

A STUDY OF FINANCIAL LITERACY IN PUNJAB

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ABSTRACT

Financial literacy helps people to make wise financial decisions and efficient financial management by enhancing their level of financial knowledge, skills, attitude, and behavior. It stimulates the process of financial inclusion by improving the access to formal financial products and services. The present study is focused on measuring the level of financial literacy among the respondents from Punjab. The study is based on the primary data of 110 respondents. The level of different components of financial literacy, viz. financial knowledge, financial attitude, and financial behaviour, is measured among the respondents. The study also analysed the urban-rural gap and gender gap in the level of financial literacy. The impact of the level of education on the level of financial literacy is also determined. The component wise results revealed that the financial knowledge aspect is weaker and the financial attitude is comparatively stronger among the respondents. The financial literacy scores among different genders and regions revealed that male respondents in comparison to females and urban respondents, in contrast to rural ones, scored a high level of financial literacy. The study finds that the level of education is also significantly impacting the level of financial literacy.

Keywords: Financial Literacy, Gender Gap, Urban-Rural Gap, Punjab.

Introduction

Financial inclusion is the leading policy interest of governments across the world. Financial inclusion is focused on widespread financial services, eliminating the barriers to access financial products and services and to build and maintain financial sustainability. The principal agenda of the Government of India is also to provide access to financial services to the masses at an appropriate time and at an affordable cost. A research study by Klapper, et al. (2016) scrutinized that greater access to financial services is proven to have a positive impact on attaining various sustainable development goals. The study identifies the direct and indirect role of financial inclusion in achieving the broader objectives of reducing inequalities, promoting gender equality, better health, quality education, reducing poverty, promoting innovation and infrastructure, etc. A wide variety of financial products and services are made available with the introduction of financial sector reforms. The financial market complexities make it imperative for an individual to be financially literate for a better portfolio management by choosing suitable financial products according to their needs. Financial literacy is the knowledge about various financial aspects such as budgeting, savings, investments, borrowings, interest rates, and financial assets along with the awareness regarding governmental financial schemes and policies, etc. Financial

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literacy is a major factor contributing to attaining the goal of financial inclusion. Financially literate people can better avail the advantages of available financial products, services, and government schemes focused on improving their livelihood and reducing financial instability. Financially literate individuals can make better financial decisions, are better able to bear the financial uncertainties and are less financially vulnerable.

The Organisation of Economic Cooperation and Development (OECD) describes financial literacy as "a combination of awareness, knowledge, skills, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being (Atkinson and Messy, 2011)".

Mandell (2007) defines financial literacy as "the ability to evaluate new and complex financial instruments and make informed judgments on both choice of instruments and the extent of use that would be in their own best long-run interests".

The objective of the financial inclusion drive is to reach the last mile individuals, including all the vulnerable and weaker sections of society, viz, rural areas, low-income groups, women, etc. Likewise, financial literacy should be widespread among those susceptible groups.

There are a number of factors that impact the level of financial literacy among individuals. Some of these factors include gender, education level, region, employment level, and household income level, etc. Studies find that the level of financial literacy is low among the people of India. Various financial literacy surveys were conducted by several institutes and organizations.

The All-India rural financial inclusion survey conducted by the National Bank for Agriculture and Rural Development (NABARD) in 2016-17 measured the financial literacy among the rural people of India. The findings revealed the all-India financial literacy score to be 11.3, whereas, in rural areas, the score was 10.7 out of the maximum 22 scores.

