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IMPACT OF FINANCIAL KNOWLEDGE OF WOMEN ON THE HOUSEHOLD FINANCIAL WELL – BEING

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ABSTRACT

The study is empirical in nature and is based on a questionnaire based survey. The study hypothesized that financial literacy is positively related to financial wellbeing. The findings of the study reveal that the level of financial literacy has a high positive correlation with financial well-being. This was further strengthened by the regression analysis which revealed a significant impact of financial knowledge on financial well-being. Results of this study suggest that it is imperative for all stakeholders to increase financial literacy of individuals to further influence their financial well-being.

The main objective of this research study was to study the relationship and measure the impact of financial literacy of women on financial well-being of Household. The survey was conducted on around 280 women. It tries to explore the impact of women's financial literacy on household financial wellbeing. It is assumed that higher levels of financial literacy have a positive impact on financial wellbeing. The questionnaire method was used for data collection. A total of 280 questionnaires were distributed, and 250 questionnaires were received. The dependent variable is Household Financial Wellbeing, which is measured by adopting a well-known Financial Wellbeing Scale developed by Prawitz et al. (2006). The independent variable of Financial Literacy is measured using a 12- item questionnaire developed by the researchers of this study. The present study is carried out in the context of Indian citizens. Convenience sampling method is employed for being an exploratory study with the objective to provide groundwork knowledge on the issues being examined. The results reveal that the level of financial literacy is showing highest significant positive correlation with the level of financial well-being (r= .891, < .001). Also regression analysis revealed that 79% (Adjusted R Square = .790) of the variation in financial wellbeing (dependent variable) is defined by the Level of *financial literacy (independent variable). Thus, it is evident that financial literacy of women has a significant impact on the household financial wellbeing.*

Keywords: Financial literacy, Financial well-being, Women, India

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1. INTRODUCTION

The concept of financial literacy has emerged due to the importance of individual knowledge of financial concepts. Over the past thirty years, individuals have had to become increasingly responsible for their own financial security. The shift from defined benefit (DB) to defined Contribution (DC) plans has meant that people today have to decide both how much they need to save for future and how to allocate their wealth. Its content has moved from financial knowledge and understanding to include financial skills and competencies, attitude and behavior. Every individual now is supposed to be aware of their financial choices. The deregulation of financial markets, the ready use of credit cards and other amenities, easier access to credit in the form of loans and advances has resulted in increasing complexity of financial decisions and also caused consumers faced with the challenge in economic and financial activities. Thus financial literacy is essential in meeting the financial challenge of the 21st Century. Financial Literacy includes providing familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices. Viewed from this stand point, financial education primarily relates to personal finance to enable individuals to take effective action to improve overall well-being and avoid distress in matters that are financial. Organization for Economic Co-operation and Development (OECD) has defined financial education as "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks, and through information, instructions and/or objective advise, develop the skills and confidence to become more aware of 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. Realizing the importance of financial literacy, lot of attempts have been made throughout the world to diffuse financial education among the citizens. Accordingly, various researchers have come up with means and methodologies to spread the financial literacy and also measure its impact on the individual's financial security. Thus, various studies were conducted in this field in the last few decades. A brief review of these studies is given as follows

2. LITERATURE REVIEW

The review of previous research suggests that there is strong relationship between financial literacy and household financial welfare. For example, a study conducted by Williams et al. (1996) among 1000 employees in different organizations showed that employees' financial concerns have a negative impact on their productivity. Also, employees attending consulting classes as well as training finance activities had less financial concerns and higher productivity. Further, Vitt et al (2000), contend that the greatest advantage of financial education is that it reduces employees' financial problems and encourage them to be responsible for their own financing, thus helps in increasing the efficiency of the organization. Into the bargain, another study by Bernheim et al (2001) shows that financial literacy has a positive causal impact on wealth holdings and savings behavior. Similarly, Beal and Delpachitra, (2003) concluded that financially literate people would know how they should handle their financial affairs and how to be responsible financially. Furthermore, Lusardi (2004) found that there was a marked increase in total net worth and financial wealth seen after older people were given financial seminars at work. Additionally, Fox et al (2005) also assert that there is a relationship between financial awareness and the overall success of people. And found that increased financial literacy has a positive impact on people's personal and business life. He says that people grown up in families with the higher financial knowledge and well-being are less depressed, show less aggression and anti-social behavior and have more self-confidence. Also, Neill et al (2005) carried out a study aimed at examining the relationship between financial activities, financial wellbeing, and health among 3,121 customers of a financial consulting organization. Their results showed that people with higher income and financial well-being will experience less stress, are more motivated in financial activities, have a better family relationships and are physically and mentally healthier. Into the bargain, Stango and Zinman, (2006) while trying to find out how financial literacy influences financial well-being concluded that less financially knowledgeable people are poor at financial planning and tend to borrow at higher interest rates. Few other researchers including Lusardi and Mitchell, (2007) found that individuals with lower levels of financial literacy are poor at future financial planning and tend not to plan for their retirement. In addition, Taft et. al (2013) argue that financial literacy is positively correlated with financial well-being. Similar inferences were also drawn by Mahdzan and Tabiani (2013), in their study of exploring impact of financial literacy on individual saving behaviour conclude that financial literacy is positively related to probability of having positive saving amongst individuals. The researchers asserted that financial literacy is an important determinant of individual saving.

