

Assessment of Financial Literacy of Slum dwellers in Bangalore

Divya.U¹, Dr. Noor Firdoos Jahan²

¹Asst.professor, Adarsh Institute Of Management & Information Technology,75, Devanathachar St, Raghavendra Colony, Chamrajpet, Bengaluru-560018, Mobile Phone 9880213389, divya.u12345@gmail.com

²Professor, R V Institute of Management,CA 17, 36th Cross Rd, 4th T Block East, Jayanagara 9th Block, Jayanagar,Bengaluru, 560041,Mobile Phone 9945085937,noor.firdoos@gmail.com

Article Info

Volume 83

Page Number: 28301 – 28307

Publication Issue:

May - June 2020

Abstract

Alleviating Poverty is the main objective of financial inclusion. RBI and GOI have taken many measures towards the financial inclusion of India. They have asked banks and financial institutions to increase their presence in rural India. Because of all these efforts, India is reaching towards the goal of a hundred per cent financial inclusion. But the main question here is the financial inclusion alone is sufficient for making a sound financial decision? Are they financially literate and have a piece of adequate financial knowledge to take appropriate financial decisions? Is financial inclusion feasible without the presence of financial literacy? The answer to these questions is no. The financial inclusion and poverty alleviation cannot become successful unless financial literacy is created. Thus a study is undertaken in Slums of Bangalore to understand the Financial literacy levels of slum dwellers. The study is conducted among 500 slumdwellers in Bangalore city. The financial literacy of slum-dwellers has been measured by considering scores of its three dimensions such as financial attitude, financial behaviour and financial knowledge. The financial behaviour of the respondents is good, the financial attitude is also to some extent favourable but the financial knowledge of the respondents is poor. All these resulted in average financial literacy of slum-dwellers in Bangalore city

Article History

Article Received: 11 May 2020

Revised: 19 May 2020

Accepted: 29 May 2020

Publication: 12 June 2020

Keywords:Financial Literacy, Financial Attitude, Financial Behavior, Financial Knowledge, Slum dwellers

1. Introduction

Financial literacy has received lots of recognition throughout the world in the first decade of the 21st century. Most of the countries adopted a national strategy for financial literacy. India is a growing economy with its vast population and there is an urgent need to adopt a national strategy for financial literacy. (Grifoni, A., & Messy, F. A.

2012). Financial inclusion is the provision of different financial products and services such as loans, deposits, insurance, pension, mutual funds, etc. to the lower and vulnerable segment of the society. Alleviating Poverty is the main objective of financial inclusion. RBI and GOI have taken many measures towards the financial inclusion of India. They have asked banks and financial institutions to increase their presence in rural

India. Because of all these efforts, India is reaching towards the goal of a hundred per cent financial inclusion. But the main question here is the financial inclusion alone is sufficient for making a sound financial decision? Are they financially literate and have a piece of adequate financial knowledge to take appropriate financial decisions? Is financial inclusion feasible without the presence of financial literacy? The answer to these questions is no. The financial inclusion and poverty alleviation cannot become successful unless financial literacy is created. The Organization for Economic Co-operation and Development (OECD)/International Network on Financial Education (INFE) has defined financial literacy as follows "A combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being". RBI has taken several steps towards the increase of financial literacy among the public. Financial Literacy and Counselling centres were established for providing adequate financial knowledge. However, the awareness about these centres is very less among the public as per one of the studies by RBI. (Lalrinmawia & Gupta 2015). Financial literacy is recognized as a key requirement for an individual to make appropriate financial decisions in this financially complicated scenario. Despite its increasing importance, much research has indicated that much of the world's population still under financial illiteracy. (Lusadri & Mitchell 2011)

Financial literacy dimensions:

According to Hutson (2010) financial literacy has evolved from merely being knowledgeable on financial matters to the ability to make use of such literacy on a day to day financial decisions. Financial literacy has two dimensions: understanding and use. The knowledge that shapes the financial decision making is what constitutes financial literacy, which are the constituents of the dimensions of understanding and use. Financial knowledge belongs to understanding while the application of such knowledge is used. Financial literacy is defined as measuring how well an individual can understand and use personal finance-related information. Hung et al, (2009) agreed with this definition adding that financial

literacy consists of financial knowledge, financial attitude, financial behaviour and ability to make financial decisions.