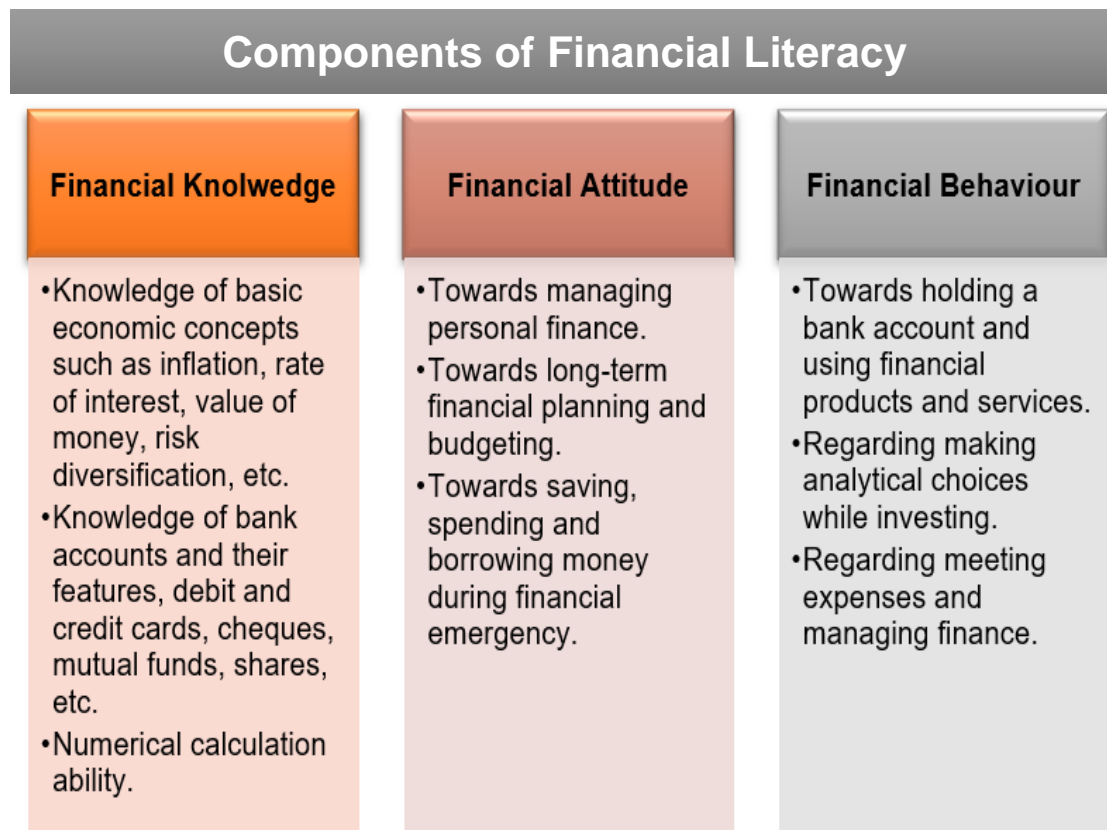
The pan India financial literacy and inclusion survey undertaken by the reserve bank of India in the year 2016-17, disclosed a very lower level of financial literacy in India with an average score of just 11.9 out of the total 21 scores.

The National Centre for Financial Education's Financial Literacy and Inclusion Survey (NCFE-FLIS), 2013-14 measured the status of financial literacy and inclusion across different segments of people in India. The survey reported that only 20% of the respondents were financially literate, which improved to 27% in its second survey report conducted in 2018-19. The level of the gender gap between these two time periods widens from 7% to 8%, despite an improvement in the financial literacy scores of both males and females. The rural financial literacy in 2013-14 was 15%, which improved to 24% in 2018-19. The NCFE-FLIS survey results of Punjab in 2013-14 found 13% of the respondents in Punjab to be financially literate, compared to the national average of 20%. A significant gender gap of 4% was also examined, along with an urban-rural gap of 7%.

Therefore, the studies reported lower level of financial literacy in India along with a significant rural-urban gap and gender gap. The level of financial literacy in Punjab is lower as compared to the national average. The present study is a primary data based study of measuring the comprehensive level of financial literacy in Punjab. The study is also focused on determining the gender gap and urban-rural gap in the level of financial literacy. The impact of education among the genders and regions is also analyzed.

