

A STUDY OF FINANCIAL BEHAVIOUR AMONG UNIVERSITY STUDENT IN MUMBAI CITY

Mr Sanket Bhosekar, Dr Syed Mubashar Hasan

Research Scholar, Third Year Bachelor of Management Studies,
Sydenham College of Commerce & Economics, Dr. Homi Bhabha State University, Mumbai.

Assistant Professor (BBI), Sydenham College of Commerce & Economics,
Dr. Homi Bhabha State University, Mumbai.

Abstract

Mumbai is the financial capital of India. So, student financial management practices have received growing consideration among various parties such as government agencies, community organisations, and education bodies as the age group is considered as a high risk group for being involved in financial difficulties. Young adults generally learn their skills from parents and teachers as children. This study examined the association of earlier financial literacy and later financial behaviour of college students. Financial literacy was measured by both subjective and objective knowledge and financial behaviours were categorized into risky paying and borrowing behaviours. This study examines what kinds of financial problems students face and locus of control on financial management behaviour among university students. The participants were asked to indicate what financial education they would be interested in if offered. Nearly all of the students expressed an interest in learning about financial management.

Keywords: Financial behaviour, students, financial management, financial knowledge etc

INTRODUCTION

Financial literacy is an important problem faced by all countries in the world because it includes a person's knowledge, skills and attitude towards financial issues. Financial literacy allows people to make informed decisions and improve their overall health. Financial literacy has become indispensable in today's economy. India has a large youth population and there is an opportunity to improve financial literacy through government efforts. Private and public schools are using financial programs to solve this problem.

The OECD¹ has defined financial literacy as "A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing." Strengthening Financial Inclusion in India has been one of the important developmental agendas of both the Government and the four Financial Sector Regulators i.e., Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA). Financial literacy supports the pursuit of financial inclusion by enabling the citizens to make informed choices leading to their financial well-being.

The World Bank defines financial inclusion as, "Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way."

LITERATURE REVIEW

Roy, S. M. (2020) quoted in a report, "According to the report conducted by the Global Financial Literacy Excellence Centre, only 24% of the Indian adult population is financially literate. In comparison to other major emerging economies, the financial literacy rate of India is the lowest. This is due to inter-state disparities, lack of formal training and awareness. While other emerging economies have better financial literacy rates, there's still scope for more improvement."

As per a report published by NCFE-FLIS Report (2019)², it was stated that "Financial education is the process by which individuals improve their understanding of financial products and concepts; and through information, instruction and/or objective advice develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being and protection." [OECD, 2005]. According to an S&P survey, more than 75% of Indian adults do not adequately understand basic financial concepts. It's even worse when it comes to women. More than 80% of women are financially illiterate. As a result, millions of Indians make disastrous financial

¹ OECD, Organisation for Economic Co-operation and Development.

² National Centre for Financial Education - National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019 Report.

decisions, the consequences of which are not only terrible to those who bear the brunt but also in producing a scaring-away effect on others who are potential users of financial products and services. A thrust on financial education is therefore, absolutely essential to make financial inclusion more meaningful and enabling for citizens' reach to economic well-being."

The definition of financial literacy varies across studies, reflecting the multidimensional nature of the concept. According to Lusardi and Mitchell (2011), financial literacy encompasses not only the ability to understand basic financial concepts but also the capacity to apply that knowledge to make informed financial decisions. Scholars such as Atkinson and Messy (2012) emphasize the practical skills required to manage personal finances effectively.

Importance of Financial Literacy

The significance of financial literacy is underscored by its role in fostering economic well-being and individual empowerment. Numerous studies have demonstrated a positive correlation between financial literacy and various economic outcomes, including increased savings, improved investment decisions, and reduced financial stress (Hastings et al., 2013; Fernandes et al., 2014).

Demographic Variations in Financial Literacy

Research indicates that financial literacy levels vary across demographic groups. For instance, Lusardi and Tufano (2015) found gender differences in financial literacy, with women generally exhibiting lower levels of financial knowledge compared to men. Additionally, variations based on age, education, and income have been documented, emphasizing the need for targeted financial education initiatives (Hilgert et al., 2003; Chen and Volpe, 1998).

