

## **A Study on Financial Literacy Level of Individuals of Urban and Rural Areas of Shimla**

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### **Abstract**

*Sustainable growth of economy of developing country like India is dependent on financial literacy level and demand for financial products and services by their population. Improvement in financial literacy is based on quality of financial education. Individuals with low financial literacy level are not able to access the financial services provided by the banks. Present paper focuses on measuring financial literacy level of urban and rural people of Shimla. Dimensions like financial knowledge, financial behaviour and financial attitude was used to assess the financial literacy level. A statistical tool like Regression, T- test was used to measure financial literacy and to see whether there is any difference in financial literacy level of urban and rural people. T-test reveals that there is a significant difference in financial literacy level of individuals of urban and rural areas of Shimla. Regression analysis indicates financial literacy has a significant impact on financial behaviour of individuals.*

**Key Words:** *Financial Knowledge, Financial Attitude, Financial Behaviour and Financial Literacy.*

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### **I. Introduction**

Sustainable growth of economy of developing country like India is dependent on how deep is the financial sector, which in turn is dependent on financial literacy level of their population and demand for financial products and services. Improvement in the level of financial literacy is dependent on the kind of financial education provided to the investors. Financial education is the process by which consumers/investors improve their understanding of financial products and concepts.

Substantial efforts have been made by the government, policy makers & regulators to promote financial education & literacy. Government of India has set up the Investor Education and Protection Fund (IEPF) to support activities relating to education, empowerment and protection of investors. IEPF provides necessary knowledge, skills and information to the investors so that they can take efficient investment decisions.

OECD (2005), defines financial literacy as the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

Financial Literacy is generally considered as special knowledge related to how an individual manages his or her financial (Ummu Kalsum, Buyung Sarita, Edi Cahyono & Andi Basru Wawo 2018). Financial literacy helps general public in understanding the needs and benefits of the products and services offered by the banks and accelerate the pace of financial inclusion (RBI 2013).

#### **1.1. DIMENSIONS OF FINANCIAL LITERACY**

##### **a) FINANCIAL KNOWLEDGE:**

Awareness and understanding about the financial concept, procedures and usage of one's understanding to solve financial problems is known as financial knowledge. Financial knowledge is also defined as the capability to manage the day to day monetary affairs, including the monitoring of financial matters in the market and to make the right choices.

**b) FINANCIAL BEHAVIOUR:**

It is defined as a behaviour & capability possessed by the human being to understand and analyse the overall impacts of financial decisions on one's circumstances and to make the right decisions related to the money management, cash management, credit management, saving, precautions and opportunities for budget planning.

**c) FINANCIAL ATTITUDE:**

Individual characteristics that take the form of tendencies towards a financial practice or action

## **II. Literature Review**

### **2.1 Financial Literacy Level**

Vibhuti Shivam Dube & Dr. Pradeep Kumar Asthana (2019) assessed the level of financial literacy among the government college students of Luknow, Uttar Pradesh. Result of the study reveals that college students lack in the financial knowledge related to risk, purchasing power, inflation and time value of money. Students possess negative financial attitude and behaviour towards managing personal finance hence dependent on others for financial decision. Debabrata, Abhijit & Arindam (2017) in their study of financial literacy in the unorganised sector in west Bengal found male respondents (86%) are more acquainted with different financial terms than the female respondents (14%). Juris C. Ponio & Raymond C. Timog (2017) identified that 60% of micro business owners in Philippines have average level of financial knowledge i.e. basic knowledge about risk, return, interest, and diversification whereas only 8% have low level of financial knowledge. It was also observed that 40% of the business owners have scored average in terms of financial behaviour and financial literacy. Akshita Arora (2016) conducts a survey to assess the financial literacy level among the working women in the state of Rajasthan. It was found that women living in cities and towns are more knowledgeable than women living in rural areas. The results show that many women have positive behaviour about money and finance matters, Women lie in middle income-group and middle education level are cautious about saving money for future. Javed Iqbal Bhabha, Shadiullah Khan & Abdul Naeem (2014) revealed that women in Pakistan lack knowledge about advanced financial concepts, women only know about the mechanism of depositing money in banks for profits but they are ignorant about the functions and existence of financial market.

