Investment Decision – Are Indian Investor Well Aware

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ABSTRACT

Due to increased cost of living and fluctuation in regularity of income there is unrest in the minds of retail investor. A holistic financial planning can be considered to solve the problem. However, financial planning and financial literacy are two inter-connected aspects. Therefore, this paper seeks to test the level of financial literacy, factors influencing financial literacy and measure to enhance financial literacy among the individual retail investors. A questionnaire is circulated among retail investors to test the literacy level. The research found that financial literacy is moderate among the male investors but low in case of women investors. The research has social impact to understand the measures required to be taken by Govt. to improve the situation.

Keywords: financial literacy, financial planning, retail investor, financial attitude, financial behavior.

INTRODUCTION:

After 2008 financial crisis, the world economy is in recovering phase and future is seems to be optimistic for the investors of capital market. This has been proved by the number of IPOs rushing to the capital market in last few years. Similarly, the mutual funds investments have also shown increasing trends in terms of their AUM. Inflation is sloping towards in southward direction and interest rates are not expected to increase in near future. Government has taken many initiatives towards social security scheme like PradhanMantri Jan DhanYojna, Atal Pension Scheme and many more. The quarterly reviewing of provident fund interest rate compels the prospective investor to think about alternate investment options. Considering all above factors, it is clear that authorities are trying to shift investment base from government schemes to non-government options like stock market (ELSS), market based pension schemes (PFRDA) etc. Therefore any individual investor subscribing to any of these investment options in today’s scenario, must possess the basic financial literacy. This paper aims to evaluate the financial literacy level attain by the retail individual investors of India.

LITERATURE REVIEW:

The topic is well researched by the researchers across the globe. Multiple definitions for financial literacy are proposed many academicians and researcher. All are carrying almost the same meaning. Huston (2010) proposes for the inclusion financial knowledge for better understanding of financial literacy. Xu and Zia (2012) is the compilation about the findings of various financial literacy studies across the world. Lusardi et al (2009) researched the financial literacy among young US citizens. They found that the financial literacy among the sample is low confirming the earlier findings by Agnew and Szykman (2011), Smith and Stewart (2009) Van Rooij et al (2007) and Mandell (2008). In Indian context, VISA (2012) found the financial literacy among the Indian is poor.

RESEARCH METHODOLOGY:

Sample and Sample Size.
The individuals employee is different organization are selected for the purpose of study. The information about the variables like age gender, individual income, marital status, education, family income is collected using a
questionnaire. The questionnaire is circulated using google doc. Researcher received responses from 138 respondents. To increase the sample size, researchers circulated the hard copies of questionnaire to co-workers and close friends which helped to increase the final sample size to 239 (167 Male and 72 Female respondent). Researcher used the standard questionnaire proposed by OECD which was further applied by Atkinson and Messy (2012).

**Technique of Data Analysis:**
Financial knowledge, financial behavior and financial attitude are the three variables are used to test the level of financial literacy. These variables are tested using OECD comprehensive questionnaire. The data collected from respondents is categorical in nature, and therefore ordered regression is used to analyze the data.

**FINDINGS & DATA ANALYSIS:**
The present research found that the financial literacy among the sample units is moderate. The literacy level is said to be moderate because of difference in the literacy level shown by sample segregated on the basis of gender. Class wise the financial literacy is high, as compared to female, among male respondents. This may be due to all sample from male category are working while in case of female sample around 30% (21 respondents) are working. It can be said that the income earner have better sensitivity towards financial understanding than non-income earners. However, comparing the financial literacy of earning females with earning male sample, male has high level of financial literacy as compared to females. This shows, though female earns, they are not keen to take decision related various financial aspects.