a) Financial attitude: Financial attitude refers to the psychological tendency to decide what is best and second-best after considering the good and the bad when making a particular investment decision which in other words endorse some behaviour. According to Eagly & Chaiken (1993), financial attitude refers to the practices of people towards cash, credit, savings, expenses, investment, setting future financial goals, etc. It measures whether people have a favourable attitude towards savings, goal setting, financial planning, budget, expenditures, and investment, etc. A desirable financial attitude recommended by economists is one which led to good financial wellbeing.

b) Financial Behavior: Theory of planned behaviour (TPB) is the most suitable theory related to financial behaviour as it predicts and understands human behaviour (Xiao, 2008) and it explains an individual's intention to perform given and accepted behaviour (Ajzen 1991). It has been widely used across different disciplines and research relating to family planning, weight loss, voting and alcoholism (Ajzen et al 1980). Financial behaviour deals with actual financial decisions taken towards financial matters such as savings, tracking of expenditures, mindfulness about the price they pay, monthly budget preparation, payment of bills on time, discussion with family before spending, credit behaviour, investment future financial goals, etc. Financial behaviour is concerned with the common financial behaviours and mistakes made by people while taking financial decisions and it is dealing with how people behave while making financial decisions.

c) Financial knowledge: Financial knowledge is knowledge of financial concepts and procedures. Financial knowledge is an important dimension of financial literacy and it is measured in previous researches using multiple-choice questions relating to financial concepts relating to saving bank account, loans, cheque book, interest rate computation, time value of money, mutual fund, stock market, etc.

2. Review of Literature

Chen H. & Volpe R P. (1998) have undertaken a study on financial literacy among college students and found shreds of evidence that the women have greater difficulty in the computation of financial calculations compare to men which ultimately hinder their ability to make sound financial decisions. Research (2003) found that unskilled or unemployed labourers had a low level of financial literacy as a majority of these people were financially excluded from the financial system. Besides, financial illiteracy was related to low job satisfaction and employee productivity. Jorgenson B L. (2007) found that parental educational level had a greater impact on the financial literacy level of children. The parents influence the financial attitude, financial knowledge and financial behavior of children. The children learn money management from their parents. Lusardi A. (2008) studied about saving behavior of households and the influence of financial literacy on savings. The study revealed that respondents do not know how much to save towards their retirement corpus. Many of them entered into different saving schemes and loan agreements by default and without having complete knowledge towards them. Cole et al., (2009) studied the relationship between financial literacy programs and the likelihood opening of bank accounts. They found that financial literacy has very less impact on the likelihood of opening bank accounts but these programs have created literacy among financially illiterate and uneducated households. Providing small subsidies to people and program like direct benefit program have a larger influence on the likelihood of public opening bank accounts. These measures are very cost-effective also compared to conducting financial literacy programs. Amadeu (2009), studied the relation between educational qualification and financial literacy. He found that both these variables were positively related. Persons with higher education had higher financial literacy compared to people who are less educated. The highly educated persons had more financial information and it influenced their daily financial decisions. The commerce and management graduates who had studied accounts and economics have greater financial literacy. Agarwal S. et al., (2009) studied the association among Age and financial literacy and the research

revealed that financial literacy was more in the middle age respondents compared to young and elderly people. Shim S. et al., (2010) researched the financial literacy of undergraduate students and the authors found that few students were keen to learn, the best management of their funds before making financial decisions while others just involved in risky behaviours without any justification. The author suggested that a thorough study on demographic and socio-economic variables and their financial literacy levels would provide insights about their differences in their financial behavior.

3. Objectives of the study

- To study the financial attitude of slum dwellers.
- To evaluate the financial behavior of slum dwellers.
- To understand the financial knowledge of slum dwellers.
- To measure the Financial Literacy of slum dwellers.