Impact of Financial Education Programs

Interventions aimed at enhancing financial literacy have been implemented worldwide. Evaluating the impact of such programs is crucial for understanding their effectiveness. A meta-analysis by Collins and O'Rourke (2010) suggests that well-designed financial education programs can lead to improvements in financial knowledge and behaviour, though the long-term effects require further exploration.

OBJECTIVE OF THE STUDY

- To understand the level of financial behaviour of students at university level
- To bring out the awareness of financial literacy among students.
- To evaluate the overall financial literacy levels among university students in Mumbai City.
- To examine the factors influencing of spending decisions of students.

LIMITATIONS AND SCOPE OF STUDY

The limitation of this research paper could be the potential bias in the sample selection. The study may not be accurate representation of the population of Mumbai. The sample size could be limited to a particular area or group of people. Additionally, the research study may be limited to only those who are willing to participate in the survey.

The scope of this research paper is to analyse Financial Behaviour among university student in Mumbai City the study also examines various financial literacy topics such as savings, investments, stock market, mutual funds etc. The research paper also explores the factors that contribute to financial literacy such as education level, income.

Research Hypothesis

H₁ (Null): There is no significant relationship between financial awareness and the investment decisions of university students.

H₀ (Alternate): There is a significant relationship between financial awareness and the investment decisions of university students.

Research Design

1. Type of Research

The researcher has used a combination of Descriptive, Analytical Research to understand the financial literacy among the respondents.

2. Sample design

The study uses a stratified sampling technique. The criteria for the research include Individuals above the age of 18 years.

3. **Universe**

The universe for the study will be people of age above 18 years living in Mumbai region from various universities.

4. **Sample Size**

The sample size for this study is 34 respondents.

5. **Method of data collection**

The researcher uses both primary and secondary sources of data. Primary Data will be collected through circulation of structured questionnaire to the general public. Secondary Data will be collected from academic journals, published reports, articles, Government reports and other relevant sources available online.

6. **Research instrument**

The research instrument used for gathering primary data is through circulation of structured questionnaire which will consist of closed ended questions related to basic finance.

Result & Discussions

Demographics Details:

