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FACTORS AFFECTING FINANCIAL LITERACY: A STUDY AMONG RESIDENTS OF TRICITY

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Abstract

Financial literacy has emerged as a critical determinant of individual financial well-being, particularly in an era marked by expanding digital finance, increasing product complexity, and rising susceptibility to financial risks and frauds. Understanding the factors that shape financial literacy is essential for designing effective educational programmes and fostering inclusive financial development. This study examines the key predictors of financial literacy among residents of the Tricity region (Chandigarh, Panchkula, and Mohali). Drawing upon an extensive literature review, seven dimensions—financial knowledge, financial awareness, financial experience, financial skills, financial capability, financial goals, and financial decisions—were identified as potential determinants. A stepwise multiple linear regression analysis was conducted separately for male residents, female residents, and the overall sample to assess the individual and collective significance of these variables. The findings reveal distinct gender-based variations in the factors influencing financial literacy.

Keywords : Financial Literacy, Financial Awareness, Financial Skills

INTRODUCTION

Financial literacy in general terms means individual’s ability to manage his financial assets. Some studies classify financial literacy into four categories i.e. ability to plan finances for future, financial decision making skills, understanding of financial concepts and the capability to manage personal finances. The OECD defines financial literacy as “A combination of awareness, acquaintance, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being.”

A person makes wrong decisions if he lacks financial literacy and he will not be able to deal with sudden economic shocks. With the introduction of digital finance and lack of trust in financial institutions, the investors now look for more information before deciding about the financial products. Financial literacy is also very important to avoid frauds and it is the pillar to achieve financial freedom.

The enhancement of financial literacy of a person through various educational programmes will create the demand for new financial products. This demand for new products with different risk features will contribute to the development of financial sector. In order to develop these training programmes it is very much essential to know the factors which contribute to the financial literacy. The aim of this research paper is to determine the factors affecting financial literacy.

LITERATURE REVIEW

Financial literacy has been studied over the years using different factors. This concept has evolved during past many years. Huston (2010); Hilgert et al. (2003) has used financial literacy in terms of financial knowledge. The financial knowledge is of two types i.e. subjective financial knowledge and objective financial knowledge. Allgood and Walstad, 2013; Babiarz and Robb, 2014; Khan et al., 2017; Mishra and Kumar, 2011 has used subjective financial knowledge for financial literacy while Lusardi et al., 2010; Lusardi and Mitchell, 2014 has used objective financial knowledge as the main factor for financial literacy.

Other studies stress upon financial awareness as the main variable to strengthen the financial literacy. Khan, 2015; Mason and Wilson, 2000; Priyadharshini, 2017 has concluded that financial awareness influences the financial decisions hence it is the main factor for financial literacy. Financial awareness include both general awareness and product awareness.

Another variable used in the studies for financial literacy is financial experience. Hogarth and Hilgert (2002) ; Moore (2003) ; Frijns et al. (2014) have found positive relationship between financial experience and financial literacy. Various other studies like Hung et al. (2009); Lusardi and Mitchell (2013); Xiao et al. (2014) has concluded that financial skill is another aspect of financial literacy. Financial capability has recently been introduced within the financial literacy concept. Kempson et al. (2006) ; Lusardi (2011); (Priyadharshini, 2017) introduced the concept of financial capability as a variable for financial literacy.

Financial goals are also very important to measure the financial literacy of a person. If the financial goals are set keeping future in mind and the investments are made in right amount and at right time, it shows the person is financially literate. This variable as a predictor of financial literacy has been used in various studies like Hogarth et al. (2002); Robb and Woodyard (2011); Woodyard (2013); and Priyadharshini (2017). Another variable used in literature is financial decisions. If the financial decisions of a person are strong and wise, it means he is financially literate. Lack of financial literacy can lead to poor financial decision making. Hogarth (2002); Klapper et al. (2011); Khan (2015); Grohmann (2018) has pointed out that higher financial literacy leads to good financial decisions.

Based on the literature review the following factors and sub factors for financial literacy has been developed which later has been used in the quenstionnaire.