### **2.2 Financial Literacy Level & Demographic Factors**

Madhulata (2016) surveyed 200 respondents from rural areas of Sonapat district of Haryana. Findings indicate that gender, income, nature of work and education level have association with basic financial literacy but there is no association between age and literacy. Tirupati Basutkar (2016) conducted a survey to find out financial literacy in the metropolitan region of Mumbai. It was found that ratio of financial literacy of male respondents are 15.19 times greater than their female counterpart. Respondents having post graduate degree are 20 to 34 times more financially literate than the respondents having graduate or low education level. Swati Narula (2015) assesses the impact of different demographic factors on financial literacy and result indicates that Females are more literate than males in terms of financial knowledge. Investors in the age group of 46-55 are more literate than young investors in the age group of 26-35. Fachrudin K.R. & Fachrudin K.A. (2016) examined the influence of education and experience on investment decisions in the city of Medan. Critical Ratio (1.938) & (1.072) reveals that Education and experience have little influence on investment decisions. Hussein A. Hassan Al-Tamimi & Al Anood Bin Kalli (2009) identified that, there is a significant difference in the level of financial literacy of men and women. Respondents with high income, good education and those who are working in finance or banking field had a higher financial literacy level.

## **III. Objectives**

- a) To measure the overall financial literacy level of individuals residing in urban and rural areas of Shimla on dimensions namely financial knowledge, financial behaviour and financial attitude.
- b) To compare financial knowledge, financial behaviour and financial attitude of urban and rural individuals.
- c) To study whether there is any difference in financial literacy level of individuals residing in urban and rural areas of Shimla.
- d) To study the impact of financial literacy on financial behaviour.

## **IV. Statement Of Hypothesis**

In the context of the research objectives, the following hypotheses were framed:

Ho1: There is no significant difference in the financial literacy level of individuals in Urban and Rural areas of Shimla.

Ho2: There is no significant impact of financial literacy on Financial Behaviour.

### V. Resear Ch Methodology

- a) Research Design: Study is based on Descriptive research design
- b) Sampling: For the purpose of the study a survey was conducted amongst the individuals residing in urban and rural areas of Shimla. Two sub divisions i.e. Shimla urban and Shimla rural were selected from Shimla district randomly. Convenience sampling technique was used to select 400 respondents from four wards from Shimla urban and one block from Shimla rural were selected randomly.
- c) Data Collection: Study is based on primary data. For the purpose of survey questionnaire was prepared and circulated through personal visit and through email among the respondents from urban and rural area of Shimla, Himachal Pradesh.
- d) Data Analysis tools: The data was analysed using Excel and IBM Statistical Package for Social Sciences (26.0). Reliability of the construct was checked using Cronbach alpha coefficient. Statistical tools and techniques such as descriptive statistics, Linear Regression Analysis, T test were used for analysis and hypothesis testing.

### VI. Results And Discussion

#### 6.1. FINANCIAL LITERACY ANALYSIS: A COMPARATIVE STUDY OF URBAN AND RURAL AREAS OF SHIMLA

Financial literacy level of people of urban and rural area of Shimla has been assessed by using the comprehensive approach developed by Organization for Economic Co-operation and Development (OECD). Under OECD approach dimensions like financial knowledge, financial behaviour and financial attitude was used to assess the financial literacy level.

##### 6.1.1. Cronbach's Alpha Value of Financial Literacy Factors

In the present study, the reliability of the scale was tested with the help of Cronbach's Alpha reliability statistics. Cronbach's Alpha is used to measure the internal consistency of a summated scale.

