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An Empirical Analysis of Components of Financial Literacy and Inter Correlation among Variables

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Abstract

Financial literacy is the capacity to understand how money works; it is the blend of expertise, information, disposition and conduct that helps in taking relevant financial decisions and making proper usage of financial services which ultimately helps in improving the quality of life of an individual. Since, today's financial market is very complex effective financial decision making is the need of an hour and financial literacy is a way to achieve that. Confirmatory factor analysis approach has been used to find out the components of financial literacy; thereafter studies the association among the variables of the each component determined. Five point likert scaled questionnaire has been used for collecting the data from women working in both private as well as public organisation. The findings revealed that financial knowledge, behaviour and attitude are the three major components of financial literacy and variables of each component are positively associated with each other.

Keywords: Financial literacy, financial market, financial decision, working women.

Introduction

Presently financial literacy is one of the first concerns for most countries. Financial literacy, as per its exacting definition, is the capacity to utilize aptitudes and information to take effective money management decisions. For a nation like India, it assumes a greater job, as it is viewed as significant for the advancement of money related consideration and at last monetary soundness. Financial literacy is the capacity to understand how cash functions, how somebody figures out to gain or make it, how someone invests it and individual gives it to help other people. It is the blend of expertise, information, disposition and conduct that helps in taking relevant financial decisions and making proper usage of financial services which ultimately helps in improving the quality of life of an individual.

The significance of financial literacy is rising up out of recent years. There is a growing need that people become self-reliant and manage their money appropriately, since the financial situation in today's time is much more complicated. There are times of high income followed by low level of income or no income at all. The normal carrying on with life of individuals has expanded due to better health facilities. The typical cost for basic items is expanding and clinical costs are additionally expanding, people likewise need to protect their life for unexpected conditions too. To defeat all these challenges people need to have the necessary financial skills. These abilities will assist them with settling on appropriate financial decisions to empower them to be more in charge of their own conditions and have a secured financial future.

The Organization for Economic Co-operation and Development (OECD) has defined financial literacy as "a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual well being". As per **Reserve Bank of India**, financial literacy can broadly be defined as the capacity to have familiarity with an understanding of financial market products, especially rewards and risks in order to make informed choices. The **National Financial Educators Council** defines financial literacy as: "Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfils an individual's personal, family and global community goals."

In today's speedily changing financial markets, being able to make informed financial decisions has become significantly important around the world. Especially, developing countries like India, where average score of financial literacy (12) is below the average score of 12.7 among all the G20 countries. Norway is on the top having an average score of 14.9, followed by Canada having an average score of 14.6. (**G20/OECD INFE report on adult financial literacy in G20 countries, 2017).** As per **S&P Global Financial Literacy Survey, 2014** worldwide there is a five percent gender gap in financial literacy.

Since ages, this world has been a male-dominated, where men run the society and women follow them. Though women are an important constituent of our society; rather they are the basis of humankind. It is rightly said that if we made a woman literate whole family becomes literate. Women, not only play an important role socially but economically too. The economic development of a country revolves around the economic empowerment and financial well-being of women. They have been identified as the major economic agent in contributing to the economic growth of the nation. But they face unmistakable difficulties including: Higher life expectancies in comparison with men, gender gaps in wages. Moreover, they have to face career interruptions because of maternity leave and many more different causes. To address the unmistakable difficulties they face, women should be outfitted with a comprehension of essential financial concepts.

In India, only 27% of women are in the workforce, which is the lowest among the BRICS countries (The Business Standard, May 2017). As per the CIA World Factbook (2015), 60% of the females are literate. The life expectancy of female is 70.1 years (2017 est.) whereas life expectancy of male is 67.6 years. The total dependency ratio is 52.2, whereas the youth dependency ratio is 43.6, with a median age of female 28.3 years (2016 est.). Therefore it becomes imperative that women take care of their financial matters so that they may secure their financial stability and future. For sustainable development of a nation, the financial wellbeing of women is must and that is influenced by their financial decision-making capabilities, financial understanding and their investment actions. This could only be possible if women are financial literate, therefore financial literacy is required.
However, till now few researches has been conducted in the field of financial literacy among women and more specifically among working women of Uttar Pradesh. Thus, working women of Varanasi were chosen for the study. In past studies various dimensions of financial literacy have been discussed. Some researchers have covered financial knowledge and the application of that knowledge, few of them have discussed financial knowledge and skills, some of them only talked about financial knowledge. Therefore, "the present study attempts to determine the components of financial literacy in detail as well as studies the association among the variables of those components.

