

Assessment of Financial Literacy and Investment Preference by Individual Investor's: A Case Study of Cuttack City, Odisha

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Abstract

The significance of financial literacy is globally acknowledged as a key component for financial well-being of individuals as well as for financial stability of a nation. The call of present time is to empower the individual investor with basic as well as advance level of Financial Literacy (Financial Knowledge & Skills) which will help them to make wise decision while selecting the right saving/investment solutions for their financial goals. Structure questionnaires have been used to assess Basic Financial Literacy Level & Investment Preference of Individual Investor's in Cuttack City, Odisha (Sample Size N=120). From the study it has conclude that Financial Literacy Level is influencing the investment preference of Individual investor. Individual investor should take initiative to self-educate themselves and grow their financial knowledge, As we all are living in perplexing times, the waiting game will not help them, they can take a baby step to start with understanding the basics of money management & its importance and evolving themselves into smart investor/spender. When there is change of mind set among individual investor from the need based approach to a want based, the individual feels connected to the financial world, it improves saving and investing decisions to a greater extent.

Keywords: Financial literacy, Investment preference, Individual investor's, Financial goals, Financial Knowledge.

Introduction

Individual Investors are caught in a dilemma in present times with limited investible surplus & unlimited jargon loaded financial solution available at their disposal, to add to it we have 24/7 business new channel and access to personal finance gurus at click of button, this have made decision making tougher at individual investor's level. We all have often heard that money matters but rarely we find that individual investors are spending their time & energy in learning concepts relating to money management. I do remember during our childhood days, if we would have talked about money in front of our parents, like how much our father is earning, we all must have got a standard reply focus on your studies don't interfere in this matter, and once we graduate it is all about what's your etc, package. In the present day scenario with changing times & increasing complexity in the financial markets, being financial literate is a must for any individual who is bread winner for the family and I would like to add one more point which I personally feel is important is it is the duty of the bread winner to share details with his spouse so that in case of any unforeseen event at least she can have access to all records & investment.

Financial Literacy gives you a sense of empowerment & it helps you to plan for the future & the immediate financial goals with better planning, clarity choose the right mix of different asset class to achieve the set goals. Across globe we have seen an increased inclination of individual investor's in last 10-15 years in understanding the importance of this subject .The problem of plenty to choose from is the major challenge that investors are facing in present time, decoding the jargon attached to different financial product has become really challenging, the way the investment solution are been bundled with lots of complexity makes it imperative on the part of individual investor to be financially literate.

Over three-fourth Indian adults do not adequately understand key financial concepts, including risk diversification, inflation and compound interest, finds a global survey carried out by S&P. 76% of Indian adults do not adequately understand key financial concepts, including risk diversification, inflation and compound interest. This is lower than the worldwide average of financial literacy, but roughly in line with other BRICS and South Asian nations, the ratings agency found out in its Global Financial Literacy Survey. The survey results come from interviews of more than 150,000 adults across over 140 countries. Individuals were tested on their knowledge of four basic financial concepts: numeracy, risk diversification, inflation, compound interest (saving and debt).

Out of the 30 District in Odisha the Financial Inclusion activities in 9 districts have remained below average, revealed economic experts, the level of financial inclusion activities in 10 other district is average & the remaining 11 district have high level of Financial Inclusion. Of total 6,798 gram panchayats in Odisha, 4,253 are unbanked. Apart from financial literacy and physical structure in rural areas for banking service, the Government is also required to simplify the verification process to ensure increased participation of public in Financial Inclusion activities. A State level Conclave on 'Financial Literacy and Financial Inclusion' organized by Odisha Financial Literacy Forum in 2018, "Government has made all official transactions through Bank only. So, people have to learn the Banking procedures and regulations well. Mere literacy will not help much, it needs more and more

financially included population to make the system robust” said Dr.Sandip Ghose, Director, National Institute of Securities Markets (NISM), Mumbai

Objectives of study

- To assess the financial literacy of people of Cuttack city, Odisha
- To understand impact of financial literacy on investment preference of people in the city of Cuttack, Odisha

Hypothesis

H01: There is no significant relationship between financial literacy and investment preference.

Ha1: There is a significant relationship between financial literacy and investment preference.

Methodology

The present study is both analytical and empirical in nature. The sample of the study randomly selected from Cuttack city of Odisha. The sample size is 120 respondents (Clients of different Broking agencies) of Cuttack city. Responses of respondents were collected through a structured close ended questionnaire in the month of Nov. and Dec. of 2020. In the courses of analysis validity and reliability test conducted to validate reliability of data. Descriptive statistics, Regression analysis have been used to attain the desired objectives. We have used statistical software packages like SPSS, Excel for all analysis of data. Secondary data collected from different reports, journal, books and news papers.