#### Reliability Statistics

**Table 6.1: Cronbach's Alpha Value of Dimensions of Financial Literacy**

Sr.No	Dimensions	Variables	Cronbach's Alpha
1	Financial Knowledge	Interest Charged on Financial Instruments	0.854
		Inflation	
		Time Value of Money	
		Saving & Investment Principle	
2	Financial Behaviour	Affordability	0.718
		Timely Payment	
		Financial Goals	
		Financial Affairs	
		Emergency Funds	
		Monthly Income & Expenditure	
3	Financial Attitude	Budget	0.690
		Spending Habit	
		Trust Factor	
		Financial Goals	
		Debts	

**Source: Primary Data 2019-20**

Table 6.1 indicates that values of Cronbach Alpha for each of the dimensions namely financial knowledge, financial behaviour and financial attitude are above the acceptable limit; hence scale was found to be reliable for measuring the financial literacy level of individuals in urban and rural areas of Shimla.

**6.1.2 Measurement of various dimensions of Financial Literacy Score/Level**

**Table 6.2: Descriptive Statistics of Mean Score of Financial Literacy in the Urban and Rural Areas of Shimla**

Dimensions	Variables	Motive	Mean Score	
			Urban	Rural
<b>FINANCIAL KNOWLEDGE</b>	Interest Charged on Financial Instruments	To test whether respondent is familiar with the concept of compound and simple Interest	3.95	3.59
	Inflation	To test whether respondent is familiar with the concept of inflation & its impact	3.27	2.80
	Time Value of Money	To test whether respondent is familiar with the concept of time value of money	3.45	2.82
	Saving & Investment Principle	To test whether respondent is familiar with the basic principles of compound and simple Interest	3.84	3.23
<b>FINANCIAL BEHAVIOUR</b>	Affordability	To understand Whether the individual possesses feasible financial behaviour towards consideration of affordability	4.62	4.59
	Timely Payment	To understand Whether the individual possesses good financial behaviour towards timely payment of bills	4.63	4.45
	Financial Goals	To understand Whether the individual possesses positive financial behaviour towards setting of financial goals	3.91	3.82
	Financial Affairs	To understand Whether the individual possesses feasible financial behaviour towards tracking of financial affairs	3.97	3.88
	Emergency Funds	To understand Whether the individual possesses good financial behaviour towards setting aside funds for emergency situations	4.12	4.10
	Monthly Income & Expenditure	To understand Whether the individual was aware about his income and expenditure	4.32	4.23
<b>FINANCIAL ATTITUDE</b>	Budget	To identify Whether the individual possess correct attitude towards maintenance of budget	3.28	3.52
	Spending Habit	To identify Whether the individual possess appropriate attitude towards spending	3.29	3.52
	Trust Factor	To identify individual attitude towards trust on financial institution	2.71	2.79
	Financial Goals & Savings	To identify individual attitude towards financial goals and savings	2.71	2.85
	Debts	To identify individual attitude towards payment of debts	2.73	2.89

**Source: Field Survey (Primary Data) 2019-2020.**

Table 6.2 shows that the individuals in urban areas of Shimla has highest mean score for the two dimensions of financial literacy i.e. knowledge and behaviour and for dimension that is financial attitude individuals in rural area has highest mean score. From the analysis it was observed that individuals from both urban and rural areas possess good knowledge of interest rate i.e. mean score of 3.95 in urban & 3.59 in rural, urban people are more aware about the concept of compound interest that is earning of interest on interest, second highest mean score of 3.84 in urban and 3.23 in rural area indicates that individuals are well versed with the basic principles of savings and investments. Mean score of inflation and its impact i.e. 3.27 shows that individual residing in urban area was more aware about the impact of inflation that is rise in price of commodities as compared to the individuals residing in rural areas i.e. means score of 2.80. Respondents from both urban and rural area shows positive financial behaviour for variable like affordability and timely payment of bills. In terms of setting up of financial goals (3.91) and tracking of financial affairs (3.97) both shows negative financial behaviour. Mean score of financial behaviour towards setting aside funds for emergency needs (4.12) and to be aware about ones monthly income and expenditure (4.32) in the urban area was higher as compared to rural area (4.10), (4.23) respectively, shows that in comparison to individuals residing in rural areas, individuals from urban area of Shimla prefer to set aside funds for meeting their emergency needs and also aware about their income and expenditure which leads to reduced risk of pile up of debts and insolvency in critical situations. Analysis of mean score of budget and spending i.e. 3.52 each in rural area reveals that respondent are not in a habit of maintaining a budget which results in excessive spending and hampers the saving habit of the people. Highest mean score of payment of debts in rural area i.e. 2.89 as compared to urban area i.e. 2.73 shows that individuals from rural area have more debts to pay and have negative financial attitude towards their future obligations. From the mean score of trust factor i.e. 2.71 (urban) and 2.79 (rural) it can be

