

Knowledge of personal finance and its impact on investor's

Decision- A study with special reference to Mumbai

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Personal financial management is increasingly important, and not just for investors. It is becoming essential for the average family trying to decide how to balance its budget, buy a home, fund the children's education and ensure an income when they retire. In the current financial crisis, people are uniquely impacted by household financial complexities. Moments of financial trouble are teachable opportunities to learn about personal finance and to improve their own money management skills. However, comprehensive strategies for educating them about personal finance have not yet emerged.

This research explores the state of people's financial education in India and its impact on their investment decisions. The study analyses the relationship between financial knowledge and other factors like age, gender and education. The research was carried out among 100 investors in Mumbai using a structured questionnaire. Data was analysed with the help of SPSS software. Research findings gave an insight into major areas focused on existing and potential issues related to personal financial management. The paper has major implications in identifying the key opportunities for Indian investors as well as policy makers in designing suitable programs for financial planning of investors.

Key Words: financial education, personal finance, financial planning, money management, financial trouble

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INTRODUCTION

Personal finance management is the process by which investors improve their understanding of financial markets, products, concepts and risks. Through information and objective advice, they develop the skills and confidence to become more aware of financial risks and opportunities and make informed choices to improve their financial position. Financial education primarily relates to personal finance, which enables individuals to take effective action to improve overall well-being and avoid distress in financial matters. Personal financial management goes beyond the provision of financial information and advice. It is the ability to know, monitor, and effectively use financial resources to enhance the well-being and economic security of oneself, one's family, and one's business.

In recent years, personal planning has gained the attention of central bank, banking companies, government agencies, grass-roots consumer, community interest groups, and other organizations. Interested groups, including policymakers, are concerned that consumers lack a working knowledge of financial concepts and do not have the tools they need to make decisions most advantageous to their economic well-being. Such financial awareness deficiencies can affect an individual's or family's day-to-day money management and ability to save for long-term goals such as buying a home, seeking higher education, or financing retirement. Ineffective money management can also result in behaviors that make consumers vulnerable to severe financial crisis. Given numerous factors that have led to a complex, specialized financial services marketplace that requires consumers to be actively engaged if they are to manage their finances effectively, personal financial planning has assumed greater significance

Financial planning means different things to different people, and this is reflected most clearly in the many definitions used in the literature. For some it is quite a broad concept, encompassing an understanding of economics and how household decisions are affected by economic conditions and circumstances. For others, it focuses quite narrowly on basic money management: budgeting, saving, investing and insuring

Financial planning is not just about the mechanics of checking bank accounts, or even budgeting for future savings. The definition can be expanded to include learning about selecting between a multiplicity of choices, setting personal financial goals, and reflecting on values about money

Personal financial management is becoming increasingly important, and not just for investors. It is becoming essential for the average family trying to decide how to balance its budget, buy a home, fund the children's education and ensure an income when they retire. Of course people have always been responsible for managing their own finances on a day to day basis – spend on a holiday or save for new furniture; how much to put aside for a child's education or to set them up in life – but recent developments have made financial awareness increasingly important for financial well-being. For one thing, the growing sophistication of financial markets means consumers are not just choosing between interest rates on two different bank loans or savings plans, but are rather being offered a variety of complex financial instruments for borrowing and saving, with a large range of options. At the same time, the responsibility and risk for financial decisions have a major impact on an individual's future life. As life expectancy is increasing, managing finances are particularly important as individuals will be enjoying longer periods of retirement.

The need for better informed and financially aware consumers has been prompted by the proliferation of complex financial products in the market, the growing number of people reaching retirement, the shift towards personal responsibility to fund retirement, and the advent of electronic and internet banking. Financial products are now increasingly difficult to assess for people unfamiliar with basic financial and economic concepts, and thus the performance of financial products is almost impossible to predict in an informed way. Education is therefore needed for people to become financially knowledgeable and informed.

Financial awareness results in *financial efficiency*. This refers to the use of financial products and investing without waste and *unnecessary cost*. Thus personal financial planning therefore gives consumers the ability to live more efficiently, without unnecessary cost and waste. Financial efficiency can include selecting the best value product on the market, and paying the lowest possible price on the market for a particular product or service.