Literature Review

The concept of Financial Literacy can be traced back to late 90s when awareness about money and investment was emerging as an unavoidable concept for the society. Bernheim et al., 2004 was one of the first to emphasize that most individuals lack basic financial knowledge and numeracy. Financial education mandates in high school significantly increased adult propensity to save. Individuals need substantial knowledge and a large analytical toolkit simply to avoid making mistakes.

Hilgert et al., (2003) stated in his work that experts also generally agree that financial knowledge appears to be directly correlated with self-beneficial financial behavior. Beal and Delpachitra (2003) examined financial literacy of Australian students at the University of Southern Queensland (USQ) in Toowoomba, Queensland. The results of the study highlighted that financial literacy was not high among students and the prime reason for this was the lack of financial education at the school level and this resulted in the said finding.

Alaaraj & Bakri (2020) explored the influence of financial literacy on investment decision-making by South Lebanon's investors. In terms of information and understanding, financial literacy was conveyed. The decision making of investors is defined as the behaviour and the analysis of investors and their anticipation, investigation and evaluation of the decision-making measures and transactions. This covers investment risk, the model and the mechanism for investment decisions.

Raut (2020) investigated the importance of past behaviour and financial literacy in individual investors' investment decision-making. Past behaviour had no significant overt influence on the intent of the investor; but, although mediated by the mindset of investors, it had an indirect significant interaction. It was observed that Indian investors were heavily affected, in particular, by social pressure that could be curbed by financial literacy. Subjective criteria on stock market participation were considered to be of considerable significance. For the government and decision makers, this may be a political theme to educate investors and improve their engagement through their opinion leaders.

Potrich et al.(2018) stated financial literacy as a key competency. The outcomes of this study are important for the development of public policies and to other interested agents. The study investigated 2,487 individuals in Brazil. The impact of financial literacy on compulsive buying behavior was the greatest of the direct relationships proposed. It concluded that financial literacy has much more significant impacts than other academic studies have shown. It impacts on the individuals' financial health only and also helps those who suffer from other psychosocial behaviors. It is unique to the extent that it measures the actual direct and indirect impact on other behavioral factors, which have been so far analyzed in separate.

Salim & Khan (2020) suggested that paradox of choice, investor experience, and financial literacy have direct positive effect on investment decision making. Moreover, the findings recommend that web disclosure acts as a mediator between paradox of choice, investor experience, financial literacy and investment decision making.

Lee (2012) carried on behalf of ANZ Bank found that major population of Australia are overall financially literate, there were certain groups with particular challenges. Those groups were identified as those with a lower level of education, not working or in unskilled work, with lower incomes, with lower savings levels, single people and people at both extremes of the age profile.

However, more recent research has found minimal impacts, particularly when benchmarked against other factors, including peer-effects and known behavioral biases like inertia (Duflo & Saez, 2004). Lusardi & Mitchell (2007) conducted a study for the National Council on Economic Education and found that high school students and working age adults failed to understand basic economics. Respondents faced difficulty in answering questions related to interest rates, inflation and personal finance.

Lusardi & Mitchell, (2008) examine this issue in more detail and warn about the difficulties women may face in making financial decisions, particularly after the death of a spouse. Grimes & Warschauer, (2008) listed six areas in which financial planners make recommendations: emergency fund management, debt management, insurable risk reduction, investment risk control, goal assessment, and tax and estate assessment (Mandell & Klein, 2009).

Al-Tamimi (2009) assessed the financial literacy of the UAE individual investors who invest in the financial markets of UAE. They found that financial literacy of UAE investors is much less from what is actually needed. Their results also suggest that there exists a significant relationship between financial literacy and investment decisions.

Nga & Shamuganathan (2010) through their study investigated the level of general financial and product awareness among young adults studying in a private higher educational institute in Malaysia. They tried to find out that how demographic factors influence financial awareness of the youth and whether studying a course in business affects financial and product awareness amongst the youth or not. Their findings suggest that males have higher level of financial awareness as compared to females. They also found that education level as well as course taken in business has an influence on general and financial product awareness.

Akerlof & Shiller, (2010) in their book of "Spiritus Animalis" argue the saving problem in that many people, on average, do not save enough and this problem could direct them to remain unprotected in their old age at that time they could no more money and their consumption could exceed their income. However put mainly emphasis on cultural differences in savings, they also refer to the power of compound interest and to their students' unawareness of this power.