Financial Knowledge	Knowledge of risk and return
	Knowledge of economic and financial issues
	Knowledge of financial markets and products
	Knowledge of risk diversification
Financial Awareness	Evaluating the spending regularly
	Discussing the financial issues
	Gathering information about financial issues
	Comparing the financial products before investing
Financial Experience	Experience in managing personal assets
	Experience of investing in stock market

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	Experience of investing in NBFCs
	Experience of handling emergency financial situations
Financial Skills	Evaluate financial statements on regular basis
	Managing risk through purchasing insurance
	Evaluating debts on regular basis
	Investing in different products for diversification
	Making appropriate investments
Financial Capability	Paying bills on time
	Keeping money in cash for future uncertainty
	Buying things when they need to be bought
	Gathering information before deciding to buy
	Tracking the investments and taking appropriate decisions
Financial Goals	Making plans how to use money
	Planning for long term goals like retirement
	Paying off the debt early
	Building an emergency fund
Financial Decisions	Do not make decisions without planning
	Random persuasion from someone does not affect my investment
	Do not invest without considering pros and cons
	Do not invest impulse

OBJECTIVES OF STUDY

1. To study the significance of variables impacting Financial Literacy among male residents in tricity.
2. To study the significance of variables impacting Financial Literacy among female residents in tricity.
3. To study the significance of variables impacting Financial Literacy among all residents in tricity.

RESEARCH METHODOLOGY

Data and Sample

The study covers a sample of 300 residents of Tricity (Chandigarh, Panchkula and Mohali), which include 168 male and 132 female respondents. The data was collected with the help of a well designed questionnaire based on the financial literacy factors derived from the review of literature. The respondents were asked to give their opinion on a 5 point scale ranging from 1(strongly disagree) to 5(strongly agree). Individual and collective significance of different factors in explaining financial literacy has been tested in this study. A stepwise multiple linear regression has been applied to test the significance of variables among males, females and all residents. Financial literacy is dependent variable for this study and various factors have been identified as independent variables or predictors of financial literacy.

Stepwise multiple linear regression equation can be expressed as below.

$$\mathbf{Y = \alpha + X_1\beta_1 + X_2\beta_2 + X_3\beta_3 + X_4\beta_4 + X_5\beta_5 + X_6\beta_6 + X_7\beta_7 + e}$$

Where

Y = Financial Literacy		
α = Intercept (Constant)		
X1= Financial Knowledge	β1 =	Impact of Financial Knowledge
X2 = Financial Awareness	β2 =	Impact of Financial Awareness
X3 = Financial Experience	β3 =	Impact of Financial Experience
X4 = Financial Skills	β4 =	Impact of Financial Skills
X5 = Financial Capability	β5 =	Impact of Financial Capability
X6 = Financial Goals	β6 =	Impact of Financial Goals
X7 = Financial Decisions	β7 =	Impact of Financial Decisions

DATA ANALYSIS AND INTERPRETATION

a. Regression analysis of variables impacting financial literacy among male residents in tricity.

A stepwise linear regression analysis was performed in this part of the study to test the predicting power of different variables of financial literacy for male residents of the tricity. The data of 168 male residents has been covered in this analysis.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.689[a]	.429	.422	.533
2	.720[b]	.466	.459	.524
3	.731[c]	.490	.488	.519
4	.739[d]	.496	.490	.514
5	.745[e]	.500	.493	.511

a) Predictors: (Constant), Financial Skills
b) Predictors: (Constant), Financial Skills, Financial Knowledge
c) Predictors: (Constant), Financial Skills, Financial Knowledge, Financial Goals
d) Predictors: (Constant), Financial Skills, Financial Knowledge, Financial Goals, Financial Experience
e) Predictors: (Constant), Financial Skills, Financial Knowledge, Financial Goals, Financial Experience, Financial Capability

As per the model summary shown in Table 1, five models in total have been developed. The value of R-square has been shown in descending order for five models. R-square value shows the strength of each model in form of variation explained. Model-1 with R-square of 42.9% explained variation is at top. It is because of the changes in independent variable (financial skills). This shows that the independent variable financial skills is the major factor affecting the financial literacy in male residents.

Thereafter, models have added one independent variable each time and increased the explained variation. Most prominent predictor has been found to be Financial Skills. Second prominent predictor has been Financial Knowledge. These two have been followed by three more predictors named Financial Goals, Financial Experience, Financial Capability.

