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EXAMINING THE ROLE OF FINANCIAL LITERACY IN SHAPING INVESTORS FINANCIAL PLANNING

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Abstract:

Purpose: *This main aim of current paper is to examine how financial literacy affects individual investors' financial planning. Also, to understand how investors' financial confidence and satisfactions are affected by financial knowledge.*

Methodology: *The study's primary data are gathered through a structured questionnaire with a sample size of 120 individual investors from Mumbai city through simple random sampling techniques. The study has adopted statistical tools like Cronbach's alpha for reliability test, paired sample t test, correlation and regression analysis are testing the hypotheses of the study.*

Findings: *The study evident that there is a significant relationship between financial literacy and financial planning of the investors. It was found that individual financial investment with better financial literacy will boost confidence which helps in proper balance of cost and savings of the individuals. Further, study revealed that better financial investment with good knowledge about various financial instrument will enhances satisfaction of investors.*

Research Implications: *The study focuses on role of financial literacy on financial planning among investors and influence of financial literacy on building confidence and satisfaction. The study aids in the decision-making process for future financial health policies and courses of action, This study is crucial for policy makers and other regulatory bodies who hold such responsibility of creating financial awareness and education which helps an individual to gain financial stability and freedom.*

Originality: *This research aims to provide a road map in understanding the role of financial literacy in shaping investors financial planning in converting saving in potential investment and to gain financial stability.*

Key words: *Financial planning, financial literacy, investors behavior*

Introduction:

Financial literacy is an integral component of individual and community economic well-being. It comprises a variety of skills and information that enable individuals to make healthy financial decisions throughout their life. Budgeting, saving, investing, and debt management are essential components that help people achieve short-term goals, secure their financial future, and deal with unanticipated obstacles. Understanding and navigating the complexity of credit and insurance, combined with an awareness of economic patterns, improves financial resilience.

Financial literacy also includes retirement planning, making sure people are prepared to live a safe and pleasant life after work. Beyond individual financial management, a financially knowledgeable populace promotes economic stability and growth for businesses and communities. Due to their recognition of financial literacy as a driver for both individual empowerment and communal prosperity, governments, educational institutions, and financial organizations play crucial roles in promoting financial literacy efforts. In the end, financial literacy gives people the power to take control of their financial lives and make a positive impact on a stronger economy. Promoting economic inclusion and minimizing inequalities can be effectively achieved through financial literacy. Financially literate people are better able to negotiate difficult situations, get over roadblocks, and take advantage of possibilities. This becomes more pertinent in an ever-evolving labor market where financial stability and adaptability are critical. In addition to individual advantages, a population that is financially literate as a whole promotes economic stability. A more robust financial ecosystem and responsible economic growth are fostered by informed customers making smarter decisions.

Review of Literature:

The field of financial literacy still faces a significant challenge in the form of a widely accepted financial literacy measure that has been created through thorough psychometric analyses, despite the quick rise in interest in and funding for financial literacy and financial education programs **(Marcolin & Abraham 2006, Schuchardt et al., 2008, Remund 2010, Huston 2010, Goswami and Dhawan 2017**). People who are not financially literate may find it difficult to make wise financial decisions. Financial advice may be used in place of financial knowledge and skills by those who struggle with making sound financial decisions **(Michael 2009)**. Further, the study with sample size of 3000 participants showed that Indians have very low financial knowledge compared to international standards. However, the employees' and retirees' financial attitudes and behaviors appear to be favorable. Women have slightly greater financial literacy than males do. Increased availability of consumption credits has affected young workers' financial habits **(Agarwalla Sobhesh Kumar 2012).** The people with the lowest financial risk tolerance are also the least knowledgeable about money matters, rate their own net worth the lowest, and are less satisfied with their ability to handle their finances. Individuals' financial behavior is determined by their level of risk tolerance **(Sages and Grable 2009).**

Furthermore, the demographic factors like Age and work experience are positively correlated with financial literacy, according to a study done on 250 UG and PG students. Additionally, respondents' financial literacy and mother's education are favorably connected. However, factors such as study level, place of employment, father's educational background, media access, and financial literacy source are unaffected **(Ansong and Gyensare 2012, Kumar & Aness 2013)**. However, studies showed that shown that the youth in metropolitan areas are well-versed in financial items. But this degree of understanding is lacking in rural regions. The majority of people are unaware of the financial options that are offered (**Trivedi 2014, Shetty and Thomas 2014**). With respect to financial literacy among the women, studies showed that women have less knowledge about financial instruments especially rural women as they had less assessed to financial services and most common form of investment is gold **(Arora 2016, Amrutha 2017).** Overall, the previous studies showed that level of financial literacy level in India is low. As a result, financial education needs to be expanded in both urban and rural areas, with a focus on the rural sector because of low household income and education levels **(Bhargava 2016, Naidu 2017).**

Research Gap:

Previous research in several states found that people have little knowledge of financial instruments, resulting in a low level of financial literacy across India. The RBI, financial institutions, governments, and regulators are making efforts to expand financial education, which will improve individuals' understanding of financial products. Previous studies focused primarily on the financial literacy of women and the young generation, but all types of investors play an important role in the financial market; thus, the purpose of this study is to assess the level of financial literacy and role of financial literacy on financial planning of investors and to gauge the level of awareness of investors ranging from basic to advanced financial literacy regarding financial instruments.

