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Financial Literacy among the young Information Technology workforce in Pune region.

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Abstract:- *Financial Literacy refers to the knowledge and skills which an individual should possess to make sound financial decisions. The young Information Technology workforce has large disposable income but lack the knowledge to invest in the right financial instruments which would give them good returns. The absence of financial literacy can lead to making poor financial decisions that can have adverse effects on the financial health of an individual. This paper attempts to study the financial literacy of the young IT workforce in Pune region. The most probable dimensions of financial literacy are financial knowledge, financial behavior and financial attitude. The findings of the research show that majority of the respondents could perform basic financial numerical tasks but awareness of financial products was average. The financial behavior was assessed by evaluating their way of dealing with disposable money. The respondents reflected positive attitude towards financial planning and inclination to save for growth*.

INTRODUCTION

Financial Literacy refers to the skills and knowledge that an individual possesses to make sound financial decisions. In the current scenario, where the common man is faced with several investment choices, it is imperative that he understands the nuances of the world of finance to make appropriate decisions to meet his financial goals.

The working definition of financial literacy for PISA 2012[1] is as follows:

"Financial literacy is knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life."

India's young population is 29%[2] of the total population, which constitutes a major chunk of the total population. They constitute 44.32% of the workforce and have large disposable income. This income needs to be invested in right financial instruments in order to generate good returns for the individuals. There is evidence that individuals under save, fail to invest wisely and are often indebted. (Mitchell 2011, Porteba et al 2007). Most of the young population has taken loans for housing, vehicle and credit card payments. The high unemployment rate due to uncertainty in the current economic scenario has resulted in high delinquency rate among the young borrowers.

LITERATURE REVIEW

Annamaria, Olivia, Vilsa (2010) in their paper titled "Financial literacy among the young", showed that financial literacy is low and fewer than one third of young adults, possess basic knowledge of interest rates, inflation and risk diversification. According to the authors, a college educated male whose parents had stocks and retirement savings was about 45% points more likely to know about risk diversification than a female with less than a high school education whose parents were not wealthy.

According to Prabhakar, Rajiv (2010) in their paper titled "Developing Financial capability among the young through education and asset based welfare" defends financial capability as part of financial citizenship and suggests that the CTF was important for supporting financial citizenship. The CTF model is being discussed in other countries and the arguments in this article are of importance in those countries as well as to the educators of the five million CTF holders in the UK.

[1] http://www.oecd.org/pisa/pisaproducts
[2] World Bank data

Laura, Outi (2014) in their paper titled " Young people's perceptions of responsibilities of organizations promoting financial capability" have concentrated on the perceptions of young people on the roles and responsibilities of school, public, private and non profit sector in promoting financial capability among the young. The qualitative data was collected via focus young but tend to focus on macro-finance issues in financial education.

The study by Pillai, Carlo, D'Souza (2012) in their paper titled "Financial Prudence among youth" explores the magnitude of financial literacy among youth focusing on expenditure and saving trends. It is understood that the youth are unwilling to get out of their comfort zone and reckless expenditure behavior, despite of their sound knowledge of the fundamentals of financial literacy. The credit card culture is also found out to have grown phenomenonaly among the youth. The freedom of choice of present generation is unlimited. Hence they are victimized in onslaught of sales and service offers and promotions in the market especially; the lure of online buying, trendy apparels, electronic gadgets, mobile services and others segmented products and services. It is understood that the young generation rarely practice basic financial skills such as budgeting, frugal spending, developing a regular savings plan or planning for long term requirements.

