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## Contrasting Levels of Financial Capability in India – An Exploratory Study

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### **Abstract:**

*It is a known fact that the engines of development of a nation largely depend upon the people use money and how they optimize the use of money. Perhaps the level of progress can be gauged from the levels of financially capable behavior exhibited by the individuals.*

*The financial capability is in turn an output of various parameters. Each of the parameters may vary across socioeconomic profile and across nations. The term financial capability can be used interchangeably with financial literacy in many nations. In any case, it is definitely an important predictor of the intensity with which financial inclusion can succeed in a nation. The levels of financial capability precede the onset of financial inclusion and play an instrumental role in speed up the macroeconomic growth. This research paper is an effort to derive a framework for financial capability in Indian context. It also attempts to find the levels of each of the components across socioeconomic profile.*

**Keywords:** *Financial capability, financial literacy, financial inclusion, growth and development*

### **1. Introduction**

Financial capability has been in news ever since financial inclusion has been in place. It is equally an important issue that demands attention. The more financial acumen, people have, more will be their effectiveness in managing their day to day finances and long-term plans. It also would mean that there will be lesser incidences of risk and there will be more chances of securing the financial well-being of an individual. Technically, it is a sum of varying parameters each measuring a different shade of a person's capability to achieve financial soundness. These parameters are individual specific and may vary in intensity across the individuals.

### **2. Literature Review**

The studies conducted so far have identified the basic elements that determine the basic framework of Financial capability, namely: knowledge and understanding, skills and competence, and confidence and attitudes.

#### *2.1. Financial Behaviour*

Kempson, et al., 2005 believed that financial capability can be viewed in terms of financial behavior that is what people do and what people should be capable of doing. Colmarbrunton, 2009 however, suggested that it also refers to the ability of people to make personal life choices about financial issues. The financial behavior is also reflected in the way people manage their money and keep a control over their finances.

The financially capable people are aware of the range of financial products available in the market and somehow they also know when to seek financial advice

#### *2.2. Knowledge and Understanding*

The Applied Research and Consulting LLC (2009) defines it as the ability to do understand various financial concepts. Colmarbrunton (2009) intended to gauge knowledge and understanding as they related to financial literacy. Kempson, et al. (2005) define financial knowledge and understanding as the ability to make wise decisions and manage money over different utilities.

A number of studies tried to establish a link between financial knowledge and behavior. Braunstein&Welch (2002) concluded that consumers demand financial products that match their short and long term financial needs.

Lusardi& Mitchell (2006) concluded that planning and economic literacy are important indicators of savings and investment success. Some studies also established the link between financial education and financial literacy.

### *2.3. Skills and Competence*

People need a lot of skills and capability to apply their knowledge and understanding to make better financial decisions. Kempson(2005) emphasized the same underlining the need of basic literacy skills and numeracy skills forming financial competence. SEDI(2005) in its independent study demarcated financial competence as the ability to apply knowledge and understanding across varied situations and it also, including the ability to manage and resolve any financial problems.

Harker (2005) stated that people who have poor financial skills will make poor financial decisions. A study for the ANZ Banking Group identified low financial skills and knowledge result in lower levels of financial competence.

### *2.4. Attitude and Confidence*

Knowledge and skills alone do not suffice for financial capability. They must have enough confidence and corresponding attitude to manage their financial affairs appropriately. They must be ready to be able to apply the requisite knowledge to exhibit financial acumen. This is largely a subject matter of attitude(Kempson, et al., 2005). The intensity of financial attitudes can be measured by ascertaining the extent to which the willingness, ability, and confidence is reflected in a person's behavior (de Meza, et al.,2008).

The role of immediate and extended family in influencing the financial attitudes of an individual was done in the study conducted by Shim, et. al.,(2009). Findings of this study suggest that higher expectations and positive attitudes toward possible financial behavior had better results on financial behavior.

### *2.5. Standard Demographic and Socioeconomic Characteristics*

Financial behavior may vary across demographic profile and socioeconomic characteristics. Several studies were conducted to ascertain the influence of demographic and socioeconomic status on Financial capability.

Most studies showed that there existed some influence on Financial capability across demographic and socioeconomic groups. The concluding results highlighted that the lowest level of financial literacy was associated with lower levels of financial education, skills, attitude and behavior.