Table 2: Coefficients

Model		Unstd. Coefficients		Std. Coefficients	T	Sig.
		B	Std. Error	Beta		
1	**(Constant)**	.836	.085		9.011	.000
	Financial Skills	.634	.041	.607	12.554	.000
2	**(Constant)**	.883	.106		5.063	.000
	Financial Skills Financial	.590	.040	.511	10.264	.000
	Knowledge	.212	.057	.211	4.416	.000
3	**(Constant)**	.911	.145		6.313	.000
	Financial Skills Financial	.534	.038	.501	9.883	.000
	Knowledge Financial	.202	.048	.205	4.396	.000
	Goals	.132	.042	.157	3.856	.000
4	**(Constant)**	1.124	.166		5.934	.000
	Financial Skills Financial	.512	.034	.498	9.747	.000
	Knowledge Financial	.212	.042	.201	4.175	.000
	Goals	.112	.040	.150	3.535	.000
	Financial Experience	.134	.043	.128	2.634	.006
5	**(Constant)**	1.312	.182		6.864	.000
	Financial Skills	.498	.031	.457	9.223	.000
	Financial Knowledge	.189	.050	.189	3.753	.000
	Financial Goals	.102	.041	.134	2.825	.015
	Financial Experience	.123	.042	.121	2.647	.006
	Financial Capability	.111	.053	.111	2.144	.019

To assess the contribution of predictors identified in the above models in explaining variation in financial literacy coefficient values in the five models have been presented in Table 2. From these coefficients we can develop five regression equations which can be framed with the help of these models are as below.

Model 1: Y = .836 + .634 (X4) + e

Model 2: Y = .883 + .590 (X4) + .212 (X1) + e

Model 3: Y = .911 + .534 (X4) + .202 (X1) + .132 (X6) + e

Model 4: Y = 1.124 + .512 (X4) + .212 (X1) + .112 (X6) + .134 (X3) + e

Model 5: Y = 1.312 + .498 (X4) + .189 (X1) + .102 (X6) + .123 (X3) + .111 (X5) + e

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b. Regression analysis of variables impacting financial literacy among female residents in tricity

In order to find out the predicting power of different variables of financial literacy for female residents of tricity, a stepwise linear regression analysis was performed in this section of the study. The data of 132 female residents has been covered in this analysis.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.687[a]	.454	.445	.545
2	.710[b]	.484	.471	.532
3	.723[c]	.504	.499	.521
4	.729[d]	.513	.509	.514

a) Predictors: (Constant), Financial Knowledge
b) Predictors: (Constant), Financial Knowledge, Financial Experience
c) Predictors: (Constant), Financial Knowledge, Financial Experience, Financial Skills
d) Predictors: (Constant), Financial Knowledge, Financial Experience, Financial Skills, Financial Decisions

As per the model summary shown in Table 3, four models in total have been developed. The value of R-square has been shown in descending order for five models. R-square value shows the strength of each model in form of variation explained. Model-1 with R-square of 45.4% explained variation is at top. It is because of the changes in independent variable (financial knowledge). This shows that the independent variable financial knowlege is the major factor affecting the financial literacy for female residents.

Thereafter, models have added one independent variable each time and increased the explained variation. Most prominent predictor has been found to be Financial Knowledge. Second prominent predictor has been Financial experience. These two have been followed by two more predictors named Financial skills and Financial decisions.

To assess the contribution of predictors identified in the above models in explaining variation in financial literacy coefficient values in the four models have been presented in table 4.

Table 4: Coefficients

Model		Unstd. Coefficients		Std. Coefficients	T	Sig.
		B	Std. Error	Beta		
1	**(Constant)**	.782	.078		8.986	.000
	Financial Knowledge	.593	.038	.578	11.844	.000
2	**(Constant)**	.832	.098		5.061	.000
	Financial Knowledge	.564	.031	.534	10.554	.000
	Financial Experience	.211	.050	.243	4.626	.000

3	**(Constant)**	.945	.114		6.213	.000
	Financial Knowledge	.521	.026	.526	9.823	.000
	Financial Experience	.162	.043	.232	4.562	.000
	Financial Skills	.125	.041	.187	3.956	.003
4	**(Constant)**	1.234	.134		6.834	.000
	Financial Knowledge	.498	.021	.511	9.243	.000
	Financial Experience	.154	.034	.225	4.512	.000
	Financial Skills	.120	.039	.163	3.235	.003
	Financial Decisions	.106	.041	.127	2.831	.006

From these coefficients we can develop four regression equations which can be framed with the help of these models are as below.