Components of Financial Literacy

There are several components of financial literacy considered by various surveys and studies. Various components of financial literacy, as suggested by different research studies, are financial knowledge, financial behaviour, financial attitude, financial mathematical skills, financial confidence, financial capability, etc. (Hung, et al., 2009; Lusardi and Mitchell, 2013; Asaad, 2015; Priyadharshini, 2015; NCFE-FLIS, 2019; and Dewi, et al., 2020). The OECD has developed one of the most comprehensive and widely used methodology to define and measure the level of financial literacy. This methodology divides financial literacy into three major components, viz., financial knowledge, financial attitude, and financial behaviour (Atkinson and Messy, 2012). The present study is also based on the computation of the financial literacy index based on these three components. Figure 1 describes these components in detail.



Source: Self compiled.

Figure 1: Components of Financial Literacy

Literature Review

A number of studies have been conducted on defining and measuring the level of financial literacy among different social and economic groups, including age, gender, working class, region etc. A study of Thakur and Mago, (2018) revealed that the level of financial literacy among the respondents is significantly influenced by gender, occupation, education, and income level. Gender has a significant impact on the levels of financial knowledge and financial behaviour of the respondents. Weaker knowledge about finance discourages women from participating in financial decision-making processes. Jana, et al., (2017) attempted to study the level of financial literacy in the rural unorganized sector of Purba Medinipur district of West Bengal, revealed a lower level of financial literacy among its employees, with deteriorated work conditions for women. A study among the women of both urban and rural areas of Kamrup district of Assam revealed that residential area and the employment level significantly influence the level of financial literacy among women (Devi, 2016). The male respondents of rural Andhra Pradesh scored higher levels of financial literacy than their female counterparts, as revealed by Kumar (2016). Moreover, the absence of desired college education reflects negative financial behaviour among people, along with a lower ability to acquire financial knowledge (Agarwalla, et al., 2015). Male investors from Pakistan with higher financial knowledge and awareness regarding banking, finance, and investment fields (Arif, 2015). Women lagged behind men in the knowledge regarding investment alternatives, thus failing to make effective financial decisions (Jindal, 2020). Jadhav (2020) found that Indian rural respondents and females reflected a strong financial attitude, though, in the financial knowledge and behaviour categories, urban respondents and males secured a higher position. Mishra, et al. (2021) signifies that gender differences, educational attainment, and lack of trust in financial institutions hinder the process of both financial inclusion and financial literacy. Manchanda and Sukhija (2019) examined that education level, occupation, and marital status don't have a significant impact on the financial literacy of working women.

Objectives of the Study

- To assess the level of financial literacy among the respondents of Punjab.
- To measure the component-wise level of financial literacy.
- To find out the gender gap and urban-rural gap in the level of financial literacy among the respondents.
- To examine the impact of education on the financial literacy level of people.

Methodology

The present study is based on primary data collected from 110 respondents from Punjab. A comprehensive financial literacy index is prepared to examine the level of financial literacy among the respondents. A total of 32 questions were asked regarding different components of financial literacy, viz., financial knowledge, financial attitude, and financial behaviour with 16, 8, and 8 questions respectively. The index scores range from 0 to 32. The financial literacy scores were categorized into three categories of financial literacy, viz., low financial literacy (score 0-10), moderate financial literacy (score 11-21), and high financial literacy (score 22-32). Different statistical tools and tests, like simple average, percentage, and Chi-square tests were used for analyzing the data. Microsoft Word, Excel, and SPSS 25 software are used for the analysis of the data.

Results and Discussion

• Measurement of Financial Literacy

The level of financial literacy is measured for the respondents on the different components of financial literacy with the help of a financial literacy index.

• Component-wise Financial Literacy

A comprehensive financial literacy index is prepared for all three components of financial literacy. The level of financial literacy in each component is divided into three categories i.e. low, moderate, and high financial literacy for all these components as shown in Table 1.