Review of Literature
To support and enrich the study detailed review of literature has been done. "For that purpose, the relevant studies are compiled which include the various studies conducted in India as well as worldwide." Researchers have identified

various components of financial study. Some researchers have used only financial numeracy to determine financial literacy; others have taken financial awareness and knowledge only to assess financial literacy. Researchers like Volpe et al. (1996) and Chen and Volpe (1998, 2002) tried to measure college student's financial literacy in United States of America. They measure their financial knowledge in the areas of savings, borrowings, insurance and investing. Carolynne, L. J. Mason and Richard, M. S. Wilson (2000) conducted a study to examine the nature of the term financial literacy and aspects of individuals' financial literacy in particular contexts. It was revealed that financial literacy is having great importance but very little attention was being given to develop an adequate conceptualisation. Furthermore, the author emphasizes that without adequate conceptualisation; financial literacy cannot be operationalised and may create difficulty in encouraging people to become financially literate. Samy M. et al (2008) makes an attempt to test the basic financial knowledge of youth of Australian students in the areas of loans, credit cards and superannuation. Martha Klatt (2009) assesses women's financial literacy in Menomonie, Wisconsin and United States. Demographic factors, investment decisions and services of financial advisor were considered for assessing financial literacy and it was found that women are not participating fully in retirement planning, they are not as comfortable as men in seeking financial advice, and education plays an important role in the financial literacy of women. Furthermore, study gives emphasis on conducting workshops and seminars related to money management and investing.

Hung, Parker and Yoong (2009) and Huston (2010) have taken the dimension of financial knowledge and its application and financial skills to define the concept of financial literacy. Massimo Caratelli and Ornella Ricci (2011) tried to study the relationship between everyday practices and financial literacy through socio-demographic features, household income, educational level and financial assets holding and experience

Bhushan P. et al (2013) determines the financial literacy of salaried individuals in the districts of Shimla. They have considered demographic and socio-economic factors like gender, age, education, income, nature of employment, place of work and geographic region for determining financial literacy. The Jump Start Coalition carries out a survey on personal financial literacy of high school students in United States. The survey uses multiple choice questions covering the area of money management, saving, spending, investing and credit.

William T. Sucuahi (2013) explores the financial literacy of micro entrepreneurs in Davo city. He takes into consideration record keeping, budgeting, personal finance and savings as determinants of financial literacy. Sobesh Kumar Agaewalla et al. (2013) conducted a study on financial literacy among working young in urban India. They have used financial knowledge, financial behaviour and financial attitude as a determinant for measuring financial literacy.

Karan Gupta and Vinod Negi (2014) measure the level of financial literacy of people of Shimla. People belong to service class, agriculturist, house wives and businessmen were chosen for the study. The determinants used for measuring the level of financial literacy were bank deposits, post office saving schemes, mutual funds, life insurance, stock market etc. Chijwani, M. et al. (2014) try to determine financial literacy among working women in Pune with an objective to find out the most popular and preferred investment instruments. The study found that systematic investment plan is the most popular investment avenue among the females. Abdul Haque and Mahwish Zulfiqar (2015) used financial literacy, attitude and financial wellbeing to study the women's economic empowerment. CA Anupama and Joshi, B. (2015) carried out a study with an objective to evaluate the financial literacy of working and financially independent women and its impact on their investment decisions. Researchers found that financial knowledge leads to better life standards, independence in financial decision making and better empowerment and there is a drastic need for financial literacy programs to make women confident in making sound financial decisions. Potrich A.C.G. et al. (2015) carry out a study on determinants of financial literacy: analysis of the influence of socioeconomic and demographic variables. The objective was to develop a model in the Brazilian context that identifies the individuals' financial literacy through socioeconomic and demographic variables. Findings reveal that there is a low level of financial literacy among individuals and there is a dependency relationship between financial literacy and socioeconomic and demographic variables. Yoshino, N. et al. (2017) carried out a study to analyse the financial literacy determinants and the effects of financial literacy on other behaviours like savings and investment. Data used for the study was retrieved from the survey conducted by Bank of Japan on financial literacy and financial behaviour consisting 25,000 individuals aged from 18 to 79. Researchers found that the age, educational level, income, and occupational status are the main determinants of financial literacy and general education level and financial literacy are positively and significantly related to savings behavior and financial inclusion.