2.1. Rationale of the Study

The purpose of this study is to understand the relationship between financial literacy and financial well-being in India. It tries to explore the impact of financial literacy of women on the household financial well-being. It is assumed that higher levels of financial literacy of women have a positive impact on financial wellbeing of household, because increased financial awareness implies that women, who have better understanding of their financial circumstances, would be able to make better financial plans, hence make more informed financial decisions. Since there are not many known researches investigating the relationship between these factors in the context of a developing economy, like India, thus the present has been undertaken to fill up this gap and make a modest contribution in the field.

3. OBJECTIVES

The following are the main objectives of the study:

I. To determine the relationship between financial literacy of women and household financial wellbeing.
II. To find out the impact of level of financial knowledge of women on household financial wellbeing.

4. HYPOTHESES

I. **H1**: Women's financial literacy level is positively related to household financial wellbeing.
II. **H2**: Level of financial awareness has significant impact on the level of financial wellbeing.

5. SAMPLE DESIGN AND METHODOLOGY

The present study is carried out in the context of Indian citizens. The sample respondents included mainly the teaching and non-teaching staff employed in various educational institutions of Kashmir valley. Also the self- employed class comprising of mainly women entrepreneurs have been considered in the sample. The reason for selecting different categories in the sample was to achieve better representation of the population under study.

6. DATA COLLECTION

The questionnaire method was used for data collection. The questionnaire developed had two parts. The first part of the questionnaire had questions on demographic details of the potential respondents including age group, education level, income level, etc. The second part of the questionnaire had 20 statements covering the independent and dependent variables understudy. Each statement was presented as a five-point Likert scaled-response question with 1 being “strongly disagree” to 5 “strongly agree”. A total of 280 questionnaires were distributed, and 250 questionnaires were received. However, after scrutinizing the data collected only 237 questionnaires were found to be usable for further analysis.

7. PROFILE OF SAMPLE RESPONDENTS

The primary survey conducted by the researchers about the demographic characteristics of sample collected reveals that majority of respondents, that is, 63% fall in the age – group of 38-48 years followed by the age group of 28-38 with 25% population and the rest fall in the category of 18-28 years of age. Similarly the income profile of the respondents depicts that most of the respondents that is 36.28 % belonged to an income group of Rs.15,001- 30,000 per month, 30.37% to Rs. 30,001 – 50,000 group, whereas 18.6 % belonged to monthly income bracket of Rs.15,000 per month group and the rest 14.76 % to above Rs. 50,000 group. Regarding the education of respondents almost half of the respondents are post graduates followed by 43.45% graduates and the remaining 6.3% are above post graduates. About the major field of study (discipline) 44.7% are from the field of Business, and 20% are from other streams like Economics and computers followed by Arts stream with 18%, 16.5 % respondents are with Science major. Regarding marital status 51 % are married. Also, majority of the respondents, that is 70% are employed.

8. MEASUREMENT OF VARIABLES

The dependent variable of Household Financial Wellbeing is viewed as the level of satisfaction of a household with his current financial situation as well as financially secured future prospects for the present study. It is measured by an 8-item scale representing the variable on a 5-point continuum from overwhelming distress/ lowest level of financial wellbeing to no financial distress/ highest level of financial wellbeing. The higher score on the scale implies the better financial wellbeing and lower financial stress. The independent variable of Women Financial Literacy is operationalized for the this investigation as the awareness of women about personal finance, investment products, budgeting concepts, skills required to perform numerical calculations, understanding of basic money concepts, knowledge of risk and return and awareness about banking concepts, and is measured using a 12- item questionnaire. The scale is based on likert statements ranging from strongly disagree to strongly agree on a 5-point scale. Higher score on the scale means a higher level of financial knowledge and vice –versa.