concluded that the people from both the community show negative financial attitude towards trust on financial institutions.

On the basis of above study it is evident that urban people are more aware about financial decisions in comparison to rural people.

### 6.1.3 Measurement of Composite Financial Literacy Score/Level

Composite financial literacy level was obtained by adding the individual score of three dimensions i.e. financial knowledge (four items), financial behaviour (six items) and financial attitude (five items). All the three dimensions were measured on five point Likert scale, maximum possible score for each dimension is 5. Thus the maximum composite financial literacy score is 15. Median score of the sample was considered to classify the respondents in two groups i.e. high financial literacy level and low financial literacy level. Mean score of different dimensions of financial literacy of respondents from urban and rural community was computed by dividing the total summated value by the number of respondents in the particular category/community.

**Table 6.3: Composite Mean Score of Financial Literacy in Urban & Rural Areas of Shimla**

COMMUNITY	Financial Knowledge	Financial Behaviour	Financial Attitude	Composite Financial Literacy
URBAN	3.63	4.26	2.94	3.61
RURAL	3.11	4.17	3.11	3.46

Source: Primary Data, 2019-2020.

Table 6.3 reveals that the composite financial literacy score based on dimensions like financial knowledge, financial behaviour and financial attitude was highest in case of individuals belonging to urban areas of Shimla i.e. 3.61 as compared to the individuals from rural areas i.e. 3.46. From the above table and figure it was also inferred that individuals from both the communities show positive financial behaviour as mean score is above 4 in both the communities & individuals are in a habit of setting financial goals, purchase things according to their purchasing power and adhere to the timely payment of bills. Table 6.3 indicates that mean score of financial attitude is more in rural area as compared to urban areas of Shimla. In terms of financial knowledge individuals from urban areas are more knowledgeable than their counterparts from the rural area i.e. they are familiar with the concept of simple interest, compound interest, principles of saving etc. From the analysis it was also found out that maximum individuals are not familiar with the impact of inflation.

### 6.1.4. Difference in Financial Literacy level in Urban & Rural Areas of Shimla.

**Table 6.4: T-test result to measure significant difference in financial literacy level of respondent in urban and rural areas of Shimla**

URBAN			RURAL			t- Value	*p-value
N	Mean	S.D	N	Mean	S.D		
200	3.61	0.412	200	3.46	0.395	3.51	0.000

\*Level of significance 5%

Results show that at 5% significance level the t-value (3.51) is significant (p-value=0.000;  $p < 0.05$ ) which leads to the rejection of null hypothesis and acceptance of alternative hypothesis. So it can be concluded that the individuals residing in urban are more financially literate than the individuals residing in rural areas of Shimla.

## 6.2. ANALYSIS OF IMPACT OF FINANCIAL LITERACY ON FINANCIAL BEHAVIOUR

### 6.2.1. Regression Analysis of Impact of Financial Literacy on Financial Behaviour in Urban & Rural Areas of Shimla

**Table 6.5 Model Summary Impact of Financial Literacy on Financial Behaviour (Urban)**

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.525 <sup>b</sup>	.275	.271	.42468

In order to access the impact of financial literacy on financial behaviour, regression was calculated between composite financial literacy mean score and mean score of financial behaviour. Table 6.5 revealed that value of R-square is .275 which implies that dimensions of financial literacy have contributed 27.5% variance towards the financial behaviour of individuals of urban area of Shimla.