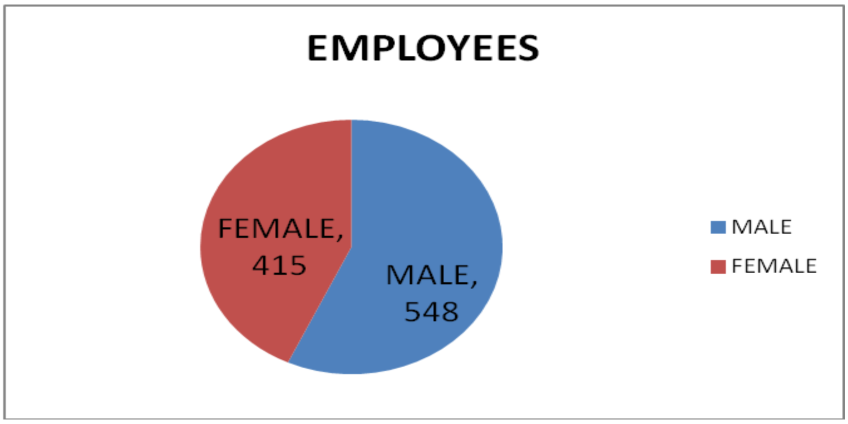
METHODOLOGY

The (OECD) approach is more comprehensive as it attempts to measure the most probable dimensions of financial literacy i.e. financial knowledge, financial behavior and financial attitude.

A structured questionnaire was given to the employees of the IT firms in Hinjewadi area of Pune. The sample selcted was 1000 employees out of which 963 employees responded to the questionnaire.

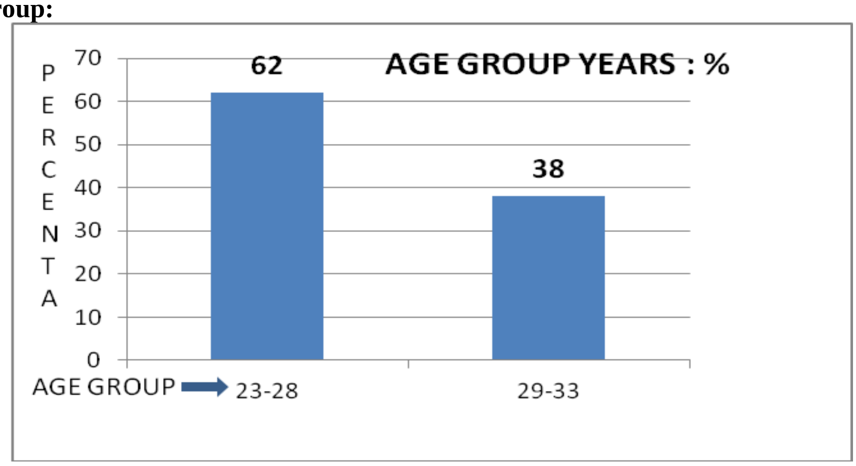
FINDINGS

(a) Gender:



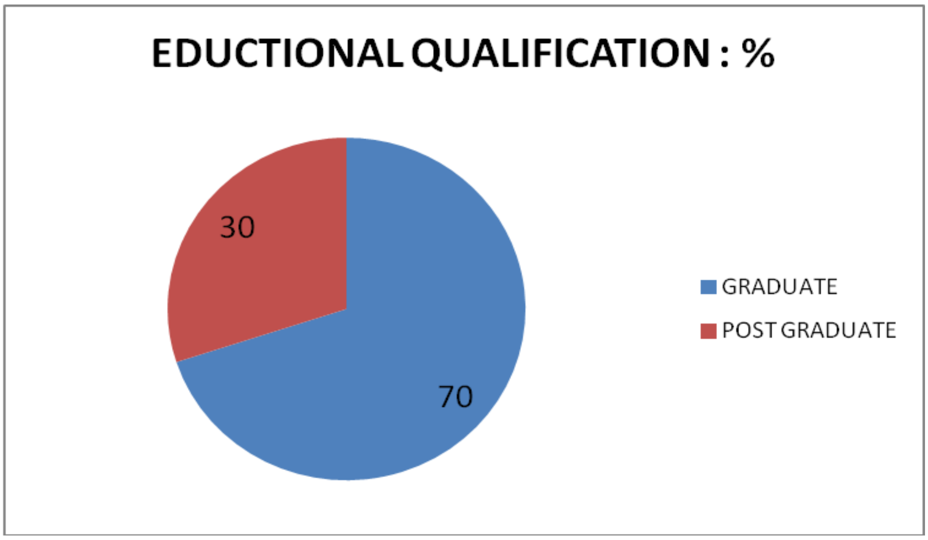
Out of the 963 employees, 415 were female employees and 548 were male employees.