OBJECTIVES

- To know the level of personal financial knowledge among working people of Mumbai
- To examine the impact of Age on investment preferences wrt. to various options.*
- To examine the impact of gender on investment preferences wrt. to various options.*

*GOLD, PPF, MUTUAL FUNDS, POST OFFICE DEPOSITS, DEBENTURES, EQUITY, LIC

HYPOTHESIS

H01: There is no impact of Age on investment preferences wrt. to various options.

H11: There is an impact of Age on investment preferences wrt. to various options.

H02: There is no impact of Gender on investment preferences wrt. to various options.

H12: There is an impact of Gender on investment preferences wrt. to various option

RESEARCH METHODOLOGY

The research is exploratory in nature as it is a new and a developing topic, particularly in India.. Data was be collected through survey method. The study collected primary data using questionnaire and in depth interview. Questionnaire developed was suitably divided to cover the demographic details, the level of financial education among people of Mumbai ,factors having an influence on financial knowledge.The population from which a sample was selected, consisted of common people in Mumbai and Navi Mumbai .

The secondary data was collected by extensive literature review, publications and press release of reserve bank, thorough study of the topic from previous studies, news papers, journals and the internet.

Data analysis was done by SPSS 16.

Literature review

Financial awareness has been studied in many countries from different aspects. Hussein A. Hassan Al –Tamimi and Al Anood Bin Kalli’s research study (2009) on Financial Literacy in UAE, finds that financial literacy of UAE investors is well below the needed level. It also analyses the relationship between the financial literacy and the influence of the factors that affect the investment decisions. The study found that a significant difference in the level of financial literacy was found between the respondents according to their gender. Women were found to have lower level of financial literacy then men.. Also, online traders had higher knowledge than others.

The Economic Survey 2009-10, says that poverty ratio in urban areas is 25.7 per cent which is only somewhat lower than the 28.3 per cent poverty ratio in rural areas. Today, there are many complex financial instruments available in the country and there is need to take serious initiatives (by regulators, public and private companies) to make more and more people financially literate so that there is no mis-selling in the market. This study analyses the financial literacy level of the people in Mumbai , India by asking basic questions regarding financial instruments and how it affects the investment decisions of the individuals. Chen and Volpe (1998) examined the financial literacy of 924 college students from 13 colleges in USA.Also; they investigated the relationship between the financial literacy level and gender, age, nationality, race, income, work experience, academic discipline and class rank.

The main findings of a survey of 1,003 Americans conducted by Princeton Survey Research Associates International (PSRAI) on behalf of the National Foundation for Credit Counseling, Inc. (NFCC) was that only a minority keep close track of expenses, More get financial education at home than school and less than half check their credit history. The purpose of the survey was to establish a benchmark survey that identifies what Americans know about their finances and how receptive they are to professional financial advice and education. When asked what kind of setting would suit them best when learning about financial issues, one third of the public prefer a traditional classroom or seminar setting while nearly as many favor a

one-on-one approach. There are a range of incentives that people say that would motivate them to learn more about financial issues, such as reduced insurance on a car or home, reduced mortgage points, a free savings or checking account, reduced interest on a credit card and reduced interest on a loan

This research by Brenda J. Cude, University of Georgia and Frances C. Lawrence, Louisiana State University assessed the financial management practices of college students using a set of recommended practices. One conclusion from the research is that some college students are not managing their finances well, because they have not adopted the set of recommended practices. Another conclusion is that some “recommended “practices should be modified to more accurately match ways in which college students responsibly manage their finances. For example, it is not necessarily a sign of poor financial management if an individual who banks online doesn’t balance his/her checkbook each month. The individual is unlikely to even have a checkbook; instead, the appropriate financial management practice may be to reconcile his/her online account as frequently as needed to avoid an overdraft. On the other hand, paying credit cards on time seems like a good measure of financial management behavior even if the payment is made online. Thus, future researchers should develop a scale of financial management responsibility that fits the financial management options available to college students. The findings from this research could be used to develop a “financial fitness quiz” that could be used as a risk assessment tool by college campuses as well as financial professionals and educators who work with young adults. The research further concludes that the influence of family members is important but complex. Most students reported hearing various messages about money from various family members. Common examples were, “Don’t spend money you don’t have” and various cautionary statements about credit. Most of the messages students shared related to controlling spending and avoiding or using credit wisely. Students prefer immediate feedback in financial management, including using electronic and online financial services accounts. Students were very interested in receiving financial management information through the university.