Need for the Study:

The need for financial literacy is notable due to complex financial products, low awareness, and ignorance of financial issues. Every person has a different level of financial literacy. When determining the degree of financial literacy, gender disparity is also a significant factor. A woman's individual life experiences frequently influence her financial decisions and relationships. In a woman's life, family, finances, and emotions are all interconnected. Low confidence and lack of understanding about financial matters stem from not having access to reliable information needed to make educated decisions. A person's life may be stimulated by stressful events such as a new job, a divorce or separation, or the death of a spouse. Most of the investors does financial planning before making any of kind of investment. Thus, the current study focuses on the influences of financial literacy on financial planning of the investors and their impact on financial confidence and financial satisfaction among the investors.

Objectives of the study:

1. To understand the concept of financial literacy, financial planning
2. To analyze the relationship between financial literacy with financial planning
3. To identify the impact of financial planning on financial confidence
4. To investigate the effect of financial confidence on financial satisfaction

Hypotheses of the study

H_0 - Financial literacy is not directly related to financial planning.

H_0 - Financial planning does not directly impact on financial confidence.

H_0 - Financial confidence is not directly affect on financial satisfaction.

Research design: Research design belongs to a descriptive study with behavioral factors of individual in financial planning. A sample of 120 respondents was taken into consideration in this present study. The respondents were chosen by using simple random sampling and the primary data collected through well structures questionnaire. The questionnaire consists of two parts such as demographic factors and other part related to statements which related to financial planning, financial knowledge, financial satisfaction. The data was analyzed through SPSS with simple statistics such as correlation regression analysis.

Analysis and Interpretation of data:

Table 1.0 Reliability analysis

Cronbach's Alpha	No of Items
0.920	20

(sources – primary data)

The above reliability analysis test was conducted to understand the feasibility of the study. This analysis shows the data value are 0.920 which shows the strength of the data and reliability.

Table 1.1 Demographic profile of respondents

Demographic profile	Categories	Frequencies
Gender	Male	78
	Female	42
Age	20 to 30 years	41
	31 to 40 years	39
	Above 40 years	40
Qualification	12th standard	20
	Graduation	78
	Post graduation	22
No. of dependents	1 to 3 persons	39
	4 to 6 persons	71
	More than 6 persons	10

(sources – primary data)

The above table shows that demographic profile of respondents of this study. The study collected data from 120 respondents with a demographic variable such as gender, age, qualification and number of dependents.

Table 1.2 Correlation Analysis

		Financial literacy	Financial planning
Financial literacy	Pearson Correlation	1	0.756
	Sig. (2-tailed)		0.000
	N		120
Financial planning	Pearson Correlation	0.756	1
	Sig. (2-tailed)	0.000	
	N	120	
**. Correlation is significant at the 0.01 level (2-tailed).			

(source- primary data)

The above table describes that there is a positive correlation between financial literacy and financial planning of an individual. The R value 0.756 and P value less than 0.005 which describes there is a significant relationship between financial literacy and financial planning of an individual.

1.3 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Financial literacy and financial planning	2.9091	1.45262	0.16554	2.5693	3.2487	17.562	119	0.000

(Source- primary data)

The above sample test table describes the T test between financial literacy and financial planning of an individual. T value 17.562 which is greater than 1.96 and p value is 0.000 which is less than 0.005. Therefore, financial literacy of an individual influence on financial planning. Hence reject the null hypothesis and accept alternative hypothesis.

1.4 Regression analysis between financial literacy and financial planning.

Independent variable		**Financial planning**	
	Std Beta	T	P
Financial literacy	0.730	9.252	0.000
Adjusted R^2	0.59		
F value	84.961		

(Source- primary data)

The regression analysis shows that the relationship between financial literacy and financial planning of an individual. The beta identified 0.730 which means 73% of the total variance in the financial planning explained by individual financial literacy. F value was 84.961 which is significant with P value 0.000. this result indicated that financial literacy has a strong influence on the individual financial planning.

1.5 Correlations

		Financial planning	**Financial confidence**
Financial planning	Pearson Correlation	1	0.690**
	Sig. (2-tailed)		0.000
	N	120	120
Financial confidence	Pearson Correlation	.590**	1
	Sig. (2-tailed)	0.000	
	N	120	120
**. Correlation is significant at the 0.01 level (2-tailed).			

(Source- primary data)

The above table identifies that there is a positive correlation between financial planning and financial confidence. The R value 0.690 and p value less than 0.005 which describes there is significant relationship between financial planning and financial confidence.

