2021. Participants varied in age from 16- 55.

Five questions were asked of respondents regarding their own assessment of their financial planning or budget and knowledge. Respondents were asked to agree or disagree with a statement according to a 5-point Likert-type scale with 1 indicating "Completely Agree," 3 indicating "Neither Agree nor Disagree," and 5 indicating "Completely Disagree." The four questions read as follows:

I carefully consider before buy something whether I can afford it.

I keep a close personal watch on my financial affairs

I am not prepared to risk my own money when saving or making an investment

I find it more satisfying to spend money than to save it for the long term

I am not prepared to risk my own money when saving or making an investment

"On a scale from 1 to 5, where 1 means Completely Agree and 5 means Completely Disagree.

In this report we can see that the main objective of doing the investment is for getting Retirement benefits and Capital Appreciation then Safety of principal.

The six areas of financial planning considered as best practices are described below.

1. Emergency Fund: Have you set aside emergency funds that would cover your expenses for how many months in case of sickness, job loss, economic downturn, or other emergencies.

Loans/Credit: Do you have taken any loan from any sources of finance.

Retirement Plan: Investor having a retirement plan for their retirement and which on is the plan for retirement.

4. Conclusion

A dissertation titled —**A study on Financial Literacy and Financial Planning for Individual Investor** was carried out successfully accomplishing the objective of analyze the levels of financial literacy among the Individual Investor and to know its impact on their personal financial planning on basis of quantitative and qualitative study. The research is done on the basis of responses collected by the individual investor.

In this research we find that many investors are aware about Fixed Deposits, Insurance, PPF, Shares, Mutual Funds and Pension Funds and Most of the investors give their preference to save their money into the saving account of the bank. And many of them are not ready to take risk for their investment.

Thus, a conclusion can be drawn that the study was helpful to understand that Investors always look for good investment opportunity, which would give good returns, safety and security to their investment.

5. References

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