9. VALIDITY AND RELIABILITY TEST

A pre-test of the research instrument to establish the validity was done. Cronbach's Alpha Coefficient was used as an index of reliability (Cronbach, 1951) to determine the internal consistency or reliability of financial literacy and Individual financial wellbeing.

Exhibit A Reliability and Validity Index

	Items	Cronbach Alpha Value	Content Validity Index
Financial Literacy	12	.817	.800
Personal Financial Wellbeing	8	.956	.860

Source: Primary survey conducted by the researchers

As shown in **Exhibit A**, the reliability and validity values indicated by both the variables are greater than the threshold limit of .70 (Nunally, 1971 and Hair et al, 2012). Thus, the scale is found to be both reliable and valid.

9.1. Factor Analysis Results

This section presented the factor analysis on financial literacy. It enables to find the composition of the variable and relevancy of factors in the variable. KMO measure of sampling adequacy was used which showed an acceptable value of 0.826; p = 0.000 implying that the data qualifies for further analysis. The principle component analysis then carried out reveals three main factors with eigen value >1 in each explaining 60.89% of variance in the financial literacy variable. The main factors extracted along with their respective loadings are discussed one by one.

10. PERSONAL FINANCIAL LITERACY

The study finds that personal financial literacy component constituted 24.471% of the financial literacy variable understudy. Most important elements under this component included; one's knowledge about banking concepts (.752) followed by assessment of personal financial awareness (.747), and knowledge about financial products (.691). The level of knowledge about using of various electronic transaction mediums like ATM etc. also loaded significantly on it (.668) and also awareness about spending money was found to be fairly important (.609).

11. INVESTMENT AWARENESS

Investment Awareness is found to explain 19.205% variance in the financial literacy variable. It is depicted that being knowledgeable about stock market activities is the most important element under this component (.767) chased by staying informed on financial planning developments by reading newspapers and magazines (.759). The knowledge about different investment avenues also loaded significantly on this component (.701) and also knowledge of various investment schemes (.696) is reasonably relevant element of this constituent.

11.1. Money Management

Money Management component is found to explain 17.146% variance in financial literacy. Most importantly, the knowledge to manage expenses efficiently is shown to be most important element of this component (.837). Also knowledge to manage savings properly loaded significantly (.772) followed by managing financial matters effectively (.692).

11.2. Tools of Analysis

The analyses were conducted using SPSS-21. In order to analyze the data corresponding to the objectives set, descriptive statistics like mean and standard deviation was used. Pearson's correlation coefficient (r) was computed to find out the level of relationship between dependent and independent variables. Further Regression analysis equation was developed to find out the impact of independent variable (level of financial literacy) on the dependent variable (household financial wellbeing) controlling for other variables. To test the significance of the results, two tailed t-test and ANOVA were used.

12. RESULTS AND FINDINGS

12.1. Level of Financial Literacy

The descriptive measures like mean and standard deviation used to measure the level of financial literacy among the respondents reveals that sample individuals possess a moderate level of financial literacy with mean ranging from 2.55 to 3.77 on a scale of 1-5 with standard deviation of 1.08 and 1.20. However, level of knowledge about managing money has the highest mean of 3.77 with standard deviation of 1.20 following by the knowledge about managing savings properly with mean of 3.53 and standard deviation of 1.11. The element of managing expenses efficiently has the lowest mean of 2.55 with standard deviation of 1.08.

12.2. Level of Financial Wellbeing

The examination of mean and standard deviation of the dependent variable of personal financial wellbeing depicts that the respondents show a moderate level of financial wellness on the scale with mean score in the range of 2.83 and 3.86 and standard deviation of 1.25 and 1.02 respectively. The element of being able to save to ensure personal financial wellness has got the highest mean of 3.864 with standard deviation of 1.02 followed by having a enough income for a comfortable lifestyle with mean 3.225 and standard deviation of 1.047. The element of not worrying about being able to meet normal monthly living expenses has the lowest mean of 2.83 with standard deviation of 1.25.

12.3. Measurement of overall level of Financial literacy and Financial Wellbeing

The analysis of overall mean, standard deviation, minimum and maximum measures of the variables understudy reveal that the minimum score for financial literacy is 1.93 with a maximum of 4.67, whereas, for financial wellbeing the minimum score is somewhat similar to that financial literacy with value = 1.88 and maximum score of 4.63. The mean score for financial literacy and financial well – being is 3.33 and 3.10 in that order with standard deviation of .55 and .54 respectively.

12.4. Correlation Analysis

The results reveal that the level of financial literacy is showing highest significant positive correlation with the level of individual financial wellbeing (r= .686, < .001) as shown in Table 1 Thus Hypothesis 1 (H1), which assumed that individual's financial literacy level, is positively related to individual financial wellbeing stands accepted, as we found sufficient empirical support to accept it.