1.6 Paired Samples Test

		Paired Differences					**t**	**df**	**Sig. (2-tailed)**
		Mean	**Std. Deviation**	**Std. Error Mean**	**95% Confidence Interval of the Difference**				
					Lower	**Upper**			
Pair 1	FP and Financial conference	3.85897	2.66153	.30136	3.25889	4.45906	12.805	119	0.000

(sources- primary data)

The above table depicts that paired sample T test between financial planning and financial confidence. T value 12.805 which is greater than 1.96 and P value is less than 0.05. Therefore, financial planning influences on financial confidence of individuals.

1.7 Regression analysis between financial planning and financial confidence

Independent variable		Financial confidence	
	Std Beta	T	P
Financial planning	0.581	6.226	0.000
Adjusted R^2	0.338		
F value	38.666		

(Source- primary data)

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The regression coefficient analysis shows that the relationship between financial planning and financial confidence of individuals. The beta identified 0.581 which means 58% of the total variance in financial confidence explained by individual financial planning. F value shows 38.666 which is significant with P value 0.000. These results evidenced that there is strong influence of financial planning on financial confidence of individuals. Hence there is direct impact on financial confidence.

1.8 Correlation Analysis

		Financial confidence	Financial satisfaction
Financial confidence	Pearson Correlation	1	0.826
	Sig. (2-tailed)		0.000
	N		120
Financial satisfaction	Pearson Correlation	0.826	1
	Sig. (2-tailed)	0.000	
	N	120	
**. Correlation is significant at the 0.01 level (2-tailed).			

(source- primary data)

The above table describes that there is a positive correlation between financial confidence and financial satisfaction of an individual. The R value 0.826 and P value less than 0.005 which describes there is a significant relationship between financial confidence and financial satisfaction of an individual.

1.10 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Financial confidence and financial satisfaction	2.8091	1.4542	0.16554	2.5693	3.2487	17.468	119	0.000

(Source- primary data)

The above sample test table describes the T test between financial confidence and financial satisfaction of an individual. T value 17.468 which is greater than 1.96 and p value is 0.000 which is less than 0.005. Therefore, financial confidence of an individual influence on financial satisfaction. Hence reject the null hypothesis and accept alternative hypothesis.

1.11 Regression analysis between financial confidence and financial satisfaction.

Independent variable		**Financial satisfaction**	
	Std Beta	**T**	**P**
Financial confidence	0.721	9.252	0.000
Adjusted R^2	0.59		
F value	82.915		

(Source- primary data)

The regression analysis shows that the relationship between financial confidence and financial satisfaction of an individual. The beta identified 0.721 which means 72% of the total variance in the financial satisfaction explained by individual financial confidence. F value was 82.915 which is significant with P value 0.000. this result indicated that financial confidence has a strong influence on the individual financial satisfaction.

Findings:

1. The study found that there is significant relationship between financial literacy and financial planning of an individual literacy about avenues of investment leads to make future financial plans. Individuals can get information about financial investment plan and instruments through online or any institutions.
2. The study found that every individual financial investment confidence will be boost with the help of proper financial planning. If an individual planned their routine expenses and savings pattern which make more confidence in the minds of individual.
3. The present study found that individual confidence on financial investment in different sector and different instruments might be the first step of satisfaction in financial investment. If the individual understood the risk and return pattern of financial investment which impact on financial satisfaction.

Suggestions:

Improving financial literacy is a critical step toward economic empowerment and stability. Integrating comprehensive financial education into formal education systems is one effective strategy for ensuring that students gain core abilities in budgeting, saving, and investing at a young age. Furthermore, employing digital platforms and online resources can broaden the reach of financial literacy programs by providing consumers with accessible and engaging tools to improve their financial knowledge at their own speed. Employer-sponsored workplace-based programs can supplement financial education by addressing specific issues such as retirement planning and employee perks. Through workshops and seminars, collaborative initiatives with local communities deliver financial education directly to those who may not have easy access to standard educational resources. Governments and non-profit organizations sponsor public campaigns to increase awareness about the significance of financial literacy and to direct individuals to credible educational materials. By integrating these many tactics, society can create a more financially literate people capable of making informed decisions and confidently navigating the complexity of personal finance. Further, Media people must give much importance to terms and conditions of investment advertisement clearly and aims in educating the public.

Conclusion and scope for further research

Financial satisfaction always significantly depends on the financial literacy and proper financial planning of individual. The individual’s financial goals will be achieved through proper financial with proper financial instruments with low risk and constant return. The study found that financial literacy and financial confidence has significant impact on individual financial satisfaction. the study can conclude that there is lack of financial literacy and it has become significant important for the social and economic well-being. The financial literacy will have positive impact on financial planning, financial confidence, and financial satisfaction.

The findings indicate that financial literacy can only be acquired over time by experience or exposure, thus the government should encourage measures to improve understanding through digital India and other tools at its disposal. More campaigns are needed, as well as financial education weeks. Financial literacy programs must be implemented successfully for a healthy growth in retail investment through financial literacy campaigns among investors. This study should serve as a wake-up call to anyone who believes they can invest based on instincts and thrive. The further study can focus on comparative analysis of financial literacy awareness among urban and rural areas and to know financial planning of the investors before investing on various financial instruments in order to convert their saving into potential investment for shaping their future.

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