Table 1: Component-wise Financial Literacy among Genders and Regions

Components of Financial Literacy		Number of Respondents						Total
		Males	Females	Gender Gap	Urban	Rural	Urban-Rural Gap	
Financial Knowledge (0 - 16)	Low (0 - 5)	6 (10.7)	16 (29.6)	10* (18.9)	11 (19.3)	11 (20.8)	- (1.5)	22 (20)
	Moderate (6 - 11)	24 (42.9)	29 (53.7)	5* (10.8)	27 (47.4)	26 (49.1)	1 (1.7)	53 (48.2)
	High (12 - 16)	28 (50)	9 (16.7)	19 (33.3)	19 (33.3)	16 (30.2)	3 (3.1)	35 (31.8)
Financial Attitude (0 - 8)	Low (0 - 3)	5 (8.9)	4 (7.4)	1 (1.5)	1 (1.8)	8 (15.1)	7* (13.3)	9 (8.2)
	Moderate (4 - 6)	32 (57.1)	42 (77.8)	10* (20.7)	39 (68.4)	35 (66.1)	4 (2.3)	74 (67.3)
	High (7 - 8)	19 (33.9)	8 (14.8)	11 (19.1)	17 (29.8)	10 (18.8)	7 (11)	27 (24.5)
Financial Behaviour (0 - 8)	Low (0 - 3)	5 (8.9)	8 (14.8)	3* (5.9)	7 (12.3)	6 (11.3)	1 (1.8)	13 (11.8)
	Moderate (4 - 6)	27 (48.2)	27 (50)	-* (1.8)	23 (40.4)	31 (58.5)	8* (18.1)	54 (49.1)
	High (7 - 8)	24 (42.8)	19 (35.2)	5 (7.6)	27 (47.4)	16 (30.2)	11 (17.2)	43 (39.1)
Total Respondents		56	54		57	53		110

Source: Primary data, 2021.

Note: The figures in the parenthesis represent the percentage of respondents.

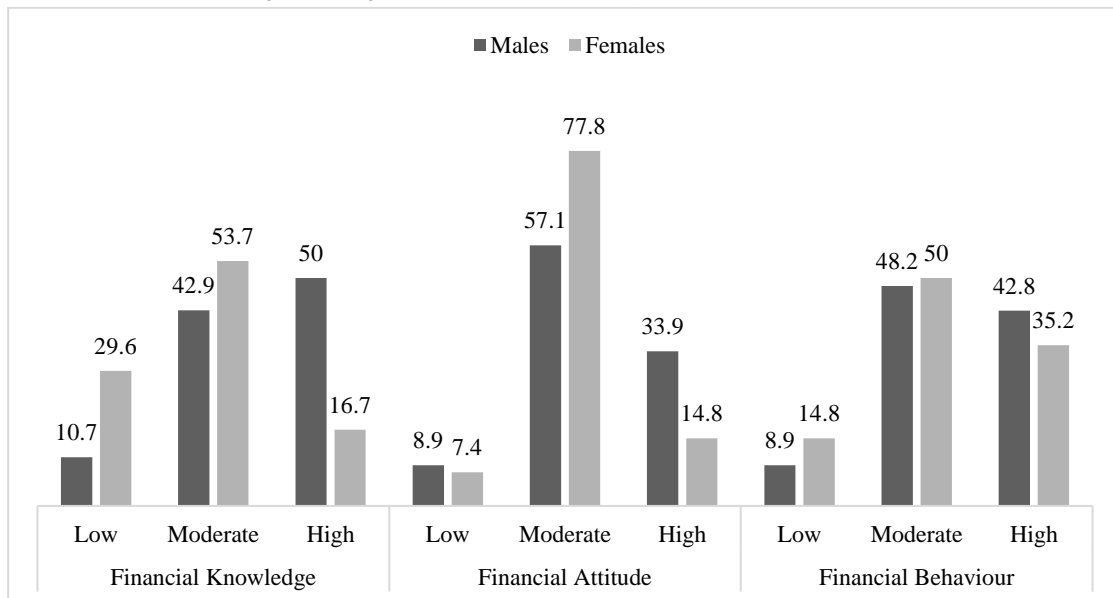
* represents more females in comparison to males.