(b) Age group:



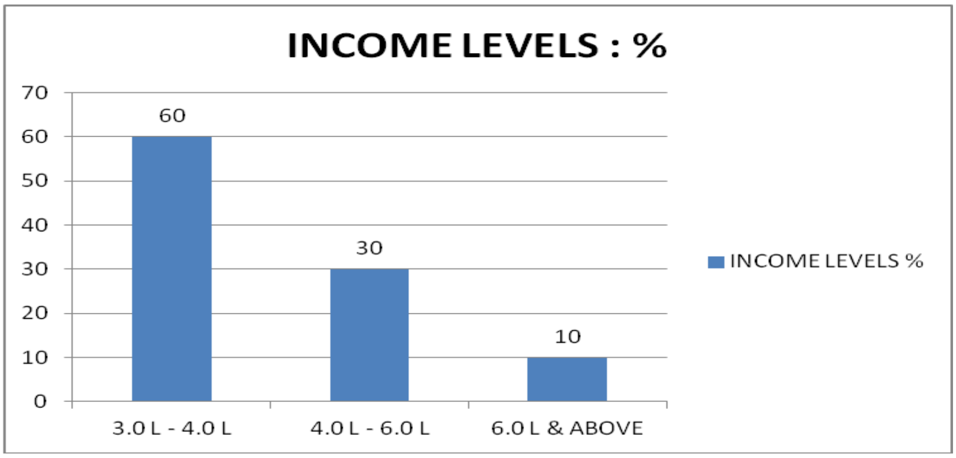
62% belonged to the age group 23-28 yrs whereas 38% belonged to age group 29-33 yrs.

(c) Education Level:



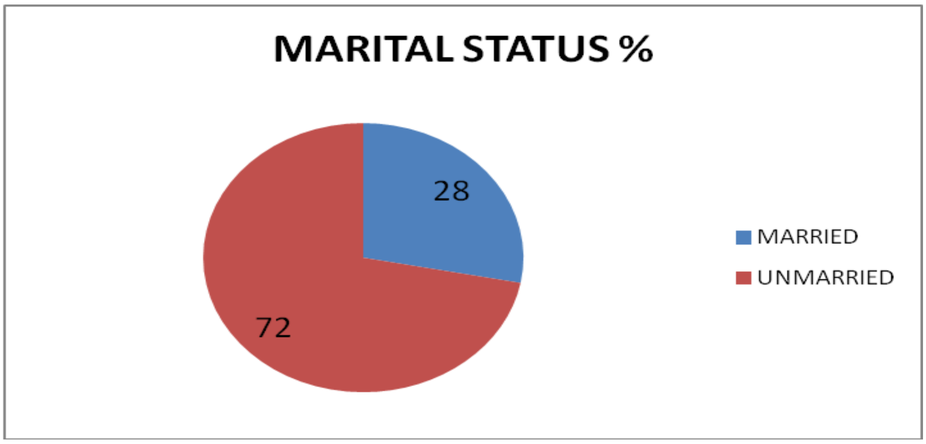
30% of employees were post graduates whereas 70% were graduates. Most of them were engineers.

(d) Income Level:



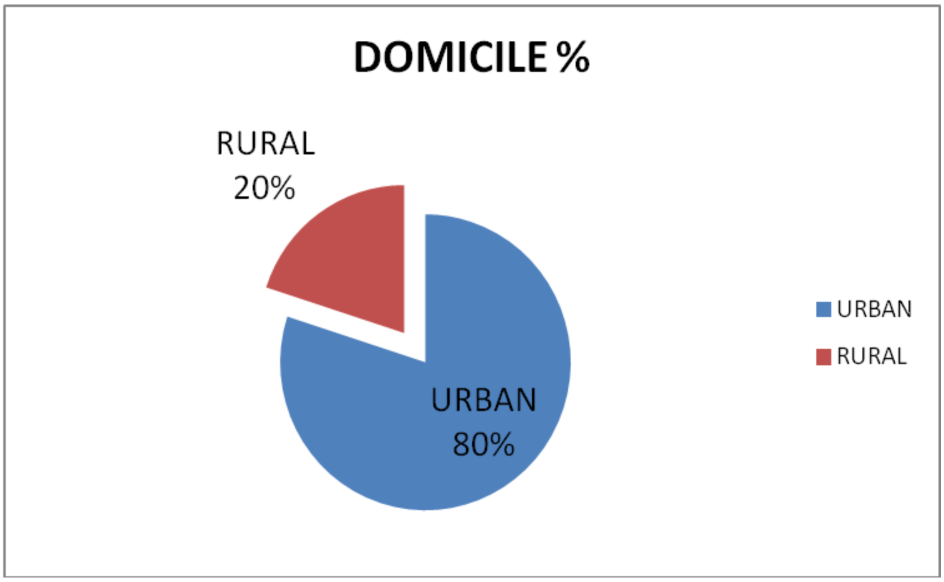
60% belonged to the income level of 3,00,000- 4,00,000 p.a, 30% belonged to income level of 4,00,001 to 6,00,000 p.a and remaining 10% belonged to income above Rs 6,00,001 p.a.