Data analysis

AGE

Age	No. of respondent	Percentage
22-28yrs	20	23.3%
28-40yrs	52	57%
40-60yrs	18	20%

Survey results showed that people between the age group 28-40 yrs are the people who are keen investors that is around 57% of sample size , only 23% of people in age of 22-28 yrs are investing and in age of 40-60 yrs only 20% of people says that they make investments. Thus it can be interpreted that young people are more inclined towards making investments

GENDER

GENDER	NO OF RESPONDENT	PERCENTAGE
MALE	48	53%
FEMALE	42	47%

Our survey says that around 53% of male are investing and around 47% of female invest. Women are thus less keen investor when compared to males

PROFESSION

PROFESSION	NO OF RESPONDENT	PERCENTAGE
GOVERNMENT EMPLOYEE	36	40%
PRIVATE	6	53.3%
SELF EMPLOYED	48	6.6%

Sample size comprised mainly of private and government employees while a few people were also self employed

Following are the income slab of the sample size .The majority of people (i.e 46%) earn between Rs. 2lakhs to Rs.5 lakhs per.

INCOME

INCOME	NO OF RESPONDENT	PERCENTAGE
LESS THEN 2L	24	27%
2L-5L	42	47%
5L AND ABOVE	24	27%

IMPACT OF AGE ON INVESTMENT OPTIONS

S.NO.	INVESTMENT OPTIONS	X ² Value
1	PPF	.004
2	GOLD	.000
3	BANKDEPOSITS	.087
4	POST OFFICE	.000
5	LIC	.000
6	MUTUAL FUNDS	.055
7	DEBENTURES	.001
8	EQUITY	.004

- As per the data analysis there is a significant difference in the investment preferences among different age groups with regard to the following investment options.
 - PPF
 - GOLD
 - POSTOFFICE
 - LIC
 - DEBENTURES
 - EQUITY

- With reference to the following investment options there is no significant difference in the investment preferences.
 - BANK DEPOSITS
 - MUTUAL FUNDS

RESULT: WE REJECT NULL HYPOTHESIS

IMPACT OF GENDER ON INVESTMENT OPTIONS

S.NO.	INVESTMENT OPTIONS	X ² Value
1	PPF	.362
2	GOLD	.000
3	BANKDEPOSITS	.000
4	POST OFFICE	.000

5	LIC	.001
6	MUTUAL FUNDS	.057
7	DEBENTURES	.010
8	EQUITY	.362

- As per the data analysis there is a significant difference in the investment preferences among different gender groups with regard to the following investment options.
 - **GOLD**
 - **BANK DEPOSITS**
 - **POSTOFFICE DEPOSITS**
 - **LIC**
 - **DEBENTURES**
- With reference to the following investment options there is no significant difference in the investment preferences.
 - **PPF**
 - **MUTUAL FUNDS**
 - **EQUITY**