Research Gap and Objective of the Study

The past studies have mainly focused on only one or other aspects of financial literacy like some consider only financial knowledge; others considered application or skill of using financial knowledge. Few of them took financial behaviour and attitude as one dimension, but financial knowledge, financial behaviour and financial attitude separately were not considered. Therefore, question arises in the researcher's mind that from the available literature can consolidated determinants of financial literacy be found? To address this question the present study is conducted, which presents consolidated determinants of financial literacy by using different variables available in literature.

Methodological Framework
Research Design and Sample

The present study is exploratory as well as descriptive in nature. The study is conducted on working women of Varanasi district of Uttar Pradesh. Since Varanasi is one of the oldest city of India and is highly culturally rich city of Uttar Pradesh and also the native place of researcher so Varanasi is selected for the present study. Non probability convenient sampling technique was used in the study. Self-designed structured online questionnaire was distributed among women working in both private and public organisations. The sample size of the present study was 114 working women of Varanasi. Though total 250 questionnaires were distributed, out of which 190 were received in which only 145 were completely filled. After conducting data cleaning only 114 responses were found to be appropriate for the study.

Research Instrument and Construction

The research instrument used for the study was questionnaire. Initially, after doing rigorous literature review detailed questionnaire was constructed. After incorporating the suggestions given by the experts, questionnaire was prepared for the study. The questionnaire has two sections. Section I consisted of demographic factors which includes basic information of respondent's age, educational qualification, marital status and monthly income. **Table 1** shows the demographic profile of the samples used for the present study. Section II includes questions related to financial knowledge, financial behaviour and financial attitude. To measure financial knowledge questions related to numeracy, inflation, interest rate, risk diversification and time value of money was used. Financial behaviour includes questions on budget and planning, cash and debt management, record keeping, and saving habits. For measuring financial attitude, questions based on risk taking attitude, confidence in making decisions and satisfaction with financial status were asked from the respondents.

Demographic Profile of the Respondents

Table 1 exhibits the sample characteristics of the respondents. Majority of the respondents are between the ages of 25 to 44 years and most of them are post graduated. Out of the total population nearly 29% (28.95 %) have professional degree which is quite motivating. The highest percentage of the respondents, i.e. 32.46%, earns a monthly salary between Rs.30, 001 to 50,000 and only 6.14% earn a monthly salary of above Rs.1, 10,001." The respondents of the study are majorly married women.

Table 1: Respondent's Profile

Variables	Categories	Frequency	Percentage (%)
Age Group	Below 25	11	09.65
	25-34	41	35.96
	35-44	33	28.95
	45-54	22	19.30
	Above 54	7	06.14

Qualification	Undergraduate	11	09.65
	Graduate	27	23.68
	Post Graduate	43	37.72
	Professional degree	33	28.95
Marital Status	Unmarried	31	27.19
	Married	47	41.23
	Separated	25	21.93
	Widow	11	09.65
Monthly Income (Rs)	Rs. 10,000-30,000	25	21.93
	Rs. 30,001-50,000	37	32.46
	Rs. 50,001- 70,000	19	16.66
	Rs. 70,001- 90,000	15	13.16
	Rs. 90,001-1, 10,000	11	09.65
	Above Rs.1, 10, 001	7	06.14

Source: Primary Data

Result and Discussions

1. Determination of the components of Financial Literacy

For identifying the various components of financial literacy, comprehensive literature review has been carried out. After doing the exhaustive literature review the researcher has identified various variables such as simple interest, compound interest, Interest rate on loan, inflation, risk diversification, time value of money, budgeting, planning, cash management, debt management, saving habits, monitoring personal financial matters, risk taking attitude, confidence in making decisions and satisfaction in present financial status etc which will help in determining the financial literacy of an individual. To be more specific these variables are categorised into three main components of financial literacy i.e. financial knowledge, financial behaviour and financial attitude. This supports the sayings of **Organisation for Economic Cooperation and Development** (OECD) and **National Centre for Financial Education** (NCFE), India. Both institutions believe that for determining whether an individual is financially literate or not, financial knowledge, behaviour and attitude are necessary.

The variables which are categorised under three main components are as follows

Financial Knowledge

The variables categorised under financial knowledge are – numeracy (simple and compound interest), inflation, interest, risk diversification and time value of money.

Financial Behaviour

The variables categorised under financial behaviour are- budget and planning, cash and debt management, record keeping and saving habits.

Financial Attitude

The variables categorised under financial attitude are – risk taking attitude, confidence in taking investment decision and satisfaction in present financial status.

