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Financial Awareness: A Survey of Students in Bhopal

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Abstract: A total of 496 students of Engineering and MBA were surveyed to determine their awareness about personal finance and investment. The sample consisted of 268 students of MBA programme and 228 students pursuing B.Tech. programme. These students were broadly categorized here as management students and non-management students. The following three dimensions were primarily assessed in the study- financial behaviour, financial attitude and financial knowledge. This study shows that the level of financial awareness among college students in Bhopal is very low.

Keywords: financial awareness, financial knowledge, financial behavior, financial attitudes.

I. Introduction

Financial awareness has gained significant attention among many countries around the world. The importance of the financial awareness has become even more important with the rapid development and sophistication of the financial structure, financial regulations and financial products and services available in the evolving financial market. Proportionately the decision on the financial activities has become more complex.

The lack of financial knowledge limits the ability of making good financial decision (Chen & Volpe, 1998) and invites host of personal problems in the family (Furtuna, 2008). Given its importance many countries have introduced financial awareness in the formal educational curriculum. There is a considerable amount of research and literature measuring the level of financial literacy in American and European nations and formulation of appropriate policies that enhance the financial well-being of its citizens, but not much has been done in the developing nations. Few researchers and academician have attempted to measure or assess the level of financial awareness among the young adults and university/college students in developing countries. However, none has attempted to conduct such research on the level of financial awareness among the college students in Bhopal.

This research is important to provide the timely policy intervention and in framing targeted strategies and approaches to promote the financial awareness among the younger citizens for their financial well-being in the near future. The financial well-being is understood as “a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow them to enjoy life” (Consumer Financial Protection Bureau, 2017).

In India a student is dependent on his parents till she/ he completes studies and gets into a job. Most students continue to live with their parents even after their own marriage till they are forced to leave the city for livelihood. As such, students get their living expenses from their parents and have no motivation to save and invest. However financial awareness is required before they step out into the real world. It is beneficial to provide financial education before individuals engage in financial contracts and before they start making financial decisions (Garg & Singh, 2018) and preparedness for retirement (Lusardi & Mitchel, 2006). It is reasonable to assume that classes taken during the senior year, when students have either attained or are about to attain legal adulthood and have taken on some of the financial responsibilities of adults, would be more relevant and interesting than if taken when a student was 15 or 16 years old (Klein, 2009).

The importance of development of the financial awareness has been already perceived by the government and it is being spread through campaigns by the National Institute of Securities Markets (NISM).

II. Literature Review

Different researchers, often have different definitions for the term financial awareness. Definitions for financial awareness differ in context as well as in source (Hung H.C, 2009). The terms such as financial literacy, financial education, financial capability, financial knowledge etc. often cause some confusions to the consumers. (Cohen, 2011). However, they often seek to convey in whole or in part the same meaning of financial awareness. These are sometimes defined in context to the financial market structure, regulation and sophistication of the financial products and services in the particular economy.

John Adams seems to be the first man to coin the term Financial Literacy and one of the first person who saw the need to promote the financial education in the US (UNSGSA, 2016).

The existing conceptual definition speaks of ability, knowledge and skills, but makes no attempt to articulate what aspects of money management actually constitute a person’s financial literacy. Financial literacy describes the skills, knowledge and tools that equip people to make individual financial decisions and actions to attain their goals; this may also be known as financial capability, especially when paired with access to financial products and services (U.S. National Strategy for Financial Literacy, 2020).

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Noctor (1992) defines financial literacy as the individual's capability to make complete verdicts and to take pronouncements that are effective with regards to the use and management of her/his money (Noctor, 1992). Lusardi (2008) defines financial literacy as the knowledge of basic financial concepts, such as the working of interest compounding, the difference between nominal and real values, and the basics of risk diversification (Lusardi A., 2008).

The Organization for Economic Co-operation and Development (OECD) defines financial literacy as not only the knowledge and understanding of financial concepts and risks but also the skills, motivation, and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life. Thus, the definition of financial literacy is not limited to financial knowledge and skills only but also includes financial behavior such as motivation and confidence.

It is apparent that financial awareness is very important in everyday life. Benjamin Franklin, around 1737, gave a bit of financial advice "A penny saved is two pence clear." in his column titled "Hints For Those That Would Be Rich."

We have witnessed rapid development in the financial arena and how crucial it is to manage the finances in everyday life for the financial well-being of the individual. Financial awareness has become an indispensable tool for the economic well-being of the individual. Furthermore, financial instruments have become increasingly complex and individuals are presented with new and ever-more sophisticated financial products (Lusardi, A, 2008). Policymakers around the world have expressed deep concern about widespread gaps in financial knowledge and various measure have been devised to make the citizens financially aware. Given the complexity of current financial instruments and the financial decisions required in everyday life, from comparing credit card offerings, to choosing methods of payments, to deciding how much to save, where to invest, and how to get the best loan, individuals need to know how to read and write financially (Lusardi, A, 2008). A research done in America finds that many individuals lack a basic understanding of how to control debt, how to save and how to plan a solid financial future (Furtuna, 2008).