Similar findings are observed in few other countries like South Africa and Albania (OECD 2012). Among the three variables, financial knowledge is major contributor for lower levels of financial literacy. Around 72% of respondent from the sample unit have shown lower levels financial knowledge. Financial knowledge is analysed using various parameters like basic numeracy and understanding about simple and compound interest, inflation and diversification. Being major factors for lower levels of financial literacy, it can be interpreted that investors are not aware about the basics of financial knowledge. Financial behavior is the second major contributor for the lower levels of financial literacy. Around 48% of the respondents have shown positive financial behavior. However, respondents have sensible behavior towards assessing the affordability of various needs. Around 69% respondents replied that they have regular saving habit and saving regularly since long. 60% of the respondents have shown the positive inclination towards requirement of financial planning. The positive respondents are between age group of 24 to 48 years. This can be interpreted as respondents are aware of importance and necessity of financial planning. Remaining respondents since they have crossed the age of 50+, at this stage they are at the stage of accumulation of wealth, rather than planning. However, all the three variables are interrelated with each other. 12% respondents who have high scores in financial knowledge have shown positive financial attitude and positive towards financial planning. These findings can be promoted as financial literacy is a three tiered system. Firstly investors need to have the basic financial knowledge then should develop the financial attitude after which they can think for financial planning.

**FACTORS INFLUENCING FINANCIAL LITERACY:**
Analysis of qualitative data collected through questionnaire, the research found that the factors like gender, family status, housing conditions, family profile, no. of members in a family, family status, and educational background are the significant factors influencing financial literacy. Out of above factors mentioned above, educational background is major factor influencing financial literacy. Respondents, who have commerce/management background in their graduation or post graduation, have shown high level of financial literacy as compared to other respondents who have education other than commerce or management. Family profile is equally influencing for financial literacy. Those respondents who have good family status and financially sound position are well aware about the basics of finance and therefore shown better understanding towards financial knowledge, attitude and behavior.

**MEASURES TO ENHANCE FINANCIAL LITERACY:**
Government of India has already taken measure to improve the financial literacy and achieve the financial inclusion at every level. It has taken many steps and initiatives for the grass root level investors for improving the level of financial literacy. Few measures are listed below:
Financial Literacy and Credit Counseling Centers:
Based on the recommendations of working committees headed by Shri C. P. Swarnkar and Shri S. S. Johl, Reserve Bank of India has announced in its annual policy statement 2007-08, directed banks to set up a Financial Literacy and Credit Counselling Centre on a pilot basis in any one district in the State/Union Territory coming under their jurisdiction. The objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens. It would be disseminated to the target audience with the help, among others, of banks, local government machinery, NGOs, schools, and colleges through presentations, pamphlets, brochures, films, as also through the Reserve Bank’s website. The Reserve Bank has already created a link on its web site for the common person to give him/her the ease of access to financial information in English and Hindi, and 12 Indian regional languages.

National Center for Financial Education:
The National Centre for Financial Education (NCFE), comprising representatives from all financial sector regulators i.e. Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), Pension Fund Regulatory and Development Authority (PFRDA) and National Institute of Securities Markets (NISM), has been set up to implement National Strategy for Financial Education (NSFE), under the guidance of a Technical Group on Financial Inclusion and Financial Literacy of the Financial Stability and Development Council (FSDC), which would cater to all sections of the population in the country.
The main role of NCFE is to create financial education materials and conduct financial education campaigns across the country for all sections of the population along with awareness campaigns at different levels for existing and potential customers so as to improve their knowledge, understanding, skills and competence.

CONCLUSION:
The growth rate of the economy is depends on the rate at which savings flows from lender to the borrower. This flow has multiple routes to reach up to the destination. During the process many participants plays important role. One of the important participants is individual investor. The financial markets as assumed to be a complicated one and common investor are always try to stay away from the complex structure of financial markets as well as financial products. Hence, the level of financial literacy will decided the response to various financial instruments offered by the institutions. Researcher has tried to study the level of financial literacy with this research. Findings of the paper are similar to the earlier empirical evidences and need to be considered seriously to improve the financial literacy of investors of India.

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