(e) Marital Status:



72% were unmarried whereas 28% were married.

(f) Domicile:



80% belong to urban areas whereas 20% belong to rural areas.

(g) Awareness and Investments in Financial products:
a. Equity Shares: 80% were aware of equity shares but only 60% were actually investing.
b. Mutual Funds: 70% knew about the mutual funds but only 56% had invested their money in mutual funds.
c. Fixed Deposits: Majority of them i.e. 80% had invested their money in Fixed Deposits.
d. Real Estate: 55% had also invested their money in real estate as most of them wished to own a house of their own.
(h) Financial knowledge: The financial knowledge of the employees was tested by questions on basic principles of money. The employees were asked to perform simple numerical financial tasks. Questions relating to the impact of inflation on returns, calculation of interest, relation between risk and return, awareness about various investment options were asked.
(a) Financial dimensions and Financial knowledge: It was observed that 80% could do the simple numerical tasks. Only 30% could calculate the effective return after considering inflation. 50% were aware that higher risk investment products give higher returns.
(b) Income level and Financial knowledge: It was observed that employees with higher income were more knowledgeable. However it may be argued that income level and financial knowledge are independent. Practically, when a person has greater disposable income he starts looking out for various investment options. Level of Education also has an impact on financial knowledge of the employees.
(i) Financial Behavior

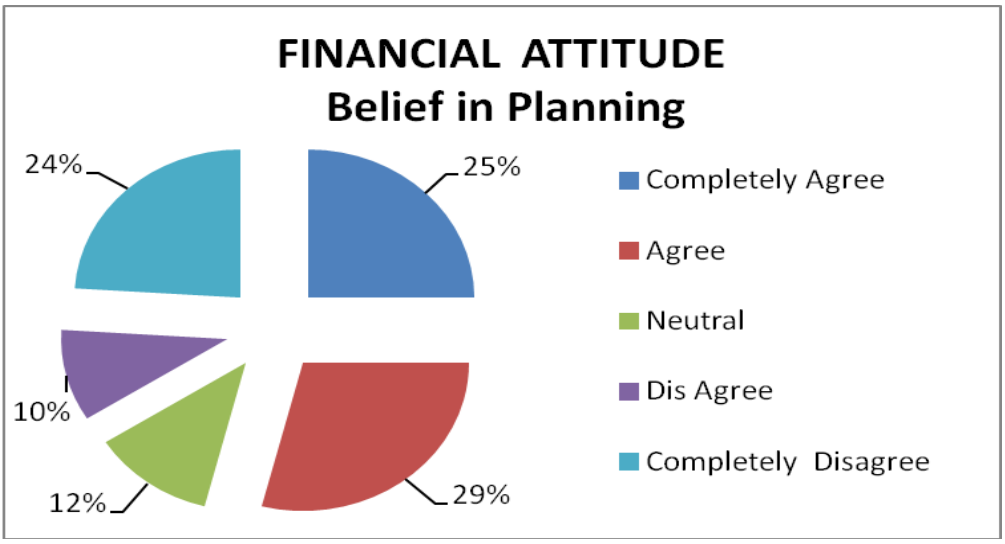
The financial behavior of the individuals was assessed by evaluating their way of dealing with money in their daily lives. 80% of the employees show good saving habits. 60% of the employees prepared their household budget and did timely monitoring. 40% of the employees spent without preparing any budget. 85% of the employees evaluate the various investment options before investing their hard earned money. 90% of the employees did not borrow for their daily expenses. However around 65% had taken loans for purchase of house, vehicle and white goods. 87% of the employees said that they did timely payment of bills.