RESULT: WE REJECT NULL HYPOTHESIS

FOLLOWING ARE THE OPTIONS WHERE THE INVESTORS PREFER TO INVEST

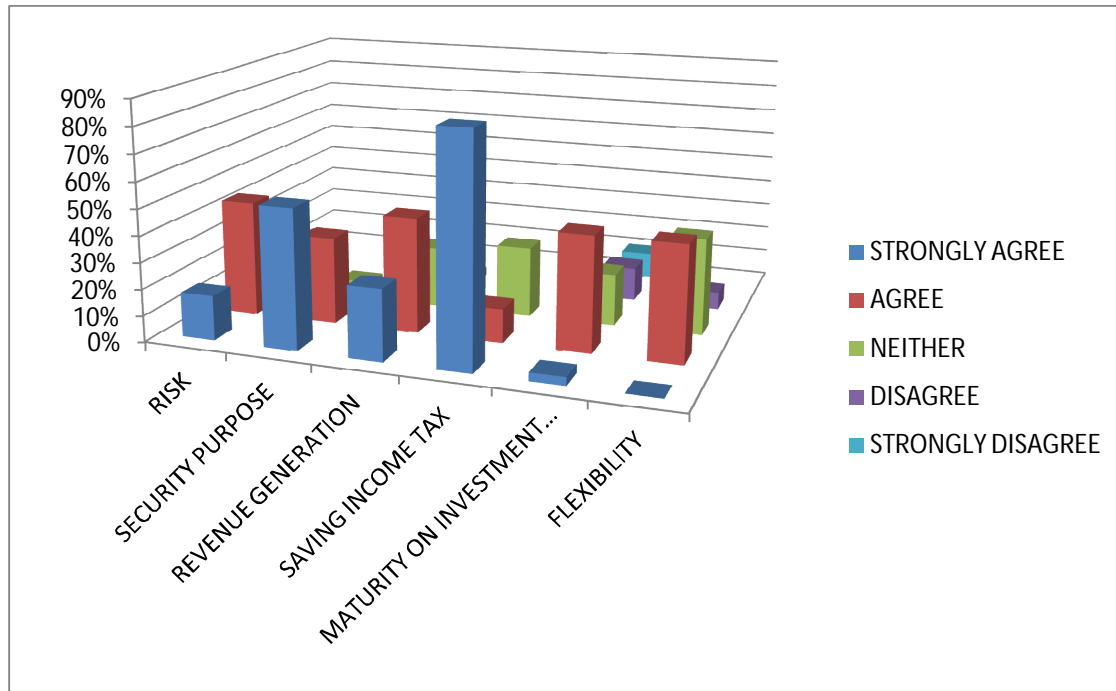
OPTIONS	No. OF RESPONDENT	PERCENTAGE
PPF&PF	36	40%
EQUITY	27	30%
DEBENTURES	9	10%
MUTUAL FUNDS	36	40%
LIC POLICY	78	86%
BANK DEPOSIT	54	60%
OTHER POST OFFICE DEPOSIT	51	57%
GOLD	72	80%

Form our survey it has been observed that around 86% of people prefer LIC policy followed by gold 80% ,bank deposit around 60% post office deposit ie.57% followed by PPF , mutual funds, equity ,and debentures .It can thus be interpreted that still people prefer to invest in traditional way. There are very less people who invest in equity, debentures and mutual funds.

FOLLOWING ARE THE MOTIVES BEHIND MAKING AN INVESTMENT

REASONS	STRONGLY AGREE	AGREE	NEITHER	DISAGREE	STRONGLY DISAGREE
RISK	17%	44%	20%	13%	
SECURITY PURPOSE	53.3%	33.3%	6.6%		
REVENUE GENERATION	27%	44%	23.3%	3.3%	
SAVING INCOME TAX	86%	13%	27%		
MATURITY SHOULD BE	3.3%	44%	20%	13%	10%

LOW FLEXIBILITY 3.3% 44% 37% 6.6%



According to the survey, people invested in Gold, LIC, Bank Deposit, Post Office Deposit, and PPF because they find these investments more secure with high returns and the maturity periods are also good. They find them very beneficial when it comes to saving their Income Tax. Equities are risky due to fluctuating rates and hence not many opt for this. On the other hand, Debentures are not very popular among this population.

CONCLUSION

Survey results gave insights into the low level of financial knowledge and lack of awareness among people. The major motive for investment was to save income tax and get an assured return on investment. People are not aware of the various investment options and were willing to invest only in traditional options like PPF, NSC, fixed deposits and post office deposits. Though a large number of people are increasingly investing in gold very few have invested in other areas such as Equities, bonds and mutual funds .There is a strong impact of age and gender on the investment preferences. Unless the common person becomes a wiser investor, wealth creation for the investor and the economy will remain a distant dream. We need to convert a country of savers into a nation of investors.

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