4. Research Methodology

The descriptive method of research was adopted for the study. The scale for the study is basically an interview schedule. The financial literacy is measured through three sub dimensions such as financial attitude, financial behavior and financial knowledge. The scale for financial literacy is extracted from the scale already developed for measuring financial literacy in Brazil by Potrich, A. C. G., Vieira, K. M., & Kirch, G. (2015) and modified to meet the requirement of the study. A five point Likert scale ranging from 5- Strongly agree to 1- Strongly disagree was used to understand the level of statement agreement of the respondents on financial attitude and financial behaviour. The financial knowledge is measured using multiple choice questions. The respondents were asked ten multiple choice questions to measure their financial knowledge. These include questions on saving account, Aadhaar seeding, types of deposits, ATM, overdraft, Passbook, PAN card, cheque book, Loan and deposit interest computation.

Sampling unit selected for the study is slum dwellers of Bangalore city .The sample size of 500 respondents were considered for the study. The Non probability sampling techniques like purposive and Judgmental samplings were adopted for the study. Statistics provided by Karnataka Slum development board was considered as sampling frame for the selection of sample. The slum board broadly classifies the slums in Bangalore as declared slums and undeclared slums. The declared slums were considered for the study. In order to have a sample which has similar characteristics and features of the population, the declared slums were divided in to five groups based on Bangalore geographical regions such as Bangalore South, North, East, West and Central. From each of these regions two slums were selected based on the highest number of households in the slum. The number of respondents from each slum was selected proportionately to the total number of households. Only one Respondent is surveyed from each of these selected households to avoid repetition of data collection from the same household. The primary data for the study is collected by the researcher through visiting the target slum areas and collected data from them through a well-structured interview schedule. Data has been collected from 500 slum dwellers and out of them, 459 respondents were able to provide us complete information in the interview schedule and 41 interview schedules were rejected due to erroneous and missing responses. The response rate is 91.8%. The response rate was good as the face to face interview method was adopted for the data collection. The slum respondents were highly cooperative in providing information. The study applied R- Programming for analysis of data. The statistical tools such as mean, standard deviation and percentages are considered for analysis of data.

5. Data Analysis

Table 1: Item analysis of Financial Attitude

Items	Mean	Standard Deviation
FA1- ‘Setting goals for the future is important.’	3.56	1.13
FA2-I do not worry about the future; I live only in the present.	3	2.25
FA3- Saving is impossible for our family.	3.24	1.2
FA4- I buy necessary things.	4.03	0.85
FA5 - There is always a deficit in my monthly budget.	3.42	1.16
FA6- I do not think about the future when I spend money.	2.63	1.11
FA7- Money we have is only to be spent	2.62	1.18

Interpretation:

On analyzing the above table i.e, (Table 1) which lists the items for measuring ‘Financial Attitude’, respondents on an average ‘agreed’ with ‘I buy things that are necessary’ (M=4.03, SD=0.85) and ‘disagreed’ with ‘Money we have is only to be spent’ (M=2.62, SD=1.18). The respondents also agreed for the statements ‘Setting goals for future is important’ (M=3.56, SD=1.13), ‘There is always a deficit in my monthly budget’ (M=3.42, SD=1.16), and ‘Saving is impossible for our family’ (M=3.24, SD=1.2). The respondents were neutral about ‘I do not worry about the future and I live only in the present’ (M=3, SD=2.25). The respondents' disagreed with the statements ‘Money we have is only to be spent’ (M=2.62, SD=1.18) and ‘I do not think about future when I spend money’ (M=.2.63, SD=1.11). For all the above items standard deviation varied from 1.16 to 1.20.

Table 2: Item analysis of Financial Behavior

Items	Mean	Standard deviation
FB1- I keep track of my spending.	3.12	1.18
FB2- I'm particular about the price I pay.	3.86	0.96
FB3- I compulsorily do some savings.	3.35	1.16
FB4- I prepare a budget for my family expenses.	3.07	1.21
FB5- I pay my bills (Electricity, Water etc.) on time.	3.93	0.88
FB6- I discuss with my family before spending.	3.86	0.96
FB7- I take credit to spend money.	3.31	1.11
FB8- I borrow to pay my bills.	2.69	1.02
FB9- I earn enough to pay my bills.	3.91	0.85

