FINANCIAL LITERACY EFFECT ON HOUSEHOLDS' FINANCIAL WELL-BEING

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Abstract

Purpose – The goal of the current study was to evaluate families' current financial literacy levels. The survey looks at the state of households' financial health. The study also examined the impact of household financial wellbeing on financial literacy.

Design/methodology – The researcher used questionnaires to get primary data for this purpose from the homes. Cross-sectional research was done, and the study is descriptive in nature.

Research limitations/implications – The current study used cross-sectional research and was limited to just families that made financial decisions; more pre- and post-research may be undertaken. The results of this study will be helpful to the government and decision-makers as they build policies and programs to promote financial literacy.

Results – The connection between financial literacy and financial well-being is 0.836, with a 95% confidence level P value of less than 0.05. In light of this, we are rejecting the null hypothesis (H0), according to which there is no significant relationship between financial literacy and household financial wellness, and accepting the alternative hypothesis, according to which there is a positive relationship between financial literacy and household financial wellness.

Originality/value – There have been very few research done in this setting, according to the literature review. Only a few studies on the degree of financial literacy among households and its impact on their financial well-being have been done in Jammu and Kashmir. Keywords: home, financial well-being, and financial literacy

1.0.Introduction

After the global financial crisis of 2008, education linked to financial literacy became a substantial global focus of attention (OECD, 2013). The International Network on Financial Education is established as a result, with the approval of the Group of Twenty Leaders (G20, 2012), and includes more than 230 public institutions from over 100 nations (Grifoni and Messy, 2012; OECD, 2013; OECD INFE, 2012). Every economy must manage its finances effectively and efficiently to ensure both short-term liquidity and long-term solvency (Bhushan, 2014). Along with this, managing personal finances is crucial if we are looking for an individual or household. Financial literacy affects one's capacity to use and manage money effectively and to make wise decisions (Bhushan & Medury, 2013). Financial literacy is the process through which one may increase knowledge with financial markets, financial instruments, fundamental financial ideas, and related dangers. It also builds a person's attitude towards acting in a specific way (Kumari, 2017). Financial literacy is the application of knowledge to the wise use of resources to provide financial stability (Hastings et al. 2012), to make wise decisions (Vieira, 2012), and to lead to financial independence (Kumari, 2013). Managing personal money is also essential if we're looking for a person or a family. One's ability to handle and manage money wisely and to make judgments is influenced by their level of financial literacy (Bhushan & Medury, 2013). The process of being more financially literate involves learning more about financial markets, financial instruments, basic financial concepts, and associated risks. Additionally, it develops a person's mindset towards acting in a particular way (Kumari, 2017). According to Hastings et al. (2012), financial literacy is the application of knowledge to the prudent use of resources that promotes financial stability, enables one to make informed decisions, and results in financial independence (Kumari, 2013). transportation, too. Well-being is frequently associated with happiness and fulfillment. Typically, the phrase "well-being" refers to the health sector; however, according to Praag et al. (2003), the primary correlates of well-being are employment, finances, house, physical fitness, comfort, and environmental pleasure. The goal of the current study is to investigate the impact of financial literacy on households' financial well-being in line with previously conducted studies. Accordingly, the goal of the current study is to assess family financial well-being and financial literacy levels as well as to explore the impact of financial literacy on household financial well-being.

2.0.Review of literatureFinancial literacy

Financial literacy among students from wealthy families is higher than that among students from less wealthy families, which leads to uneven family wellbeing. Additionally, it was shown that improving financial literacy levels required more than just managing personal finances (Mandell, 2008). It is essential to have financial understanding and financial literacy to develop an attitude that is pertinent for the financial decision-making, financial behavior, and knowledge, and is considered to be a crucial support for the development of a sound financial system (Campbell, 2006; Vieira, 2012). Financial literacy is important to make an individual capable of taking better financial decisions and handling various financial issues, such as using various financial services. Financial literacy is a more limited notion than financial competence since it includes elements like financial behavior and financial self-efficacy. As a result, nations with weaker savings incentives tend to spend less on financial literacy (Taylor, 2011; Jappelli & Padula, 2013).