To test whether the identified components from the literature are statistically fit for the present study or not, researcher has carried out confirmatory factor analysis.

Factor loadings of the individual constructs of financial knowledge were – numeracy 0.74, inflation 0.70, interest rate 0.69, risk diversification 0.85 and time value of money 0.69; financial behaviour were- budget and planning 0.86, cash and debt management 0.92, record keeping 0.88 and saving habits 0.90 and financial attitude were risk taking attitude 0.71, confidence in taking investment decision 0.82 and satisfaction with financial status 0.88 **(Table 2).** All the factor loadings are greater than 0.70 except for the Interest and time value of money. As per **Barclay et al., (1995)** 0.60 is acceptable level. Therefore, it can be said that the model is acceptable for the present study.

Table 2: Factor Loadings of Construct Items

S.No.	Construct items	Factor Loadings
1.	Financial Knowledge	
I	Numeracy	0.74
Ii	Inflation	0.70
Iii	Interest	0.69
Iv	Risk Diversification	0.85
V	Time Value of Money	0.69
2.	Financial Behaviour	
I	Budget and Planning	0.86
Ii	Cash and Debt Management	0.92
Iii	Record Keeping	0.88
Iv	Saving Habits	0.90
3.	Financial Attitude	
I	Risk Taking Attitude	0.71
Ii	Confidence in taking Investment Decision	0.82
Iii	Satisfaction with Financial Status	0.88

Validity and Reliability of the model

Table 3 exhibits the factor loadings of all the three constructs used in the financial literacy model with their **Average Variance extraction** (AVE) and **composite reliability** (CR). The factor loadings of the constructs viz. financial knowledge, financial behaviour and financial attitude are 0.73, 0.89 and 0.89 are respectively, which is above the threshold value of 0.70. The AVE values of financial knowledge (0.70), financial behaviour (0.70) and financial attitude (0.73) are also above the threshold value of 0.70, thus representing the convergent validity of the model used for the present study.

The composite reliability values must be greater than 0.70; for the present study the CR values of the constructs are 0.76, 0.81 and 0.73 for financial knowledge, behaviour and attitude respectively (Table 3). It represents the satisfactory internal consistency, therefore can be concluded that the present model is acceptable for the study as it fits the validity and reliability required values.

Table 3: Ave and Cr of Constructs

S.No.	Constructs	Construct Factor Loadings	AVE	CR
1.	Financial Knowledge	0.73	0.70	0.76
2.	Financial Behaviour	0.89	0.79	0.81
3.	Financial Attitude	0.89	0.73	0.73

Model Fit Analysis

Figure 1shows the covariance among financial knowledge, behaviour and attitude; all the three constructs are correlated with each other. The covariance value between financial knowledge and financial behaviour is 0.49; covariance between financial knowledge and financial attitude is 0.53 and covariance between financial behaviour and financial attitude is 0.96. Thus, it may be concluded that change in the financial knowledge will less affect financial behaviour and attitude. But if there is a change in financial behaviour, the financial attitude of an individual will change at larger rate, since there is a high covariance between financial behaviour and financial attitude.

Table 4: Fit Statistics of the Measurement Model

S.No.	Fit Statistics	Recommended	Obtained
1.	CMIN/df	<3.0	2.586
2.	GFI	>0.90	0.951
3.	AGFI	>0.90	0.922
4.	CFI	>0.90	0.979
5.	RMSEA	<0.05-0.08	0.062

Table 4 represents the fit statistics of the measurement model. For the current CFA model, the CMIN/df is 2.586, which is above the threshold value of less than 3. The obtained Goodness of Fit index (GFI) is 0.951 as against the recommended value of above 0.90. The Adjusted Goodness of Fit Index (AGFI) is 0.922 as against the recommended value of above 0.90 as well. Comparative Fit index (CFI),) is 0.979 as against the recommended level of above 0.90. RMSEA is 0.062 and is well below the recommended limit of 0.08. The current model shows an overall acceptable fit, hence it can be said that the derived model fits with the observed data. It can be concluded that the hypothesised three factors CFA of financial literacy model fits the sample data very well. It is in line with the study conducted by (Bhushan & Medury, 2014**)**; they concluded in their study that financial behaviour, financial attitude and financial knowledge are necessary dimensions of financial literacy.