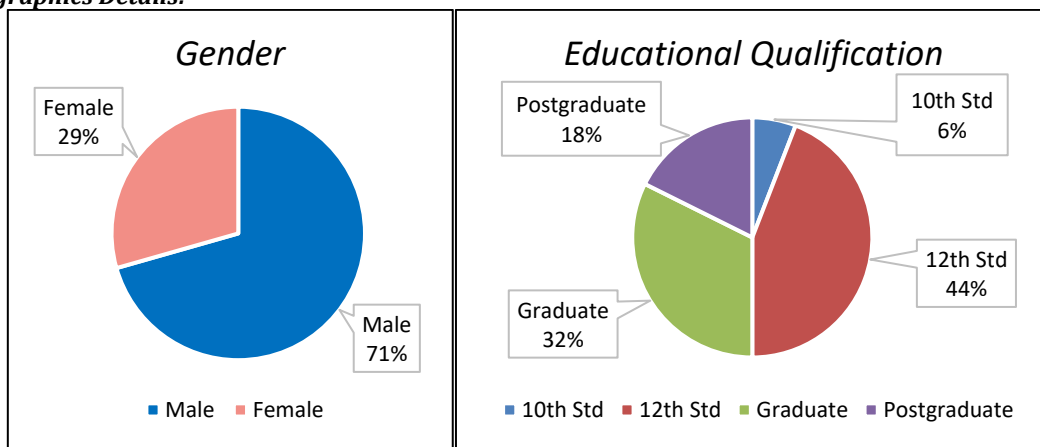


Figure 1. Gender

Figure 2. Educational Qualification

Source: Primary Data

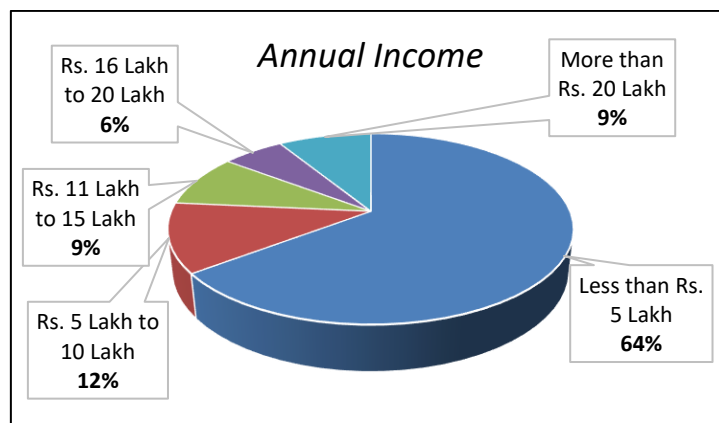


Figure 3. Annual Income

The above figure 1 & 2, depicts the demographic profile of the total 34 respondents. Nearly 71% of the respondents are "Male" and the remaining 29% are "Females". Majority of the respondents fall under the age group of 18 - 25 years. Looking at the educational qualification of the respondents, 44% respondents have completed their 12th std and are pursuing graduation in various different fields. 32% respondents are Graduates and 18% of the respondents have completed their post-Graduation.

The above figure 3, shows the annual income of the respondents. Around 64% respondents fall in the category of Less than Rs. 5 lakhs of salary. 12% respondents fall in the category of Rs. 5 lakhs to 10 lakhs of salary. 9% respondents fall in the category of Rs. 11 lakhs to 15 lakhs of salary. 6% respondents fall in the category of Rs. 16 lakhs to 20 lakhs of salary. 9% respondents fall in the category of More than Rs. 20 lakhs of salary.

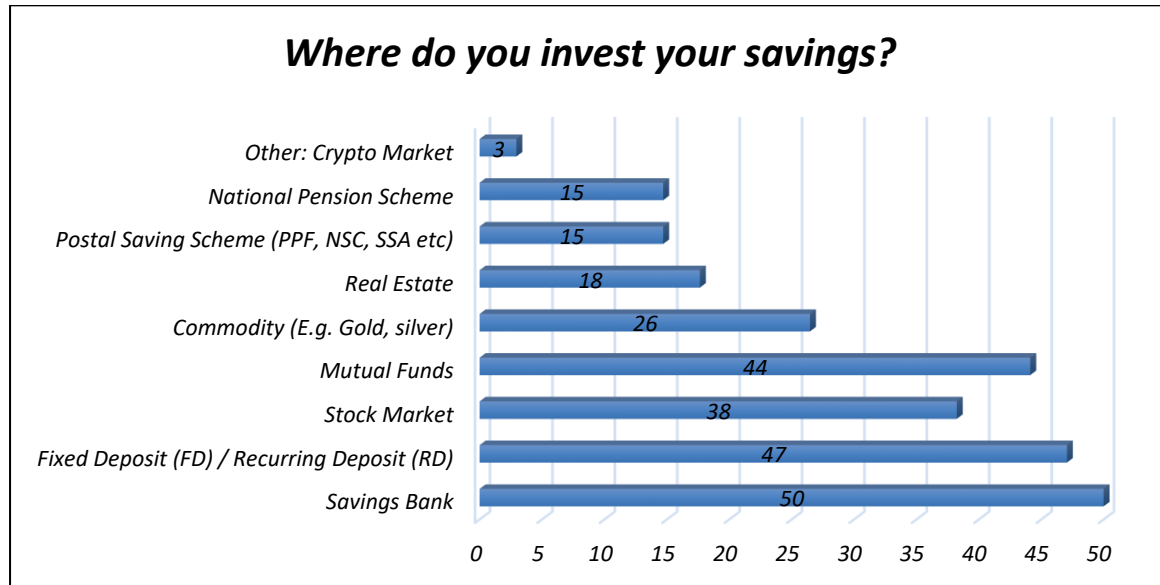
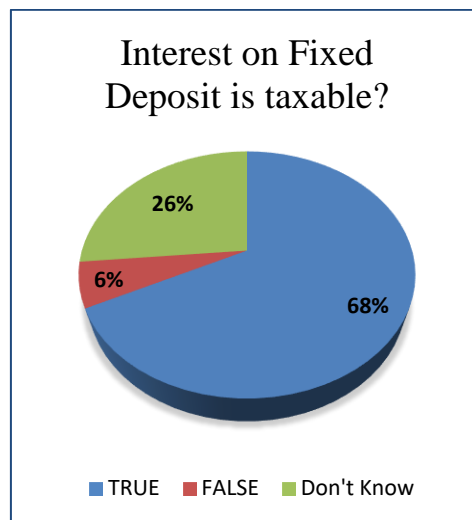


Figure 4. Graph showing Where do respondents invest their savings.