According to the RBI (2017), financial literacy is broadly described as "offering familiarity with and comprehension of financial market goods, notably rewards and dangers, in order to make educated decisions. Consumers that are financially educated are better equipped to handle their money and avoid excessive risk, debt, and financial exclusion (European Banking Federation, 2009).Enhancing one's financial literacy and understanding can help one make more informed decisions and enable them to engage in the economy, which will increase one's own and society's financial satisfaction (OECD, PISA, 2015).

Although phrases like financial literacy, financial capacity, and financial competency have been suggested (Financial Services Authority, 2006; Remund, 2010; OECD-INFE 2011, Finke and Huston, 2014; Lusardi and Mitchell, 2014), there is no official term to characterise it. Huston (2010), on the other hand, summarizes the measures of financial literacy and divides them into two components (Remund, 2010; Huston, 2010) as well as knowledge of financial concepts, interpretation of financial concepts, management of personal finances, financial decision-making skill, and effective planning for financial needs. Financial literacy is a decision (Lusardi and Mitchell, 2014) as much as a talent (Huston, 2010). Financial decision-making, behavior, and wellness are conceptually distinct from financial literacy, which is a standalone notion of human capital (Finke & Huston, 2014). Young people's financial risk tolerance and saving habits are significantly impacted by financial literacy (Murendoa & Mutsonziwab, 2017; Tezel, 2015). Financial capacity, financial knowledge, financial education, and financial competence, according to (Zait & Bertea 2014), have all been used as proxies for financial literacy. Growing financial literacy promotes widespread economic improvement and intensification (Vieira, 2012). Numerous concepts, like as numeracy, understanding of inflation, and risk diversification, can be used to evaluate an individual's or household's financial literacy (Lusardi and Mitchell, 2014). This phrase was first used by Lusardi and Mitchell in a 2004 study on retirement and health in the United States; it is now often used in the literature (Lusardi and Mitchell, 2011). The cost of financial services and ignorance are other factors that limit the utilization of different financial services. Financial planning is strongly influenced by one's attitude towards money and level of financial literacy (Hastings and Tejeda-Ashton, 2008; Cole et al., 2011; Bhushan, 2014; Ali et al., 2015; Lusardi and Tufano, 2015).

3.0.Financial Well-Being

(Rutherford & Fox, 2010) used data from 458 homes with young adults and found that financial wellness may be assessed based on debt management, health insurance, financial contentment, spending habits, planning prospects, and a strategy for financial risk. (Patel, 2019) used data from 332 self-employed people and discovered a positive association between subjective and financial well-being. They also looked at how prevalent this correlation is among those with excellent financial abilities. Additionally, it had been mentioned that study is necessary to determine whether there is a relationship between wellbeing and self-employment.

At the individual level, there is a notable correlation between happiness and psychological happiness (Wright, T. A., & Cropanzano, 2000). (Gatina, 2016) carried out their research in Australia and looked at the elements impacting migrants' well-being. They discovered that immigrants are often less content with their life than those who were born in Australia.

(Shim, 2009) used data from 781 undergraduate and graduate students as their respondents and determined that self-actualizing individual's value, financial teaching at home, and mandated financial education at school may possibly result in significant preventative socialization functions to acquire awareness about financial substances and form behavioral intentions based on that understanding and awareness. Parents' self-control and people's perceptions are important in obtaining financial well-being, which also includes academic achievement, life happiness, and psychological and physical health.

(Madero-Cabib, 2016) investigated the idea that a simple indicator of a person's financial well-being at retirement is their household correspondence earnings. Frailty and wellbeing were revealed to be significantly negatively correlated by (Hubbard, 2014). Furthermore, it was discovered that wealth and economic status had no appreciable impact on infirmity and worse subjective wellbeing. Additionally, it was shown that financial resources do not fully disclose the psychological repercussions of frailty. (Donnelly et al. 2012) carried out four online questionnaires and discovered that those who think about their financial stability manage their money more carefully than those who don't. Money management results in increased savings, lower debt, and less impulsive shopping.

4.0.Financial Literacy and Financial Well-Being

Financial well-being and retirement planning are strongly correlated with financial literacy (Lusardi and Mitchell 2007, Lusardi 2008, Hung et al. 2009). Financial literacy and wise financial decisions lead to improved financial wellness and decreased financial worry (Kim, 2007; Schmeiser & Seligman, 2013; Taft, 2013).According to Adam et al. (2017), financial literacy is important in determining seniors' financial well-being. Financial literacy leads to financial well-being (Zulfiqar, 2016).