**Table 6.6 ANOVA Impact of Financial Literacy on Financial Behaviour (Urban)**

ANOVA						
	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.556	1	13.556	75.163	.000 <sup>c</sup>
	Residual	35.710	198	.180		
	Total	49.267	199			

- a. Community = Urban  
 b. Dependent Variable: Average FB  
 c. Predictors: (Constant), Total F.L Average

From the ANOVA table it is found out that  $F=75.163$  and  $p=.000$  are statistically significant at 5%. Hence the overall regression model for financial literacy has relationship with financial behaviour.

**Table 6.7 Coefficients Impact of Financial Literacy on Financial Behaviour (Urban)**

Coefficients						
	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.972	.265		7.435	.000
	Total Financial literacy Score	.633	.073	.525	8.670	.000

- a. Community = Urban  
 b. Dependent Variable: Financial Behaviour

From the coefficient table 6.7 value for financial literacy score ( $\beta=.525$ ,  $t=8.670$ ,  $p=.000$ ) inferred that independent variable financial literacy has impact on the dependent variable financial behaviour of the individuals of the urban area of Shimla. It was found out those individuals those who are familiar with the concept of interest, principles of savings and familiar with the concept of time value of money and those who maintain budgets are aware of their income and expenditure, pay bills on time and always keep watch on their financial affairs. Individuals with higher financial knowledge pay their bills on time and exhibits financial planning behaviour.

**Table 6.8 Model Summary Impact of Financial Literacy on Financial Behaviour (Rural)**

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.528 <sup>b</sup>	.279	.275	.46290

In order to access the impact of financial literacy on financial behaviour, regression was calculated between composite financial literacy mean score and mean score of financial behaviour. Table 6.8 revealed that value of R-square is .279 which implies that dimensions of financial literacy have contributed 27.9% variance towards the financial behaviour of individuals of rural area of Shimla.

**Table 6.9 ANOVA Impact of Financial Literacy on Financial Behaviour (Rural)**

ANOVA						
	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16.411	1	16.411	76.590	.000 <sup>c</sup>
	Residual	42.426	198	.214		
	Total	58.838	199			

- a. Community = Rural  
 b. Dependent Variable: Average FB  
 c. Predictors: (Constant), Total F.L Average

From the ANOVA table it is found out that  $F=76.590$  and  $p=.000$  are statistically significant at 5%. Hence the overall regression model for financial literacy has relationship with financial behaviour.

**Table 6.10 Coefficients Impact of Financial Literacy on Financial Behaviour (Rural)**

Coefficients						
	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.660	.290		5.733	.000

Total Financial Literacy Score	.726	.083	.528	8.752	.000
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a. Community = Rural

b. Dependent Variable: Average FB

From the coefficient table 6.10 financial literacy score (beta=.528, t=8.752, p=.000) are statistically significant at 5% and can be inferred that individuals with high financial literacy score have positive financial behaviour i.e. they are aware of their income and expenditure, pay bills on time, set their financial goals and always keep watch on their financial affairs. Individuals with higher financial knowledge pay their bills on time and exhibits financial planning behaviour.

### VII. Findings

1. From calculation of composite financial literacy score it was inferred that financial literacy level of individuals residing in urban area (3.61) is higher than the individuals from rural areas of Shimla (3.46).
2. The result of analysis of T- test shows that there is a significant difference in financial literacy level of individuals residing in urban and rural areas of Shimla.
3. Regression analysis shows that in both the communities i.e. urban and rural financial literacy has an impact on financial behaviour of the individuals. Individuals with high financial literacy score possesses positive financial behaviour towards timely payment of bills, they always set aside funds to meet the emergencies that may arise in future and also aware about his monthly income & expenditure and vice versa.

### VIII. Conclusion

After careful analysis and interpretation, the findings of the study suggest that there is a gap in the financial knowledge, financial behaviour and financial attitude of urban and rural individuals. Overall financial literacy level of individuals of urban area is more than the individuals residing in rural areas of Shimla. It was also found out that financial literacy level will impact the financial behaviour of the individuals. Improvement in financial literacy level helps individual in taking rational decisions in terms of management of money and planning.

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