Sandra and Carolyn (2002), report that with the technological, market, and legislative changes have resulted in a more complex financial services industry that requires consumers to be more actively involved in managing their finances (Braunstein & Welch, 2002). It is noted that low level of financial knowledge would limit the ability of making good financial decisions (Chen & Volpe, 1998). Financial illiteracy has long been recognized as a major problem in poor households and communities (Engelbrecht, 2008). Poor financial decisions invite many problems in the family too. Financial problems are one of the primary reasons for divorce (Furtuna, 2008).

There is no any standard framework for the measurement of the financial awareness. Building a standard instrument for measure of financial literacy is obviously difficult given the levels of economic development, structure of financial systems, regulations and diversity of financial products and services etc. It should certainly be built based on the level of economies and financial structure, financial regulations and diversity of the financial products and services available in that economy. The question of financial literacy model is penitently linked to the level of financial market development and social demographics of place of interest for the research (Juma Buhimila Mabula, 2018). It depends on the complexity of the financial market structure, financial regulations and product/services. The structure of financial sector and the availability of financial products automatically engages individual and firm into transactional networks forcing them into a learning stream hence automatically becomes literate (Ping).

Juma and Han (2018) have also found that there is a need to interpret financial literacy in developing economies in line with the features characterizing these countries economy and their level of financial sector development (Juma Buhimila Mabula, 2018). Remund and David (2010) note that existing conceptual definition speaks of ability, knowledge and skills, but makes no attempt to articulate what aspects of money management actually constitute a person's financial literacy.

Even in the developed economies the level of financial literacy is found to be low (Baverly & Burkhalter, 2005). A study conducted with 522 university students from 13 different higher education institutions in Estonia revealed that the level of financial literacy of student is low (Mändmaa, 2019). Similarly, Kiliyanni & Latheef (2018) in their study revealed low level of financial literacy among the educated young adult (Kiliyanni & Sivaraman, 2018). While, Sri Lanka showed that financial literacy level of majority of the undergraduates of the three universities is at a moderate level (Edirisinghe, Keerthipala, & Amarasinghe, 2017). This study considered the knowledge on money management, savings, investment, credit and insurance to measure the financial awareness level of undergraduate students in Sri Lanka.

Financial literacy was examined among students of the University of Porto by Ana Filipa Costa Mendes in the year 2013 which showed "students from Economics and Management have the highest levels of financial literacy. The student from Fine Arts and Psychology and Education Science are less financially literate, being amongst the worst levels of financial knowledge and attitudes. Architecture students, reveal the second highest in terms of global financial literacy and in terms of financial knowledge".

Sekar. M and Gowri. M in the year 2014 conducted a study among 200 individuals, and found that "people of Coimbatore are not much aware about their financial related issues. Need for proper financial knowledge and information related to financial matters became unavoidable. Results suggest that level of financial literacy varies significantly among respondents based on various parameters and socio- economic factors. All in all, financial literacy level gets affected by gender, education, income, and number of members whereas it does not get affected by age."

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Studies by Nikita Jain and Prof. J.K. Jain (2017) found that "Financial Literacy is an essential life skill. Money management is a critical intellectual competency and an essential component of a student's financial, academic and social success in life. There is an urgent need for inculcating sound money habits in the students. They need to be introduced to the benefits of budgeting and saving for a rainy day. They should also be encouraged to learn the basics of Banking, about financial concepts and investment products, different types of insurance covers and how mutual fund works.

Ramesh Jangili, Srinivasa Sai Charan Marisetty and Yashoda Bai Mood (2022-23) found that "financial knowledge increases with income, age, education and proximity to metropolitan areas. Financial behaviour is in sync with financial knowledge. Females exhibit better financial attitude as compared to males. Overall, financial literacy was observed to be relatively lower amongst the younger population, those with lower educational qualifications and without a stable income source".

The University students in Nepal are found to be knowledgeable in basic level of finance. Knowledge of numeracy was found to be highest while banking, inflation and share market was found to be medium, and low in credit, taxes, financial statement and insurance (Thapa & Nepal, 2015). A similar study conducted in Ghana showed that little more than half of the graduates were financially literate, and male students were found to be more financially knowledgeable compared to the female students (Oseifuah & Gyekye, 2018). Lusardi, Mitchell and Curto (2010) also confirm low levels of financial literacy of South African young adults. It is found that fewer than a third possessed basic understanding of interest rates, inflation, and risk diversification (Lusardi et al., 2010). Lusardi (2008) notes that there are sharp gender differences in financial awareness, with women displaying a lower level of knowledge than men, particularly with regard to risk diversification.

III. Research Methodology

Research Objective: To understand the level of financial awareness among the college students in Bhopal.

Sampling: This research focused college students since most of them will be pursuing a career after their graduation. There are more than 50,000 students pursuing Management and Engineering degrees in different colleges in Bhopal. The sample for this study consisted of roughly 1% of the population, i.e. 496.