Interpretation: On analyzing the above *i.e.*, Table 2 which lists the items for measuring 'Financial behaviour', respondents on an average 'agreed' with 'I pay my bills on time' (M=3.93, SD=0.88) and 'disagreed' with 'I borrow to pay my bills' (M=2.69, SD=1.02). They have also agreed with statements 'I earn enough to pay my bills' (M=3.91, SD=0.85), 'I discuss with my family before spending.' (M=3.86, SD=0.96) and 'I'm particular about the price I pay.' (M=3.86, SD=0.96). The respondents were neutral about 'I compulsorily do some savings' (M=3.35, SD=1.16), 'I take credit to spend money' (M=3.31, SD=1.11), 'I keep track of my spending' (M=3.12, SD=1.18) and 'I prepare a budget for my family expenses' (M=3.07, SD=1.21). For all the above items standard deviation varied from 0.85 to 1.21.

Table 3: Financial Knowledge possess by the respondents

Items	Frequency	Per cent
FK1_Saving Bank account	369	80.4%
FK2_Aadhar Seeding	403	87.8%
FK3_Type deposits	172	37.5%
FK4_ATM-withdrawal	412	89.8%
FK5_OD	43	9.4%
FK6_Passbook	316	68.8%
FK7_PAN	299	65.1%
FK8_Loan interest rate	149	32.5%
FK9_Crossed cheque	66	14.4%
FK10_Deposit interest computation	136	29.6%

Interpretation: The financial knowledge of the respondents is depicted in the above table *i.e.*, Table 3. Out of 459 respondents, 369 (80.4%) had knowledge about saving bank account, 403 (87.8%) respondents knew about Aadhaar seeding to bank accounts, 172 (37.5%) respondents had knowledge regarding different types of bank deposits, 412 (89.9%) respondents knew about the money withdrawal from ATM. The knowledge about ATM withdrawal is good and the maximum number of respondents knew about it. 43 (9.4%) respondents knew the overdraft facility offered by banks. OD facility knowledge is very poor and the lowest compared to other aspects. 316 (68.8%) respondents had knowledge regarding bank passbook, 299 (65.1%) of respondents had knowledge about PAN card, 149 (32.5%) of respondents know loan interest rate computation, only 66 (14.4%) respondents had knowledge regarding a cross cheque and 36 (29.6%) of respondents had knowledge about the calculation of interest on deposits.

Table 4: Descriptive statistics- mean and standard deviation of constructs

Constructs	No.of Respondents	Mean	SD
Financial Attitude	459	3.09	0.86
Financial Behavior	459	3.58	0.59
Financial knowledge	459	2.58	0.95
Financial Literacy	459	3.08	0.55

Interpretation:

On analyzing the above table i.e, Table 4, which shows the mean and standard deviation of the constructs selected for the study as Financial Literacy Dimension-Financial knowledge has the lowest mean score (M=2.58) which indicates the poor financial knowledge of respondents. Financial Literacy measured on other two dimensions such as Financial Behavior and Financial Attitude has a mean score of 3.58 and 3.09 respectively. Financial Literacy has been computed by considering all three dimensions such as Financial attitude, Financial Behavior and Financial Knowledge and it scored a mean value of 3.08 which reflected the average financial literacy of respondents. For all the above constructs standard deviation varied from 0.59 to 2.40.

6. Results and Discussion

The Financial literacy of slum dwellers has been measured with the help of three sub-constructs *financial attitudes, financial behaviour and financial knowledge*. The findings related to all the three sub-constructs are given here:

Financial Attitude: The item analysis of financial attitude (Table 1) revealed that on an average the slum dwellers buy only necessary things and disagreed on the point that money they have is only for spending. They have priority in spending and know the value of money as they spend only on their basic needs and not on unnecessary things. The majority of them revealed that savings are very difficult for them and their budget will have deficit most of the time as their expenses are more than their income. They revealed that they do not have sufficient money

for meeting their daily commitment, so they are not planning for future goals. As a result of all these the financial attitude of slum dwellers towards spending was favourable and towards savings and plans was unfavorable. (M=3.09, SD=0.86).

Financial Behavior: The items of financial behaviour (Table 2) revealed that most of the slum dwellers pay electricity bills, water bills, etc on time with their earned money and not with borrowed money. They are particular about the price they pay and they discuss with family members before spending. They said they try to do some compulsory savings and they also take the credit if required. All these resulted in the good financial behaviour of slum respondents. (M=3.58,SD=0.59).