Geetha & Ramesh, (2011) studied the Indian's behavior about investment preferences. The study found that people were not aware about all the investment options available to them and they lack knowledge about securities

Samudra & Burghate (2012) studied the investment behavior of the middle class households in Nagpur. Bank deposits were found to be the most popular instrument of investment followed by insurance. Small savings scheme such as PPF, Post office savings deposits are the third preferred investment option. Amongst the factors which influence the decision to invest in a particular instrument it was found that re-turn from the investment ranks first.

Agarwal et al.(2016) examined the investment pattern and awareness of the Indian investors about different investment instruments. The results suggest that age, education, occupation and income level of the individual affects their investment behavior. Awareness of respondents towards traditional investment options is much higher than that for corporate securities, mutual funds, equity shares and preference shares. They also identified the factors which contribute to investor awareness. They found that occupation, education and income level affects the awareness level of investors towards various investment avenues.

Bashir et al.(2013) studied the investment preferences and risk level of salaried individuals in Gujrat and Sial-kot provinces of Pakistan. The results of the study suggests that females are more risk averse than males whereas young and educated people are attracted more towards new risky investment opportunities and want to invest money in these instruments but they hesitate be-cause of limited resources and lack of investment opportunities as well as absence of investment rends.

Bhushan & Medury (2013) analyzed the gender differences in investment behavior of employees working in various universities of Himachal Pradesh, India. They found that employees working in various universities of Himachal Pradesh invest in almost all investment avenues available to them. There is an overall inclination of investing in safe investment instruments. Gender differences in investment preferences are significant for health insurance, fixed deposits and market investments. After studying the literature on financial literacy and financial products it can be said that very few studies have assessed the relationship between financial literacy and investment preferences of individuals. This study aims at bridging this gap

Result and Discussion

Validity and Reliability Test

Table-1 displays the findings of the validity and reliability test. Cronbach's α were centered on the table well above the 0.60 which indicate the data is reliable. It can then be inferred that the method used was correct and Trustworthy

Table-1

Sl.No	Variables/Indicators	Cronbach's α	Description
1	Financial literacy	0.756	Reliable
2	Investment preference	0.877	Reliable

Descriptive statistics

Two main variable i.e financial literacy and investment preference were studied and the descriptive statistics has been mentioned bellow

Table: 2 Descriptive statistics of financial literacy

Variables/Indicators	Mean	Description
Financial literacy		
Personal financial management	3.00	Low
Budgeting	3.00	Medium
Investing Awareness	2.00	Low
Effective Saving Knowledge	3.10	Medium
Emergency Fund management	3.00	Medium
Risk management	2.90	Low
Debt Management	3.04	Medium
Tax planning	3.40	Medium

Table: 3 Descriptive statistics of Investment preference

Variables/Indicators	Mean	Description
Investment preference		
Post office	3.00	Medium
Gold /Silver	4.72	High
Mutual funds	2.33	Low
Bank fixed	4.97	Very High
Equity	1.84	Low
Real estate	4.33	Very High

From the above table it is observed that most of individuals are having less financial literacy in table 2, in table-3 reported difference Investment preference of people of Cuttack, which shows that most people still using traditional investment methods like inviting in Gold/silver, Real Estate, Bank fixed etc

Hypothesis testing

Table-4 Regression table of financial literacy and Investment preference

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.759 ^a	.576	.573	.32825	.576	160.389	1	118	.000

a. Predictors: (Constant), Sinancial literacy

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b. Dependent Variable: Investment preference

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.282	1	17.282	160.389	.000 ^a
	Residual	12.714	118	.108		
	Total	29.996	119			

a. Predictors: (Constant), Financial literacy

b. Dependent Variable: Investment preference

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.802	.353		5.106	.000
	Financial literacy	.716	.057	.759	12.664	.000

a. Dependent Variable: Investment preference

From the above analysis it has found that F-160.389 value is significant at 0.000 level and t-5.106 is significant 0.000 significance level. So there is a significance relationship between financial literacy and Investment preference. So H_{a1} is accepted and H₀₁ is rejected

Conclusion

Investment means putting your money to work for you. Essentially, it is different way to think about how to make money for that financial literacy play a vital role. Growing up, most of us taught that you can earn your income only by getting job & working. There are many different ways we can go about making an investment. This includes putting money into stocks, bonds, mutual funds, real estate & so on. Researchers have studied the different avenues of investments as well as the financial literacy of individual by selecting a sample size of 120 using a structured questionnaire in the Cuttack City, Odisha. The present study identifies that the financial literacy of people of Cuttack City is very low which have negative impact on their investment preference and still most of people using traditional mode of investments which clearly reflect on table:3. So the researcher conclude that based on analysis there is a significant relationship between financial literacy and investment preference.

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