Data Collection: Data on financial awareness of the college students was collected using an online survey form. A set of survey questionnaire covering all the essential parameters and items to adequately measure the level of financial awareness was designed using the online survey portals. The questionnaire also collected the demographic and economic data of the students and parents.

Questionnaire Design: The questionnaire for the survey is adopted from financial literacy study conducted on the college students in Nepal (Thapa & Nepal, 2015) with some modifications. The Questionnaire also retains questions by Lusardi and Mitchell (2006, 2008) which was originally designed for the 2004 HRS.

The three main dimensions used for the construction of the financial awareness index, that formed the crux of the questionnaire design are defined as below:

- Financial Behaviour – student's action with respect to the money management
- Financial Attitude –student's state of mind about money or their finances
- Financial Knowledge – student's understanding of money and the basic financial concepts and skills, and capability to manage money in different usage.

Data Analysis:

Data was analyzed using the statistical software (SPSS and Excel). Data cleaning for incomplete sets, and data reliability was done using Cronbach's alpha. Descriptive and inferential statistical procedures were used depending on the experimental parameters/ variables required for the desirable output in fulfilling the research objective. It entailed the testing of the hypothesis for comparing and contrasting against similar research findings in other literature.

Model - Composite Mean

The financial literacy index = m1+m2+m3…./ N

Where m1, m2, m3 … are mean scores of all dimensions and N= number of dimensions

Analysis, Findings and Discussion

Sample of 496 students of Bhopal took part in the online survey. 47% were males and 53% females, 54% were enrolled in management courses and 46% in non-management(engineering) courses. Majority were self-financed (73%) and around 26% were under full government and other

scholarship and just 1% are on some other partial scholarships. Majority (66%) of the student's family monthly income falls under bracket of INR 20,000 to 30,000.

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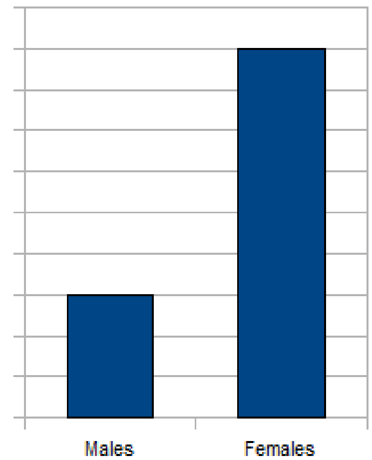
The overall level of financial awareness among the college students in Bhopal is found to be very low with index of 2.2. The mean scores against these dimensions are; financial behaviour (1.8), financial attitude (2.4) and financial knowledge (2.5).

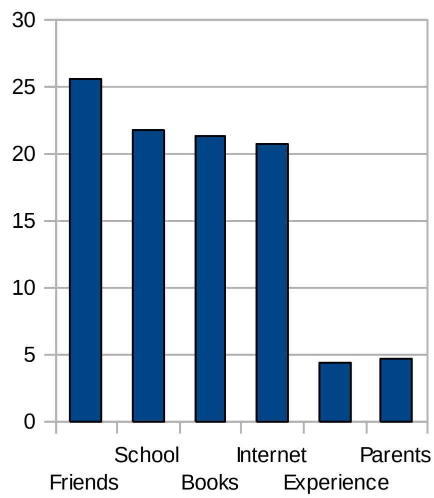


Contrast to the findings of Santini, Laderia, Mette and Ponchio (Santini, F.D.O., Ladeira, W.J., Mette, F.M.B. and Ponchio, M.C., 2019) no significant variations on the financial behavior between the gender and course they are enrolled in. Similarly, no significant difference was noted between family income and overall score of students in these dimensions, $f(3,1084)=.295$, $p=.829$. However, t statistics $t(1084)=9.305$, $p<0.05$ shows that management students seems to be better than the non-management students in terms of financial numeracy (interest calculation, time value etc.)

Students have a fair understanding of banking and interest rates in Bhopal (3.5) but not much understanding of insurance, its importance (2.9) and risk diversification.

When asked about their spending behaviour, only 8.2% reported that they are very economical in terms of their spending, while 36.0% reported that they are somewhat economical and majority (55.8%) are quite spendthrift.

In terms of influence, majority reported that they learnt about managing money mostly from friends (25.6%), school (21.8%), books (21.4%), internet (20.8%) and least from life experience (4.4%) and parents (4.8%). It shows that parents hardly include their children in financial decisions. It could also be true that parents mandate their child to concentrate on study and not to be bothered by the financial matters of the family.



Source of Financial Knowledge

Recording of the everyday financial transactions is given the least importance. Majority of the students (57.8%) reported that they don't keep record of their financial transactions. About 38% maintain minimal record. Only 3.8% of respondents reported they keep detailed record of their everyday financial transactions. Record keeping (9.6%) is also the last thing they learn from home while growing up.

College students in Bhopal have very low level of financial literacy and their involvement in the financial decision at home is also low (30%). This is probably because parents have low involvement in educating the children in financial matters.

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