Model 1: Y = .782 + .593 (X1) + e

Model 2: Y = .832 + .564 (X1) + .211 (X3) + e

Model 3: Y = .945 + .521 (X1) + .162 (X3) + .125 (X4) + e

Model 4: Y = 1.234 + .498 (X1) + .154 (X3) + .120 (X4) + .106 (X7) + e

c. **Regression analysis of variables impacting financial literacy among all residents in tricity**

One more stepwise linear regression analysis has been performed to study the predicting power of different variables of financial literacy for all the respondents of tricity. The data of total 300 residents has been covered in this analysis.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712[a]	.478	.467	.534
2	.727[b]	.499	.488	.521
3	.734[c]	.515	.501	.512
4	.741[d]	.524	.509	.501

a) Predictors: (Constant), Financial Skills
b) Predictors: (Constant), Financial Skills, Financial Knowledge
c) Predictors: (Constant), Financial Skills, Financial Knowledge, Financial Experience
d) Predictors: (Constant), Financial Skills, Financial Knowledge, Financial Experience, Financial Goals

As per the model summary shown in Table 5, four models in total have been developed. The value of R-square has been shown in descending order for four models. R-square value shows the strength of each model in form of variation explained. Model-1 with R-square of 47.8% explained variation is at top. It is because of the changes in independent variable (financial skills). This shows that the independent variable financial skills is the major factor affecting

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the financial literacy if all the residents taken together.

Thereafter, models have added one independent variable each time and increased the explained variation. Most prominent predictor has been found to be financial skill. Second prominent predictor has been Financial knowledge. These two have been followed by two more predictors named Financial experience and Financial goals.

To assess the contribution of predictors identified in the above models in explaining variation in financial literacy coefficient values in the four models have been presented in table 6.

Table 6: Coefficients

Model		Unstd. Coefficients		Std. Coefficients	T	Sig.
		B	Std. Error	Beta		
1	**(Constant)** Financial Skills	.852 .587	.081 .041	 .589	9.018 11.574	.000 .000
2	**(Constant)** Financial Skills Financial Knowledge	.832 .556 .223	.106 .036 .051	 .543 .243	5.032 10.314 5.336	.000 .000 .000
3	**(Constant)** Financial Skills Financial Knowledge Financial Experience	.901 .526 .218 .143	.134 .032 .039 .042	 .511 .223 .176	6.153 10.283 4.996 3.856	.000 .000 .000 .001
4	**(Constant)** Financial Skills Financial Knowledge Financial Experience Financial Goals	1.012 .512 .202 .134 .127	.145 .023 .023 .039 .031	 .502 .218 .156 .134	6.656 9.954 4.275 3.135 2.834	.000 .000 .000 .008 .003

From these coefficients we can develop four regression equations which can be framed with the help of these models are as below.

Model 1: Y = .852 + .587 (X4) + e

Model 2: Y = .832 + .556 (X4) + .223 (X1) + e

Model 3: Y = .901 + .526 (X4) + .218 (X1) + .143 (X3) + e

Model 4: Y = 1.012 + .512 (X4) + .202 (X1) + .134 (X3) + .127 (X6) + e

CONCLUSION AND SUGGESTIONS

The results of the study are summarized in the following table.

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Table 7: Findings

	Prominent Predictors of Financial Literacy in Descending Order					
	Male Residents		**Female Residents**		**Overall**	
Financial Literacy	1.	Financial Skills	1.	Financial Knowledge	1.	Financial Skills
	2.	Financial Knowledge	2.	Financial Experience	2.	Financial Knowledge
	3.	Financial Goals	3.	Financial Skills	3.	Financial Experience
	4.	Financial Experience	4.	Financial Decisions	4.	Financial Goals
	5.	Financial Capability				

The table shows different variables which are statistically significant in descending order in all the three cases i.e. in case of male residents, female residents and overall (all residents). The prominent variables affecting financial literacy among male residents are Financial skills, financial knowledge, financial goals, financial experience and financial capability. for female residents the prominent predictors of financial literacy are financial knowledge, financial experience, financial skills and financial decisions. If all the residents taken together the main predictors are financial skills, financial knowledge, financial experience and financial goals.

Among all the predictors across male, female and overall three predictors i.e. financial skills, financial knowledge and financial experience are the most important variables which are in regression equations of all the categories. So emphasis should be on these three predictors while deciding about financial literacy.

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