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EFFECT OF FINANCIAL LITERACY ON FINANCIAL PREPAREDNESS

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Abstract
Financially informed individuals are able to make informed decisions on financial matters and are able to choose financial products wisely. Although some households invest effectively, others take financial preparedness decisions that are not in accordance with standard financial theory, make financial investment mistakes (Campbell, 2006; Calvetet al., 2007), namely in what concerns the under-diversification, inertia in risk taking and the disposition effect in direct stockholding (Calvetet al., 2009a). The purpose of this paper is to analyse the effect of financial literacy and other socio economic factors on financial preparedness. The sample size for this study was 123 salaried Men & Women, out of which 116 returned the questionnaire of which 12 were incomplete and cannot be used further. So the total respondents is rounded to 100. For checking the reliability, Cronbach's alpha was used. Data was analysed using descriptive statistics, coefficient, regression analysis etc...It was found out that 70.3% of the financial preparedness can be attributed to the combination of all the factor variables used in this study [Gender, Age, Education, Income, Financial Literacy, Savings, and Risk Tolerance] and 29.7 % is attributed to other factors which is not used for this study.
Keywords: Financial Literacy, Financial preparedness, Financial Products, Risk tolerance.

Introduction
In the past few years, lot of changes are happening in the financial landscape and these are considerably complex with the introduction of financial products. The companies are trying to segment the markets because of which consumers have abundant choice. Most of them are unable to understand the risk and return associated with these products which calls for financial literacy. Only a financially literate consumer can choose the best suited products for meeting their needs otherwise they will be cheated by sales people. According to findings of Clark and Schieber (1998) people with less financial education have more saving habits (Gustman and Steinmeier, 1999).Financial illiteracy is very high among specific age, gender, income and qualification (Lusardi and Mitchell, 2007b; 2008) Evidence of less education and less financial sophistication is also shown in less age respondents. Financial illiteracy has important consequences; those who lack literacy will not be able to makeplan for retirement (Lusardi and Mitchell, 2006; 2007a; 2007c), will have less wealth near to retirement thus will be having less ability to invest in stocks (VaanRooij, et al., 2007; Kimball and Shumway, 2006; Yoong, 2007), and will borrow at high interest rate (Lusardi and Tufano, 2009) (MustabsarAwais, M. Fahad Laber, Nilofer Rasheed, Aisha Khursheed (2016).

Literature Review
The Organization for Economic Cooperation and Development (OECD) has defined financial literacy as "a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual well being". Different studies have exposed the importance of financial literacy for household's wellbeing and ultimately economic stability. Financial preparedness implies planning on how to gain control of future financial requirements. Kapoor, Dlabay and Hughes (1994) noted that planning for retirement in advance can help in gaining a sense of control over ones future.One simple and direct way to examine whether individuals look ahead and make plans

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for the future is to study the extent of retirement planning and how prepared they are (Lusardi 2007). Even though economic explanations for these shortfalls include dispersion in discount rates, risk aversion, and credit constraints, the empirical literature has however not been able to account for much of the observed wealth differentials (Bernheim, Skinner & Weinberg, 2001).

The trends indicated in work patterns, demography and service delivery propose the importance in the years at the forefront. Enhancements of financial literacy can not only sustain social inclusion but also enhance the contribution to the economy as a whole. Financial illiteracy leads to financial exclusion, financial exploitation and financial discrimination.Pratima Trivedi and Saumya Trivedi (2014) have stated that the status of financial literacy is not satisfactory in India. Especially in rural areas, people are not aware of financial products and services. In rural areas, people keep their savings in their homes which fetches them no interest and are risky also on account of theft.Individuals behave in a different way while investing, since financial preparedness behaviour of an individual is influenced byhow far an individual is willing to take risk and what are his anticipations in of returns spawned from the invetsment. (PuneetBhushan and YajuluMedury, 2013). Financial illiteracy is very high among specific age, gender, income and qualification (Lusardi and Mitchell, 2007b; 2008) Evidence of less education and less financial sophistication is also shown in less age respondents. Financial illiteracy has important consequences; those who lack literacy will not be able to makeplan for retirement (Lusardi and Mitchell, 2006; 2007a; 2007c), will have less wealth near to retirement thus will be having less ability to invest in stocks (VaanRooij, et al., 2007; Kimball and Shumway, 2006; Yoong, 2007), and will borrow at high interest rate (Lusardi and Tufano, 2009).Every individual want to invest money in order to get return and for productive use of money. (Parihar B.B.S. and K.K.Sharma, 2012).Sood and Medury (2012) have studied the association between demographic variables and investment preference. Their study reveals that, males prefer mutual funds and life insurance product for making investment whereas females prefer recurring deposits and market invetsment. And the result of the study shows that, invetsment preferences are not affected by age, gender, income, marital status and employment status. (Grable and Lytton, 1998) suggest that in a financial planning perspective, tolerance related to financial risk has a critical part in directing individuals toward a psychologically satisfactory and suitable invetsment. Xiao and Anderson (1997) predict a significant relationship between one demographic element like age and risk tolerance and base their description on the assumption that, other things being equal, age is a proxy for wealth.