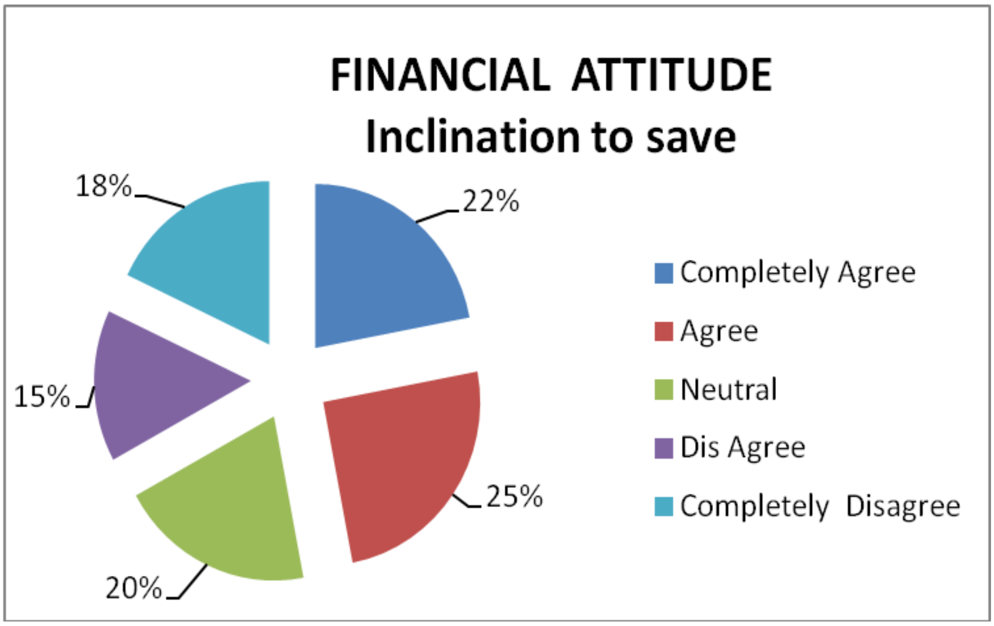
These high scores reflect positive financial behavior of the employees. The employees are concerned about their finances and are disciplined in their approach.
(j) Financial attitude
The financial attitude affects an individual's behavior towards managing money. The OECD has developed a scale to measure the financial attitude of individuals. The following three measures reflect the financial attitude of individuals: (a) belief in financial planning, (b) inclination to save and (c) inclination to consumption.
The responses to the above three measures are mapped to a scale. The scale consists of
(a) Completely Agree - Score 5

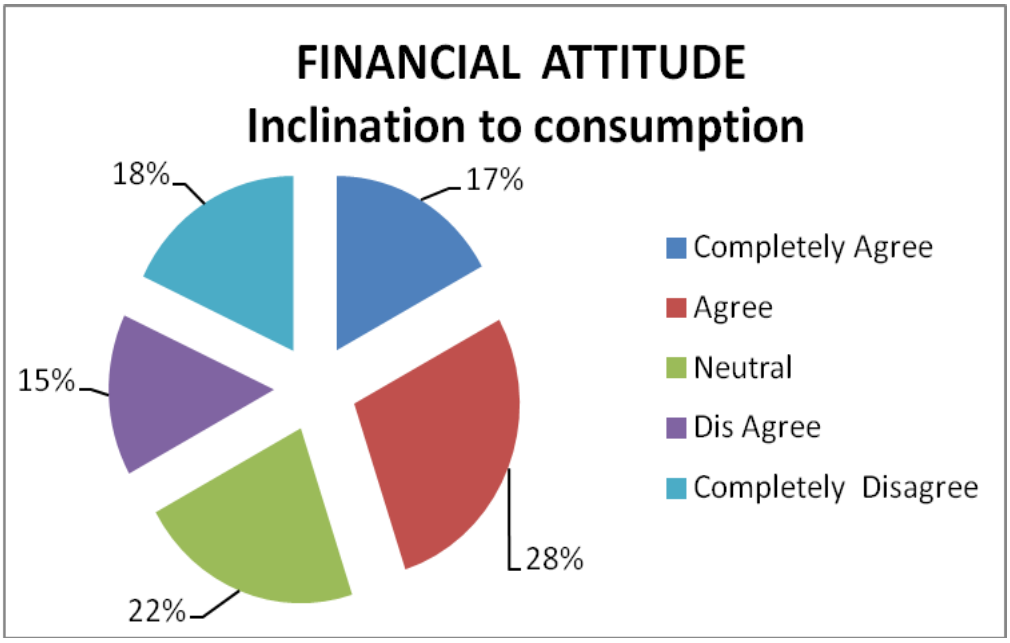
(b) Agree - Score 4
(c) Neither agree or disagree – Score 3
(d) Disagree - Score 2
(e) Completely Disagree - Score 1