Table 1 shows the scores of different components of financial literacy among both genders i.e. males and females and regions i.e. urban and rural respondents. The table reveals that the majority of the respondents are moderately financially literate in all the components of financial literacy. 20% of the respondents were found to have low financial knowledge, in comparison to 8.2% and 11.8% with low financial attitude and financial behaviour respectively.

Considering the gender aspect, in the financial knowledge component, the majority of males fall under the high financial knowledge category while the majority of females are under the moderate financial knowledge category. 50% of males have a higher level of financial knowledge, in comparison to 16.7% of the females in this category representing the highest gender gap of 33.3%. Considering the financial attitude component, both male and female respondents reflect a positive financial attitude. 77.8% of females fall under the moderate financial attitude category. The results of the third component of financial literacy i.e. financial behaviour reveals that the financial behaviour of male respondents is comparatively strong as compared to the female respondents. 42.8% of males are in the high financial behaviour category as compared to 35.2% of females in this category. The overall gender gap among the respondents was found to be maximum in the financial knowledge component and least in the financial behaviour component.

The regional gap in financial knowledge revealed that a major proportion of urban and rural respondents fall under the moderate financial knowledge category. 33.3% of the urban respondents, in comparison to 30.2% of the rural respondents, scored a higher financial knowledge level. The financial attitude component revealed that 1.8% of the urban respondents, in comparison to 15.1% of the rural respondents fall under the lower financial attitude category. Whereas, the moderate and high financial attitude categories include more urban respondents than rural respondents. The financial behaviour component is found to be comparatively stronger among the urban respondents, reflecting an urban-rural gap of 17.2% in the high financial behaviour category. Whereas, the majority of rural respondents secured a moderate level of financial behaviour. The overall urban-rural gap was found to be maximum in the financial behaviour component and least in the financial knowledge component.

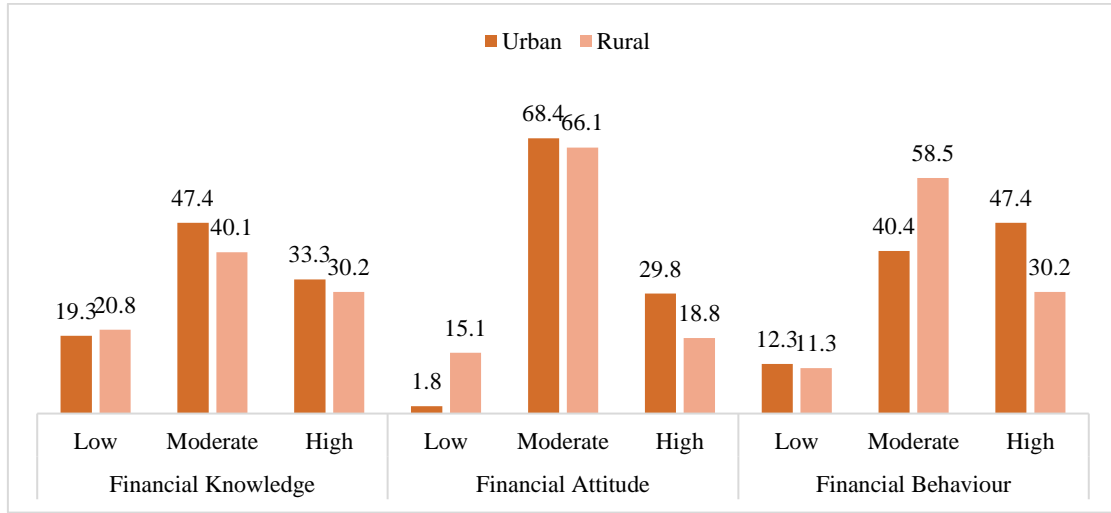
The overall results revealed that the financial knowledge component is weaker, while the financial attitude is stronger among the respondents of Punjab.



Source: Self-compiled using primary data.

Figure 2: Component-wise Financial Literacy among Genders

Figure 2 shows the component-wise financial literacy among genders. The graphical presentation of the data makes it apparent that females surpass males in the lower and moderate categories of each component of financial literacy, while the higher categories comprised of more males than females.