Source: Primary Data

Question: Where do you invest your savings?

The respondents were asked where they invest their savings. A single person invests his savings in many different instruments at a single time to avoid risk and diversify his/her portfolio for better returns. Figure 4. shows, the percentage of people investing in different investment types/schemes. Among 34 respondents, 50% choose Savings Bank account. 47% respondents choose to keep their savings in Fixed Deposit (FD) / Recurring Deposit (RD). 44% responded choose investing in Mutual Fund than 38% who choose Stock Market. Significant amount of responded choose other options as well such as 26% in Commodity, 18% in Real Estate, 15% in Postal Savings Schemes, 15% in National Pension Scheme and 3% in others category which included Crypto Market.



Question: "Interest on Fixed Deposit is taxable."

Fixed Deposit is a basic form of investment. Most of the people keep certain amount in fixed deposit as an emergency fund due to its high liquidity. This question was asked to understand how much respondents are aware that the interest they earn on FD is taxable. Among the 34 total respondents, 68% selected True option.

Which means they are aware of the fact that it is taxable. 26% respondents said they *Don't know* and 6% respondents said that FD is non-taxable.

Question: Suppose you have invested Rs 1000 in a 5-year fixed deposit with an interest rate of 10% per year and you never withdraw money or interest payments and let it grow. After 5 years, how much amount would you get at maturity?

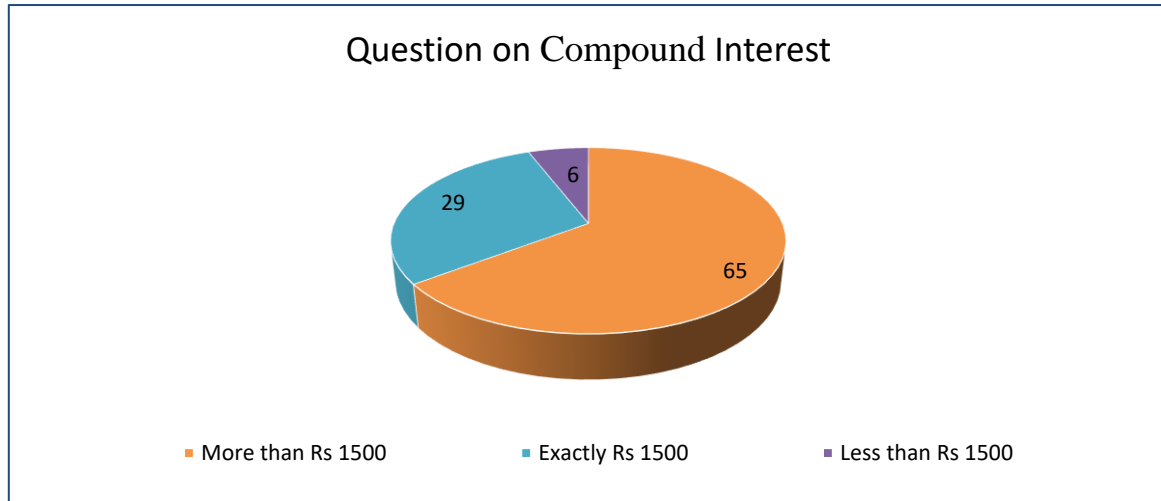


Figure 6. Question asked on Compound Interest.

This question on *Compound Interest* was asked to the respondents. Figure 6. Represents the percentage of respondents selecting a specific answer. 65% of the respondents choose the correct answer i.e. *More than Rs 1500*. Around 29% of the respondents choose *Exactly Rs. 1500* and remaining 6% choose *Less than Rs 1500*.

Question: Which of the following statements describe the main function of the stock market?