2. Inter Correlation among Variables

Association between the variables of Financial Knowledge and Financial Behaviour

Although there is a statistically significant correlation between risk diversification, and time value of money and all the elements of financial behaviour, the degree of the association is only moderate. Also, it may be seen that interest is highly connected with just two variables: planning and budgeting and record keeping. There is no statistically significant association between numeracy and inflation and the elements of financial behaviour **(table 5)**. As a result, it may be said that responders who understand risk diversification, and the time value of money adequately may plan their budgets, manage their cash flow and debt, keep accurate records of their financial transactions, and save efficiently. Consequently, it can be concluded that while financial knowledge influences financial behaviour but it is not the only element that determines an individual's financial behaviour.

Table 5: Association between the Variables of FK and FK

Correlations					
		BP	**CDM**	**RK**	**SH**
Numeracy	Pearson Correlation	.090	.005	.069	.019
	Sig. (2-tailed)	.341	.956	.468	.844
	N	114	114	114	114
Inflation	Pearson Correlation	.115	.065	.120	.085
	Sig. (2-tailed)	.224	.495	.204	.370
	N	114	114	114	114
Interest	Pearson Correlation	.259**	.176	.190*	.151
	Sig. (2-tailed)	.005	.061	.043	.109
	N	114	114	114	114
RD	Pearson Correlation	.348**	.306**	.318**	.326**
	Sig. (2-tailed)	.000	.001	.001	.000
	N	114	114	114	114

TVM	Pearson Correlation	.256**	.200*	.256**	.225*
	Sig. (2-tailed)	.006	.033	.006	.016
	N	114	114	114	114
**. Correlation is significant at the 0.01 level (2-tailed).					

Association between the variables of Financial Knowledge and Financial attitude

The three elements of financial knowledge—interest, risk and diversification, and time worth of money—are positively connected with the elements of financial attitude. Although not particularly strong but there is a statistical significant relationship among them **(table 6)**. Inflation and numeracy have no statistical significant relationship with the elements of financial attitude. As a result, it can be concluded that respondents who are knowledgeable about how to calculate interest, risk and diversification, and time value of money, they have a risk-taking attitude, feel comfortable in making investment decisions, and are content with their current financial status. The women's willingness to take risk, their confidence in making investment decisions, and whether they are content with their current financial status or not has nothing to do with their knowledge of numeracy and inflation.

Table 6: Association between the Variables of FK and FA

Correlations				
		RT	**Confidence_ID**	**Satisfaction_FS**
Numeracy	Pearson Correlation	.018	.010	.062
	Sig. (2-tailed)	.853	.915	.512
	N	114	114	114
Inflation	Pearson Correlation	.160	.109	.157
	Sig. (2-tailed)	.088	.247	.095
	N	114	114	114
Interest	Pearson Correlation	.246**	.179	.219*
	Sig. (2-tailed)	.008	.057	.019
	N	114	114	114
RD	Pearson Correlation	.347**	.278**	.385**
	Sig. (2-tailed)	.000	.003	.000
	N	114	114	114
TVM	Pearson Correlation	.262**	.187*	.182
	Sig. (2-tailed)	.005	.047	.052
	N	114	114	114
**. Correlation is significant at the 0.01 level (2-tailed).				

Association between the variables of Financial Behaviour and Financial Attitude

Table 7 demonstrates the positive link between the elements of financial behaviour and attitude. The third element of financial attitude (satisfaction with current financial status), is highly connected with all the elements of financial behaviour. In other words, it can be said that women who manage their debt and cash flow effectively, maintain records of their financial transactions, have a practise of saving money and do proper budgeting and planning are happier with their current financial status.

Since the p value is less than 0.05 in every instance, there is a significant correlation between the elements of financial behaviour and financial attitude. The financial behaviour of women has a significant impact on their financial attitudes, or, to put it another way, it is their financial behaviour that cultivates a favourable attitude towards financial matters among them.