## **3. Research Objective**

- To devise a framework for the financial capability.
- To find out the levels of financial capability across the socioeconomic profile.

## **4. Research Methodology**

- 4.1 Research Design: The design is a mix of exploratory research design to begin with and is later supported by conclusive research design.
- 4.2 Nature of Data: The initial emphasis is on collection of data from secondary sources. The data is supplemented with the first hand data or primary data
- 4.3 Data Collection Instrument: A formalised schedule to prepare a record specific to the relevant information with accuracy and completeness was decided as a data collection instrument.
- 4.4 Lucknow was the target population. The respondents were selected on a convenience basis and hence the sampling plan could be stated as stratified convenient sampling. Fair representation was given to all the strata in proportion to the actual size in Lucknow district.

## **5. Data Collection and Analysis**

Once the data was collected, it was translated into a form appropriate for analysis. This was done by coding, data feeding, and editing. First a code book for the data was prepared and the data were entered into SPSS 21.0 according to this code book. This was done to have convenience in finding the data from the table and easily decode the options used for the answers and at last editing was done to check whether any option was left blank or unanswered and place an appropriate option for it according to the conditions when survey was done.

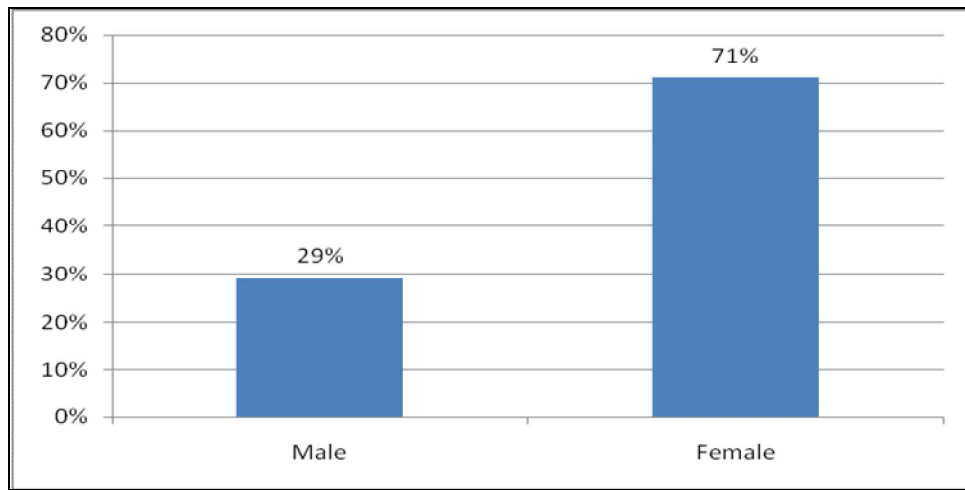


Figure 1: Control over money matters

The above figure suggests that the male does not exercise a lot of control over money matters as compared his also suggest that females are more financially capable when it comes to exercising control or restraint over financial matters.

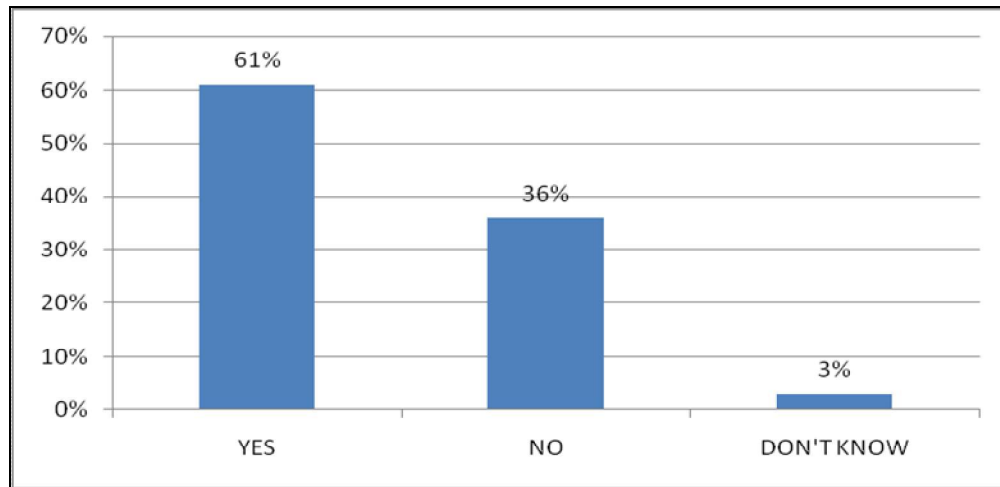


Figure 2: Ability to Budget

The above figure suggests that on an average, most people do budget their financial expenses considering their revenues as well. It also suggests that the people are more financially capable over the above parameter.