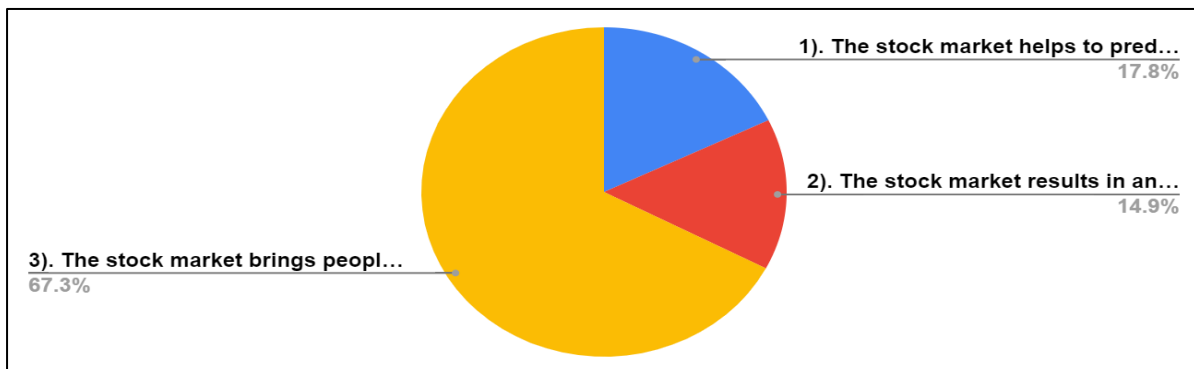


Figure 7. Question asked on Stock Market

Source: Primary Data

In this question, 3 options were given to check the knowledge about Stock Market.

1. The stock market helps to predict stock earnings.
 2. The stock market results in an increase in the price of stocks.
 3. The stock market brings people who want to buy stocks together with those who want to sell stocks.
- Around 67% respondents choose the correct answer i.e. *The stock market brings people who want to buy stocks together with those who want to sell stocks*. 17% of respondents choose 1st option and 14% choose 2nd option.

Question: Which type of Mutual fund has a lock-in period of 3 years?

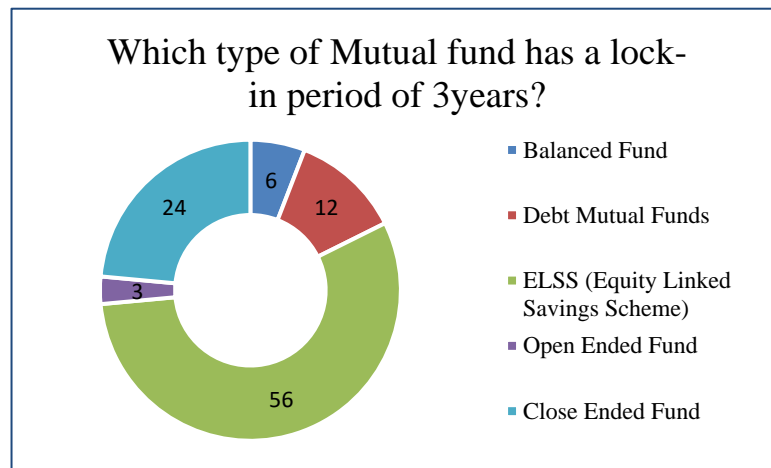


Figure 8. Chart showing responses on Mutual Fund lock-in period.

Figure 8, represents upon asking “Which type of Mutual fund has a lock-in period of 3 years?”, 56% of respondents selected ELSS (Equity Linked Savings Scheme), 24% selected Close Ended Fund, 12% selected Debt Mutual Fund, 6% and 3% selected Balanced Fund and Open-Ended Fund respectively.

CONCLUSION

The study reviews the financial literacy among the 34 respondents. It is seen that there is a significant difference in the level of financial literacy among the respondents, and significant proportion of the population lacks basic knowledge and skills in financial management. Many factors such as age, gender, educational qualification, income also play a role in determining the level of financial literacy.

However, The National Centre for Financial Education (NCFE) along with RBI, SEBI, IRDAI, PFRDA have put in many efforts to provide financial literacy among the people which we have discussed in the literature review. Overall financial literacy among people has increased significantly since the last decade. Use of Mobile banking and use of smartphones have created a significant impact and people have started realizing the importance and have understood how they should invest their savings.

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