Financial knowledge: The percentage analysis of financial knowledge (Table 3) revealed that the majority of the slum dwellers knew saving bank account, Aadhar seeding and ATM withdrawal. Few respondents knew about the passbook and PAN card but the majority of them did not know overdraft facility, cross cheque, interest computation and types of bank accounts. Overall the financial knowledge of the slum dwellers in Bangalore city is poor (M=2.58, SD=0.95).

Financial literacy: The financial literacy (Table 4) of slum-dwellers has been measured by considering scores of its three dimensions such as financial attitude, financial behaviour and financial knowledge. The financial behaviour of the respondents is good, the financial attitude is to some extent favourable but the financial knowledge of the respondents is poor. All these resulted in average financial literacy of slum-dwellers in Bangalore city. (M=3.08, SD=0.55).

7. Conclusion

The financial literacy among slum dwellers of Bangalore is average due to lack of financial knowledge as most of the slum dwellers are not aware of overdraft facility, cross cheque facility, interest computation and various types of bank accounts. Though their financial knowledge is

low, still due to their experience they tend to behave very responsibly and take good financial decisions. If Government can take some good initiatives to improve their financial knowledge, they can really take advantage of various financial inclusion schemes introduced by the Government of India from time to time to alleviate poverty in the country.

8. References

1. Agarwal, S., Driscoll, J. C., Gabaix, X., & Laibson, D. (2009). The age of reason: Financial decisions over the life cycle and implications for regulation. *Brookings Papers on Economic Activity*, 2009(2), 51-117.
2. Ajzen, I., Fishbein, M. (1980), 'understanding attitudes and predicting social behavior, Engle wood cliffs, N.J, Prentice-hall.
3. Ajzen, I. (1991). The theory of planned behavior. *Organizational behavior and human decision processes*, 50(2), 179-211.
4. Amadeu, (2009). An educaçao financeira e sua influencia na disciplina de consumo investimento proposta de inserçao no mercado, trabalho de conclusao de curso. University do oest paulista, Sao Paulo, SP Brasil.
5. Chen, H., & Volpe, R. P. (1998). An analysis of personal financial literacy among college students. *Financial services review*, 7(2), 107-128.
6. Cole, S. A., Sampson, T. A., & Zia, B. H. (2009). Financial literacy, financial decisions, and the demand for financial services: evidence from India and Indonesia (pp. 09-117). Cambridge, MA: Harvard Business School.
7. Eagly, A. H. & Chaiken, S. (1993), *The psychology of attitudes*, fort worth, Texas, Harcourt Brace Jovanovich college publishers.
8. Grifoni, A., & Messy, F. A. (2012), Current status of national strategies for financial education.
9. Hung, A., Parker, A. M., & Yoong, J. (2009), Defining and measuring financial literacy.
10. Huston, S. J. (2010). Measuring financial literacy. *Journal of Consumer Affairs*, 44 (2), 296-316.
11. Jorgensen, B. L. (2007). Financial literacy of college students: Parental and peer influences (Doctoral dissertation, Virginia Tech).
12. Lalrinmawia, M., & Gupta, H. (2015). Literacy and Knowledge: Farmers' Financial Inclusion Feasibility. *SCMS Journal of Indian Management*, 12(3), 17.
13. Lusardi, A. (2008). Household saving behavior: The role of financial literacy, information, and financial education programs (No. w13824). National Bureau of Economic Research.
14. Lusardi, A., & Mitchell, O. S. (2011). Financial literacy around the world: an overview. *Journal of pension economics & finance*, 10(4), 497-508.
15. Potrich, A. C. G., Vieira, K. M., & Kirch, G. (2015). Determinants of financial literacy: Analysis of the influence of socioeconomic and demographic variables. *Revista Contabilidade & Finanç as*, 26(69), 362-377.
16. Shim, S., Barber, B. L., Card, N. A., Xiao, J. J., & Serido, J. (2010). Financial socialization of first-year college students: The roles of parents, work, and education, *Journal of youth and adolescence*, 39(12), 1457-1470.