Source: Self-compiled using primary data.

Figure 3: Component-wise Financial Literacy among Regions

Figure 3 shows the component-wise financial literacy among regions. Higher categories of each component of financial literacy constitute a greater percentage of urban respondents than rural ones. Overall, the majority of the respondents fall under the moderate categories on different components of financial literacy. The financial behaviour component is comparatively stronger than other components of financial literacy.

• **Financial Literacy Index**

A composite financial literacy index has been prepared to calculate the level of financial literacy in Punjab. Table 2 depicts the calculation of the financial literacy level of the respondents with the help of the financial literacy index.

Table 2: Financial Literacy Index among Genders and Regions

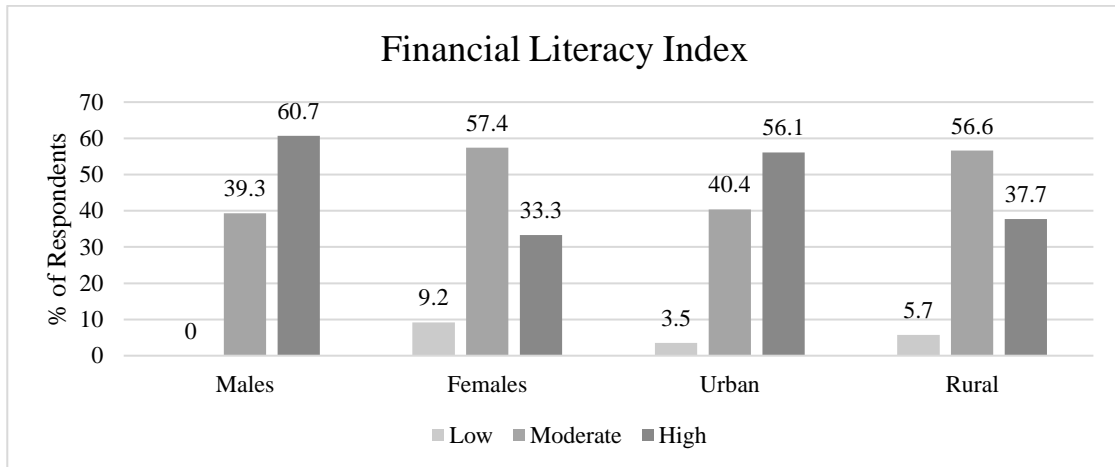
Financial Literacy Index		Number of Respondents						Total
		Males	Females	Gender Gap	Urban	Rural	Urban-Rural Gap	
Financial Literacy (0 - 32)	Low (0 - 10)	0	5 (9.2)	5* (9.2)	2 (3.5)	3 (5.7)	1* (2.2)	5
	Moderate (11 - 21)	22 (39.3)	31 (57.4)	9* (18.1)	23 (40.4)	30 (56.6)	7* (16.2)	53
	High (22 - 32)	34 (60.7)	18 (33.3)	16 (27.4)	32 (56.1)	20 (37.7)	12 (18.4)	52

Source: Primary data, 2021.

Note: The figures in the parenthesis represent the percentage of respondents.

* represents more females in comparison to males.

Table 2 depicts the level of financial literacy among different genders and regions, calculated by using the financial literacy index. The gender gap and the urban-rural gap in the level of financial literacy are also calculated. The table reveals that the majority of males fall under the higher financial literacy category, whereas the majority of females are in the moderate financial literacy category. 9.2% of females, in contrast to none of the male respondents, fall under the lower financial literacy category. Total males (60.7%) with high financial literacy were found twice as number of females (33.3%) in this category, reflecting a gender gap of 27.4%. A significant share of around 56.1% of respondents from urban areas, fall under a higher level of financial literacy, whereas, the majority of the rural respondents i.e. 56.6% are in the moderate financial literacy category. 37.7% of rural respondents are in the higher financial literacy category, in comparison to 56.1% of urban respondents, reflecting an urban-rural gap of 18.4%. Figure 4 is the graphical representation of the financial literacy index among genders and regions.