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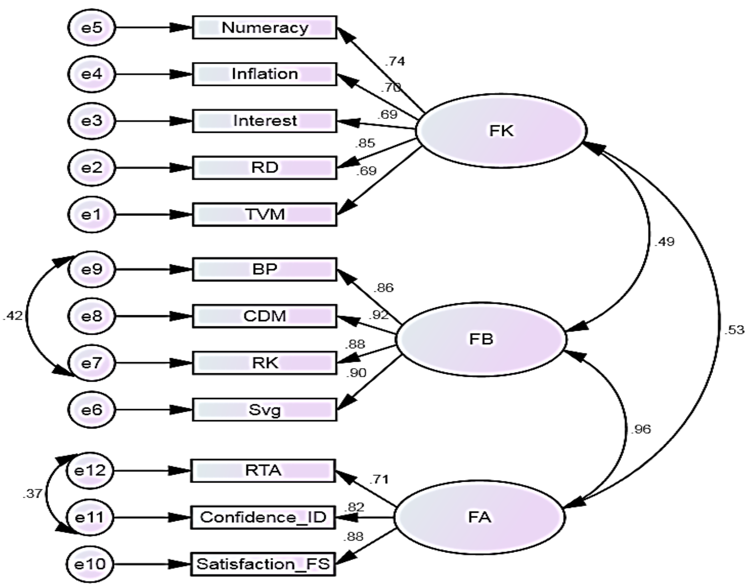
Table 7: Association between the Variables of FB and FA

Correlations				
		RT	**Confidence_ID**	**Satisfaction_FS**
BP	Pearson Correlation	.641**	.671**	.745**
	Sig. (2-tailed)	.000	.000	.000
	N	114	114	114
CDM	Pearson Correlation	.620**	.705**	.819**
	Sig. (2-tailed)	.000	.000	.000
	N	114	114	114
RK	Pearson Correlation	.628**	.627**	.761**
	Sig. (2-tailed)	.000	.000	.000
	N	114	114	114
SH	Pearson Correlation	.691**	.720**	.806**
	Sig. (2-tailed)	.000	.000	.000
	N	114	114	114
**. Correlation is significant at the 0.01 level (2-tailed).				

Figure 1: CFA Model of FK, FB, FA



Conclusion

This study has used a confirmatory factor analysis approach to identify the factors that influence financial literacy. According to the study, the major three components that determine financial literacy are financial knowledge, financial behaviour, and financial attitude. Along with supporting the findings of (Bhushan & Medury, 2014) and (Agarwalla et al., 2013), also the present study shows a favourable association between financial knowledge, behaviour, and attitude. The study also aims to explore the association among all the variables of financial knowledge, behaviour and attitude. The relationship between the variables of financial knowledge and financial behaviour was found to be weak. It may be concluded that financial behaviour is influenced by a variety of factors, not only financial knowledge. Further, research reveals a strong correlation between the factors of financial behaviour and attitude. As a result, we can assert that positive financial behaviour leads to favourable financial attitude. This suggests that financial knowledge is not the only factor that influences financial literacy; financial behaviour and attitude are equally important in defining a person's level of financial literacy.

Limitations and Future Scope of the Study

Researches are not free from the limitations; the present study also has some limitations. First, the study included only the urban working women of Varanasi; results may not be applied to other areas. Hence, further research can be extended to non working women, working women of rural areas, students etc. Second, the sample size of the present study is very small. Future studies can be done on big sample size. Since the questionnaire was distributed online, personal views of respondents on financial literacy are not known. Online survey results may not be generalised if respondents with biases tainted the sample. This conclusion genuinely only refers to the working women who were examined for the present paper. There is no assurance that the same results will hold true to different group of working women investigated in other part of the world. This gives the study more room to grow in the future. Lastly, confirmatory factor analysis has been used for verifying the components of financial literacy; thus gives a scope of future study which can use other forms of data analysis, results of which may different from the present study. Since confirmatory factor analysis is used to verify the factors from observed literature.

Implication of the Study

Financial literacy is positively correlated with economic and financial development of a country. This is so because with the help of financial literacy better household decision may be taken in respect of savings and borrowings. Moreover, a more financially aware populace is more likely to boost domestic savings rates, lowering the need for outside funding and promoting quicker economic growth. Additionally, it can promote the establishment of more complex financial infrastructure and overall financial development. It may also assist in providing long-term financing for Asian infrastructure projects. Financial literacy will also encourage households to view life insurance and pension funds in the long term, which will improve the wellbeing of people in retirement.

Lack of financial literacy can result in a variety of hazards, such as building up unmanageable debt loads due to careless spending or a lack of long-term planning. This can then result in bad credit, bankruptcy, home foreclosure, or other unfavourable outcomes. But with the help of financial literacy allocation of a household's funds will be diversified. As a result, the aggregate supply curve will be impacted since businesses must raise capital, which will have an impact on aggregate demand, consumption, and investment. The economy's anticipated growth rate will be boosted as a result, while production volatility may also rise. This suggests that while risks will rise, financial education will have an impact on financial institutions, families, businesses, overall supply and demand, expected rates of return and growth.

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