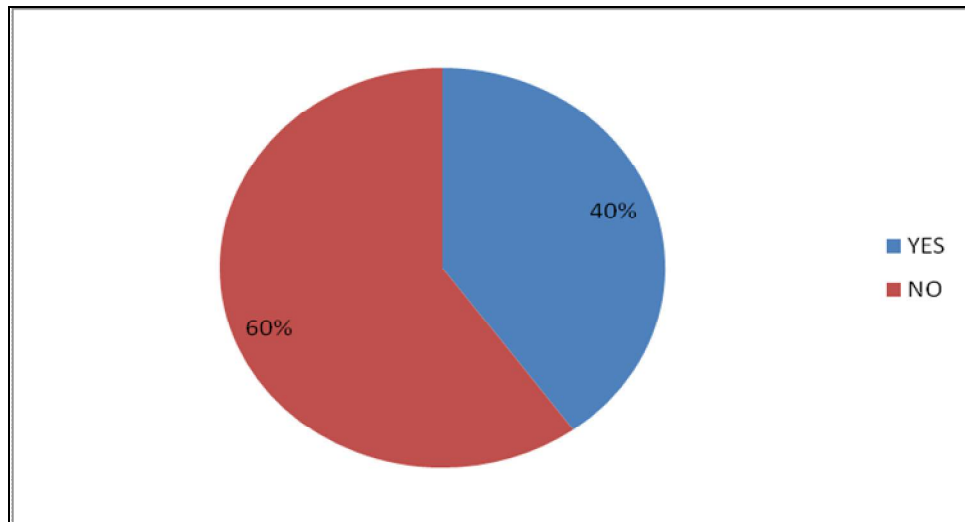


Figure 3: Ability to Save

The above figure highlights that most people fail to save depicting that their financially capable behaviours are not up to the mark.

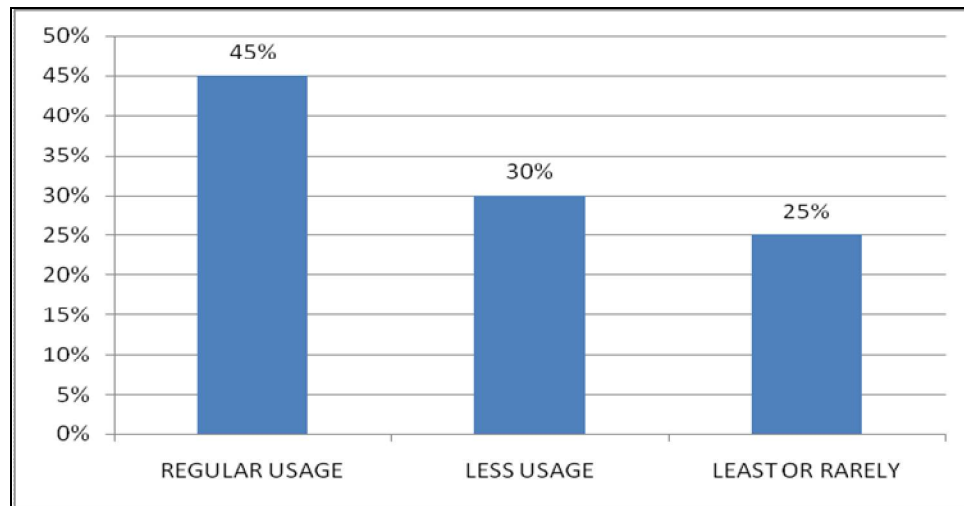


Figure 4: Usage of a Banking Product

The above figure highlights that most people fail to make a regular usage of a banking product. This may be due to lesser levels of financial awareness and due to lack of urgency. Nearly a quarter of the respondents said that they make least usage of the bank indicating their reservations about the utility of the banking product.

## 6. Conclusion

The paper has successfully concluded that financial capability could be a compilation of various subsets like the ability to save, the ability to budget, the control over money matters. It further states that the levels of financial capability vary across the socioeconomic and demographic profile.

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