Quite a lot of studies have been completed to address statementassociated to retirement preparedness.Recognizing that Kenya has old age dependency estimated at 56%, Githui and Ngare (2014) carried a study focusing on measuring the impact of financial literacy on retirement planning in the informal sector in Kenya.The study modelled with six hypothesis conceptualizes that gender, age, marital status, education, occupation, income, number of children and financial literarcy influence retirement planning. Pearson’s Chi-square tests were used in the study which established that all variables except gender are significantly associated with retirement planning. Given that financial literacy is one of the variables associated with retirement planning, the study recommends development of a curriculum on financial education and pension education in middle level and higher learning institutions as well as community pension awareness programs such as road shows and advertisements.

The study noted that income greatly affects retirement planning with low income earners feeling that they do not have sufficient income to save. Though the paper introduces other control variables in form of demographic factors on the relationship between financial literacy and retirement planning,the finding was however limited by the fact that statistical techniques was not robust enough to show the direction

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of the relationship besides the fact that the population from whom the sample was drawn was not relevant since self employed people do not retire, one important question that remains unaddressed is whether informal sector participants really retire. Though SME employees may retire, business owners that are included in the sample do not retire (Mourine A. Agunga 2013)

Need of The Study

Good financial preparedness will lead to creation of wealth. Financial problems are the basis for many issues especially in state like Kerala and city like Kochi where people tend to spend more save less and thus invest less. Financial illiteracy may lead to wrong evaluation of financial preparedness opportunities. Demographic variables also influences the way the people save and invest. To know the factors which influence financial preparedness are important for financial institutions and policy makers as they can place the financial products in a way that is beneficial to the investors. For this research should include and test the variables that influence financial preparedness. Thus financial preparedness as dependent variable, this study analyses the relationship of the factors that are related to financial preparedness. Seven variables are used for the study including Age, Income, and Education, Financial literacy, Savings and risk tolerance.

Research Questions

The study is intended to solve the following research questions:

1. What is the relationship between gender, age, education, income and financial preparedness?
2. What is the relationship between savings and financial preparedness?
3. What is the relationship between risk tolerance and financial preparedness?
4. What is the relationship between financial literacy and financial preparedness?

Hypotheses

1. H1: There is significant and positive relationship between financial preparedness and age.
2. H2:There is significant and positive relationship between financial preparednessand income.
3. H3:There is significant and positive relationship between financial preparednessand education.
4. H4:There is significant and positive relationship between financial preparednessand financial literacy.
5. H5:There is significant and positive relationship between financial preparednessand savings.
6. H6:There is significant and positive relationship between financial preparednessand risk tolerance.

Research Methodology

The population for the study included both men and women dwelling in urban areas of Kochi. The sample was drawn randomly using predetermined criteria of inclusion. The sample size of for the study was 123 salaried men and women. 116 questionnaires were received back of which 12 were incomplete. So the total sample size was set to 100. The self -developed questionnaire was distributed to the respondents using google forms and some directly. 5 point Likert scale was used. The reliability and validity of the questionnaire was tested using Cronbach’s alpha. Analysis was done using SPSS software.

Data Analysis, Results And Discussions

The sample size of the study was 123 salaried Men & Women, out of which 116 returned the questionnaire of which 12 were incomplete and cannot be used further. So the total respondents is rounded to 100.

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Descriptive statistics

	Gender	Age	Education	Income	Financial Literacy	Savings	Risk Tolerance	Financial Preparedness
N	100	100	100	100	100	100	100	100
Mean	.65	1.62	2.56	2.33	.588	3.21	3.95	1.94
Median	1.00	1.00	2.00	2.00	1.00	3.00	3.00	2.00
Std. Deviation	.483	.926	.768	.836	.497	.950	.766	1.078

Source: Primary Data

Out of the total respondents, 65.4% were male, and 63.4% of the total respondents were below 30 years. The majority of the respondents were educated holding a degree. The result mean of 2.33 and SD of .836 shows that majority earn below 50,000/-.