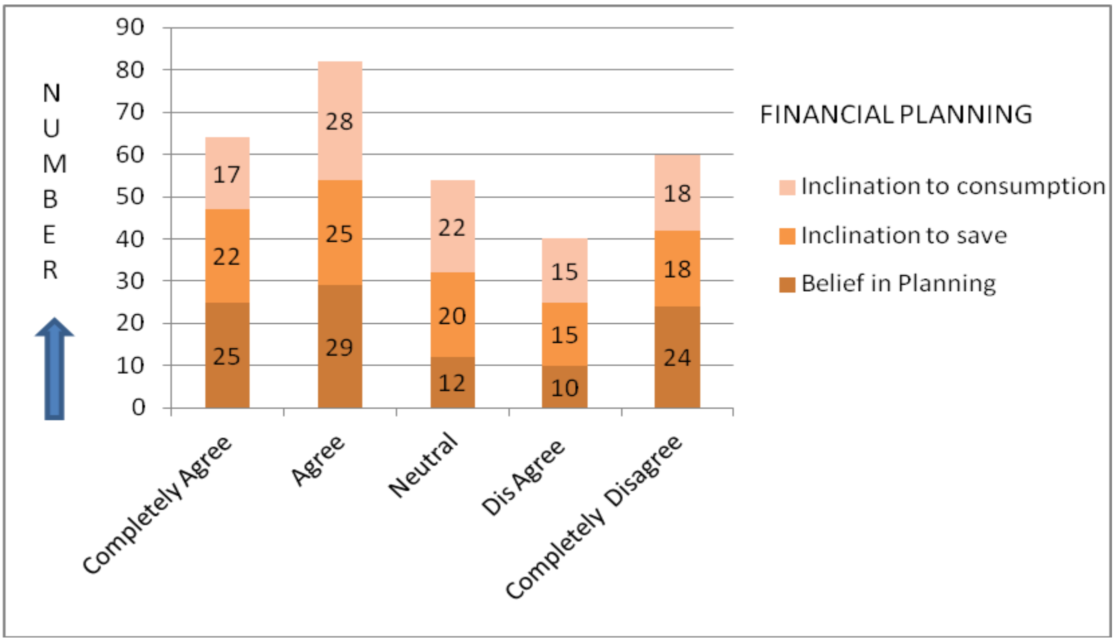
The Completely agree has maximum score of 5 while completely disagree has minimum score of 1. The responses are added up and an average score of 3 or above is considered as a positive score.

The following graph depicts the dimensions of financial attitude.









From the above graph, it is seen that more than 50% have a positive attitude towards financial planning and inclination to save. Less than 50% show inclination towards consumption.

CONCLUSION

The above survey indicates that financial literacy among the young IT workforce in Pune region is above average. The most probable dimensions of financial literacy are financial knowledge, financial behavior and financial attitude. It was observed that majority of the respondents could perform basic numerical tasks but they lacked knowledge about the relation between risk and return and awareness of financial products was average. Level of education also had an impact on financial knowledge of the young workforce. The financial behavior was assessed by evaluating their way of dealing with money in their daily lives. 80% of the respondents showed good saving habits and most of them prepared budget for their household expenses. The financial attitude was assessed by measuring the individual’s inclination to save, to consume and his financial planning. The respondents reflected positive attitude towards financial planning and inclination to save.

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