Source: Self-compiled using primary data.

Figure 4: Financial Literacy Index among Genders and Regions

Impact of Education on the Level of Financial Literacy among Genders and Regions

The study examined the impact of the level of general education on the level of average financial literacy scores among genders and regions. The average financial literacy scores were calculated for different levels of education.

Table 3: Average Financial Literacy Scores among Genders and Regions

Education Level	Average Financial Literacy Score		Gender Gap (Scores)	Chi-square value	Average Financial Literacy Score		Rural-Urban Gap (Scores)	Chi-square value
	Males	Females			Urban	Rural		
Up to Senior Secondary	17 (7.1)	14.7 (20.4)	2.3	12.38*	17.1 (12.3)	13.8 (15.1)	3.3	0.383
Graduation	19.5 (41.1)	18.7 (22.2)	0.8		19.3 (31.6)	19.1 (32.1)	0.2	
Post graduation	25.1 (51.8)	20.2 (57.4)	4.9		23.4 (56.1)	21.6 (52.8)	1.8	
Total Respondents	56	54			57	53		

Note: The figures in the parenthesis represent the percentage of respondents.

* Significant at 1% level of significance.

Table 3 shows the average financial literacy scores among the respondents of different genders and regions. The perusal of the table revealed that the increase in the level of general education improves the average financial literacy scores among both males and females. Similarly, the average financial literacy scores were positively impacted by the increase in the general education level among the urban and rural respondents. The table reveals that there is a gender gap of 2.3 scores among the respondents educated up to senior secondary level, which reduces to 0.8 among the graduate respondents. But the table highlights that at the higher education levels, the gender gap widens to 4.9. This is a matter of serious concern. Women, even after attaining a higher level of education, are lagging behind men in terms of average financial literacy scores. The table shows a higher urban-rural gap among the respondents with lower levels of education, which reduces with the attainment of higher education. The chi-square analysis revealed a significant gender gap in the level of financial literacy, at a 1% level of significance. The chi-square analysis unveiled an insignificant urban-rural gap in the average financial literacy scores.

Findings of the Study

- Financial literacy is the understanding of various financial aspects such as budgeting, saving, investing, and borrowing. It is the combination of knowledge, skills, attitude, and behaviour necessary to make sound financial decisions.

- The results of the present study revealed a moderate level of financial literacy among the respondents of Punjab.
- The component-wise financial literacy results found that the majority of the respondents of Punjab i.e. 48.2%, 67.3%, and 49.1% falls under the moderate categories of financial knowledge, financial attitude, and financial behaviour components respectively.
- The gender gap is present among the different components of financial literacy, with males in a better financial literacy position as compared to females. The maximum gender gap is in the financial knowledge component and the least gender gap is in the financial behaviour component.
- The maximum gender gap in financial literacy scores is found to be 33.3%, at the higher level of financial knowledge category.
- On the other hand, the urban-rural gap in the level of financial literacy scores is maximum in the moderate level of financial behaviour scores, i.e. 18.1%. There is least urban-rural gap present in the scores of financial knowledge.
- The overall financial literacy index revealed that large number of male respondents in comparison to females, and urban respondents in comparison to rural respondents fall under the higher financial literacy category. The maximum greater gender gap and urban-rural gap is found in the higher financial literacy category i.e. 27.4% and 18.4% respectively.
- The average financial literacy scores improve for all the respondents with the improved level of education. But the gender gap persists and even widens at higher levels of education. The chi-square analysis revealed a significant gender gap among the respondents at the 1% level of significance.
- The urban-rural gap is reduced with the attainment of higher levels of education. The Chi-square test reveals an insignificant urban-rural gap among the respondents of Punjab.
- The study concludes that financial literacy is very crucial for the financial well-being of an individual. Therefore, there is a need to improve the level of financial literacy among the people of Punjab. A special focus should be given to improve the financial literacy level of the women.

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