Correlation Analysis

To establish the relationship between independent variables and dependent variables a correlation analysis was done using Karl Pearson's coefficient correlation. The table below shows that there is positive correlation of .162 when it comes to age and financial preparedness;education and preparedness is correlated with figure of .647; income and financial preparedness with correlation of .662; .552 correlation is shown between financial literacy and financial preparedness followed by savings .466. Negative correlation was shown between gender and risk tolerance.

Pearson Correlation	Financial Preparedness [Fp]	Gender	Age	Education	Income	Fl	Savings	Rt
FP	1.000							
Gender	-.083	1.000						
Age	.162	-.093	1.000					
Education	.647	-.042	.263	1.000				
Income	.662	-.047	.277	.718	1.000			
Financial Literacy	.552	-.123	.076	.367	.363	1.000		
Savings	.466	-.017	.058	.262	.228	.285	1.000	
Risk Tolerance	-.602	.103	-.077	-.362	-.349	-.346	-.427	1.000

Source: Primary Data

Coefficient of Determination

It explains the extent to which changes in dependent variable can be explained by the changes in the independent variables. The percentage of variation of dependent variable [financial preparedness] that is explained by all independent variables. From the table below the value of coefficient of determination is .703. That means 70.3% of the financial preparedness can be attributed to the combination of all the factor variables used in this study and 29.7 % is attributed to other factors which is not used for this study.

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Model	R	R Square	Adjusted R Square	Std. Error of The Estimate	F Change	Sig.
	.839	.703	.680	.61075	31.084	0.00

Source: Primary Data

Regression Analysis and Hypothesis

The regression model had a confidence level of above 95%. The reliability of the results obtained is high.

Anova

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	82.151	7	11.591	31.078	.000
Residual	32.644	93	.371		
Total	114.795	100			

Source: Primary Data

Dependent variable: financial preparedness

Multiple Regressions

Multiple regression analysis was used to determine the relationship betweenfinancial preparedness and the seven variables like gender, age, education etc….as shown in the table below.

Model	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval For B	
	B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound
(Constant)	.233	.436		.534	.591	-.632	1.102
Gender	-.007	.127	-.002	-.062	.947	-.262	.244
Age	-.024	.067	-.021	-.374	.704	-.162	.110
Education	.304	.116	.215	2.585	.010	.070	.540
Income	.382	.106	.295	3.565	.001	.170	.596
Financial Literacy	.481	.142	.220	3.450	.001	.203	.760
Savings	.184	.074	.162	2.560	.010	.040	.327
Risk Tolerance	-.233	.055	-.276	4.142	0.00	-.344	-.121

Source: primary data

It shows that all factors constant at 0, the financial preparedness will be 0.233 as a result of independent factors. A unit increase in gender will lead to .007 decrease in financial preparedness. Likewise age when a unit increase will lead to .024 decrease in financial preparedness, a unit increase in education will lead to .304 increase in financial preparedness, a unit increase in income to .382 increase in financial preparedness. When a unit of financial literacy increase there is .481 increase infinancial preparedness, a unit increase of savings will lead to .184 increase in financial preparedness and an unit increase of risk tolerance will reduce lead to a .233 decrease in financial preparedness. Out of seven, four variables have a positive relationship with financial preparedness and three have negative relation.

Conclusion

It can be concluded that there occur a huge scope for divulging and carrying out the financial literacy for diverse sections of society to improve financial preparedness decision by considering the various attributes that contributes toward the development of financial preparedness behaviour. The demographic factors such as age, gender, education level etc..play a very important role in preparing a road map for financial planning process and thereby towards financial preparedness. Hence at the end it can be concluded that an operative financial literacy supports an investor to develop an awareness for evaluating their financial preparedness.

Limitations

This study is limited geographically. It is just an analysis of influence of factors that influence financial preparedness.. Due to cost and time limitations the area under study was limited and as such the sample and thus limit the generalisation of use of the results. It prevented cross verification of several other factors influence. All limitations of a self -reported questionnaire and data applies to the results of the study.

Scope For Future Research

It is essential to categorize the benefit of retirement preparedness among individuals. Now, intermediations that can augmentfinancial preparedness is still not clearly understood,since most of the people spend more and save less during their career and live their life after their career in a financially constrained environment. Role of policy makers and financial institutions can be analysed in creating awareness especially a particular section of the societies like private employees, women and wage earners etc...

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