Financial literacy education is important and has a lot of potential to reach more individuals. Many initiatives are being taken to improve financial health through raising the degree of financial literacy in order to accomplish this. The school's curriculum includes instruction in financial literacy (Blue et al. 2014).

5.0.Hypothesis

$H0_1$: there is no significant influence of financial literacy on financial well being of the households.

HA_1: there is significant influence of financial literacy on financial well being of the households

6.0.Methodology

Cross-sectional research methodology was utilized in this descriptive study. For the research, the homes had been chosen. The study's core data had been gathered, and the respondents were families that made financial judgments. The approach of purposeful random sampling had been applied. The study accessed the current state of families' financial literacy and well-being as well as the impact of financial literacy on both. To determine the relationship between financial literacy and financial well-being as well as the impact of financial literacy on financial well-being, tests of correlation and linear regression were utilized.

7.0.Results and discussion

Objective 1: To study the present status of financial literacy among households.

To gauge the current level of financial literacy based on numeracy abilities, inflation, risk diversification, and time worth of money, five questions had been posed. Out of 250 respondents, only 26% correctly answered questions based on numeracy, 39% correctly answered questions based on inflation, only 18% correctly answered questions based on time value of money, only 5% correctly answered questions based on mutual funds, and only 30% correctly answered questions relating to insurance. Overall, it can be said that just 24% of respondents provide accurate responses to the financial literacy-related questions. Based on these findings, it can be argued that families have a poor level of financial literacy, which is supported by (Jayaraman & Jambunathan, 2018; OECD, 2013; Visa, 2012; Lusardi, 2008).

Objective 2: To examine the status of financial well being of households.

Only 15% of respondents are extremely certain that they can live a lavish life as a result of their money management, and only 8% of respondents firmly believe that they can manage unforeseen costs. The majority of responders, 78%, concur that handling money is stressful. This leads to the conclusion that respondents' financial well-being is not very excellent.

Objective 3: To analyses the influence of financial literacy on financial wellness of the households.

Table 1

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	1.647	.563		2.868	.005			
	FL	.859	.056	.846	15.157	.000	.866	.846	.856

a. Dependent Variable: FWB

P value is less than 0.05 levels at a 95% level of confidence, as stated in the table. Therefore, based on this, we are rejecting the null hypothesis (H01), which states that financial literacy has little to no impact on the financial wellbeing of government school teachers, and the alternative hypothesis (H02). It is acknowledged that financial literacy has a substantial impact on households' financial well-being. Financial literacy and financial well-being showed a strong positive connection of 0.836. According to the table, the P value is less than 0.05 levels at a 95% level of confidence. Therefore, based on this, we reject both the alternative hypothesis (H02) and the null hypothesis (H01), which asserts that financial literacy has little to no effect on the financial prosperity of government school instructors. Financial well-being in households is known to be significantly impacted by financial literacy. The correlation between financial literacy and financial well-being was quite positive (0.836).

8.0.Conclusion

Every individual must have a solid understanding of financial principles in order to make wise and productive financial decisions. Everyone has a job, but what matters is whether or not they are able to make the best financial decisions at the correct moment. Knowing how to handle finances is vital in order to do this. The psychology of the individual or their financial behavior is the most essential aspect that impacts how they use money and make financial decisions, contrary to what we sometimes assume about those who work extremely hard to obtain money and utilize it very wisely. According to the findings, there is a positive relationship between financial literacy and financial well-being. These findings are consistent with those made by Lusardi and Mitchell in 2007, Lusardi in 2008, and Hung et al. in 2009. Thus, it may be deduced that a person's financial well-being increases with their level of financial literacy. Based on the results of the study, it was concluded that very few respondents are financially literate and have less knowledge of financial concepts. It was therefore advised that literacy programs be organized and concentrated on increasing households' understanding of fundamental concepts in order to help them develop the financial knowledge and skills necessary for sound financial decisions. The scope of the current study was the UT of Jammu and Kashmir. Additional states and UTs may also be targeted.

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10.0.References

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