Table 1 Correlation

		Financial Literacy	**Financial Wellbeing**
Financial Literacy	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	237	
Financial Wellbeing	Pearson Correlation	.686**	1
	Sig. (2-tailed)	.000	
	N	237	237

Correlation is significant at the .001 level (2-tailed)

Source: Primary survey conducted by the researchers

12.5. Regression Analysis

The results of the regression analysis reveal a coefficient of determination R2 of .470 (Adjusted R2=.430) as shown in Table II which indicates that 47% of the variation in individual financial wellbeing (dependent variable) is defined by the Level of financial literacy (independent variable). Thus, it is evident that individual financial literacy has significant impact on the financial wellbeing of individuals under study. Hence, the findings provide the researchers with sufficient statistical support to accept Hypothesis 2 (H2), which proposed that level of financial awareness has significant impact on the level of financial wellbeing of individuals.

Table 2 Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.686a	.470	.430	.38734
	Predictors :(Constant),Financial Literacy			

Table 3 Model Summary

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	98.212	1	98.212	434.184	.000a
	Residual	15.378	248.149			
	Total	103.590	249			
Predictors: (Constant), Financial Literacy						
Dependent Variable: Financial Well being						

Source: Primary survey conducted by the researchers

The regression model summary (see Table II) revealed that the linear combination of the independent variable was significantly related to the dependent variable, R= .686, Adjusted R Square .430, F= 434.184 (p=0.000) as depicted in Table III. The regression model was significant at 99% confidence interval. Analysis reveals that the level of financial literacy of an individual can explain 47% of the variance of personal financial wellbeing.

13. CONCLUSIONS AND SUGGESTIONS

The results of the study enable us to conclude that one of the most important trade – off of financial literacy is increased financial health. Financial health of an individual is equally important as that of medical health. Just as we put forth the effort to guarantee that our physical health is fine, we must spend the same time and effort to guarantee our financial health, leading, to our financial security. Financial literacy makes people financially responsible making them realize the importance of improved financial planning, better saving decisions and proper financial management. It ensures that people achieve the goals of a financially secured future and a peaceful present. Financially literate individuals are more likely to engage in sound financial planning early in their lives. This enables them to plan for retirement, fund the education of their children, and accumulate more assets. Financial literacy is first and foremost about empowering and educating people so that they are knowledgeable about finance in a way that is relevant to their lives and enables them to use this knowledge to make informed decisions. Financially literate people have a greater awareness of risk, and therefore they fully insure their assets. It reduces the burden on the financial system from under coverage of risk and underinsured ventures, reducing costly individual and institutional insolvencies and bankruptcies. The main aim of the present study was to find out whether women's level of financial literacy has any relationship with the household financial wellbeing. The study has shown that the level of financial literacy of women has a significant positive relationship with household financial wellbeing. In addition, the study revealed that the independent variable (level of financial literacy) explained 47% of the variance (Adjusted R Square=.430), in the dependent variable (household financial wellbeing). Thus, it can be concluded that an accurate understanding of one's financial wellbeing is of utmost importance at every stage of life. So, whether you are a student, fresher into the job market or a veteran - assessment of personal financial health is important in order to make good financial decisions. Like reading and math, financial education must become part of the core curriculum in our schools. Likewise, parents should engage in regular, constructive conversations about money matters to give kids a solid foundation for financial wellbeing. Financial literacy rates vary substantially by age, gender, and socioeconomic status. Developing sound financial education programs must take into account these variables as well as individual preferences and learning styles. Using the findings of the research reported here, the efforts should be made towards consumer financial literacy mission through fostering approaches grounded in an understanding of financial well-being as a key measure of effective financial education. This work presents a unique opportunity to recognize how important it is to be financially health. This result, although a preliminary finding from this exploratory research, suggests that In order to reach the end goal of increased financial well-being, we need to help consumers develop the ability, know-how and awareness, and confidence to meaningfully employ in those activities that will help boost their financial well-being. If the policymakers in the government or the regulators or other stakeholders – financial institutions, NGOs, members of civil society aim to improve the financial health of the citizens, they should increase efforts in promoting financial literacy and financial skills through basic educational programs regarding financial issues including personal finance, money management, time value of money, risk diversification, risk – return trade-off, inflation, investment and financial readiness which will improve their financial discipline leading to wellbeing and financial security. For knowledge alone does not automatically equate to performance, the concerned imparting the financial education or training must pay consideration to the key mind-sets and convictions that will enable the patron to cleave to the behaviors that will let them to do well and succeed.

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