Analysis of Financial Literacy of Retail Investors and their Investment Decisions in Coimbatore

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ABSTRACT: This study is about understanding and measuring the financial literacy of retail investors in Coimbatore. Investing in the market is risky if you don't possess the required knowledge or resources. This study will highlight the pros and cons of having basic financial literacy and the factors that influence it. It will also help in providing ways and means of improving one's financial literacy to make better informed investment decisions.

INTRODUCTION TO THE STUDY:

Financial literacy is the ability to make sound financial decisions, regardless of unpredictable life events. It is also important for investors to be able to make high profits with little risk. Financial literacy is the ability to understand the mechanics of financial markets and products, and to make informed investment decisions. Financial literacy is becoming increasingly important as new and innovative financial products are developed, the financial market becomes more intricate and complex, and political, economic, and demographic variables change. Factors that affect financial literacy to a greater extent include education, income, and gender. According to a survey conducted by the financial express, India's financial literacy rate is only 27%. The Government of India, in collaboration with the Reserve Bank of India (RBI), is working to improve the situation in order to boost the economy's general well-being. Commercial banks, SEBI, IRDA's (Insurance Regulatory and Development Authority) financial education efforts, and PFRDA (Interim Pension Fund Regulatory and Development Authority) are some of the organisations working to enhance financial literacy in India.

STATEMENT OF THE PROBLEM:

Retail investors are people who are non-professional investors who buy and sell securities or funds that contain a basket of securities such as mutual funds, exchange traded funds, equity shares etc. Investing in these instruments means taking risk and they should be aware of that. A lot of investors buy securities just on the recommendations of other people. In today's world with there being more complicated financial products, the want of financial literacy becomes noteworthy. Investors should make a conscious effort to know about the markets and its conditions. This includes both domestic and global markets. A fair knowledge about the market conditions will help them take better financial decisions. This research problem focuses on analyzing the level of financial literacy of retail investors in Coimbatore. It will also study the investment decisions taken by a retail investor and how those decisions are influenced by their level of financial literacy.

NEED FOR THE STUDY:

Financial literacy is the ability to understand and manage money. It includes knowledge about financial concepts, the ability to use that knowledge confidently, and behaving responsibly when making financial decisions. Financial literacy is a major challenge faced by many countries, and this study will look at how well retail investors understand financial concepts and use that knowledge to make informed decisions. If needed, the study will provide suggestions to improve the level of financial literacy among retail investors.

SCOPE OF THE STUDY:

- This study offers an insight towards financial literacy of retail investors and its effect on their investment decisions in the city of Coimbatore.
- Research will be done to study the demographic factors that affect financial literacy.
- The relationship between financial literacy and personal investment decisions will also be analyzed.

OBJECTIVES OF THE STUDY:

Primary Objective-

- To examine the impact of financial literacy on investment decisions.

Secondary Objectives-

- To study the impact of demographic factors on financial literacy.

- To study the relation between personal investment decisions of the investors of different financial literacy level with respect to short, medium and long-term.
- To study the relationship between financial literacy and personal investment decisions.

LIMITATIONS OF THE STUDY:

- The sample is drawn from the people of Coimbatore only.
- The study is based on primary data, respondents might not disclose all the facts.
- The respondents have been selected by Judgemental sampling method.

REVIEW OF LITERATURE

1) **Hridhya.PK (2020)** explores financial literacy in India. This paper throws light on various measures taken by the regulatory bodies of India for the improvement of financial inclusion and financial literacy among the individuals and also to understand the importance of financial literacy among the individuals in the country. The findings of the study depict that we can improve the level of financial literacy by adding basic concepts relating to financial literacy in the school curriculum so that a child can lean the concept at very young age and teach the parents in case parents are illiterate. Advanced concepts of financialliteracy can be added in the higher education curriculum that will make students to have in depth knowledge on financial products that can help to have effective and efficient financial planning. Regulatory bodies can have periodical verification on their initiatives.

2) **J. Gajendra Naidu (2017)** studied financial literacy in India. The study's findings show that we may enhance financial literacy by including fundamental financial literacy principles in school curricula so that children can learn the concept at a young age and teach their parents if they are illiterate. Advanced financial literacy principles can be incorporated into higher education curricula to provide students with in-depth knowledge of financial products that will aid in successful and efficient financial planning. Regulatory organisations might have their initiatives verified on a regular basis.

3) **Kamboj, Samriti (2017**) looked into financial literacy and its impact on investment behaviour. This research provides information on characteristics of investment behaviour and also familiarises people with few important financial terms such as financial attitude,

behaviour, knowledge and literacy.

4) **Lavanya Rekha Bahadur (2015)** studies Financial Literacy in India. The research paper attempts to look at the Indian Economy as an Emerging Global Superpower. Financial literacy is the ultimate pillar of a strong financial system. The findings of the study depict that financial literacy and financial education should be on the agendas of educators, businesses, government agencies, policy makers, NGOs and the issues should be dealt with policy reforms at the national level. Thus, it is important to achieve highest possible financial literacy in the country as its benefits are not restricted to an individual or family, but to the society and the macro economy as a whole.

5) **Lusardi and Mitchell, O. S., (2014)** examined the economic importance of Financial Literacy. This paper undertakes an assessment of a rapidly growing body of economic research on financial literacy. Their findings depict that in our dynamic and complex financial marketplace, financial education must be a life-long pursuit that enables consumers of all ages and economic positions to stay attuned to changes in their financial needs and circumstances and to take advantage of products and services that best meet their goals. Well-informed consumers, who can serve as their own advocates, are one of the best lines of defense against the proliferation of financial products and services that are unsuitable, unnecessarily costly, or abusive.

RESEARCH METHODOLOGY

Research design: Descriptive research design

Population: Infinite

Sampling technique: Judgemental sampling

Sample size: 100 respondents

Method of data collection: Both primary and secondary data collection methods areused for this study. Secondary data collection methods include journals and magazines.

Tools used for data collection: A **questionnaire** will be used for the collection of data.

Tools used for analysis: Simple percentage analysis, Chi square test and Correlationanalysis.

ANALYSIS AND INTERPRETATION:

Table 1: Key Demographics of the respondents

Demographics	Gender		Marital Status		Age group				
	Male	Female	Married	Unmarried	15-25	26-35	36-45	46-55	55+
No. of respondents	86	14	59	41	36	16	23	16	9
Total	100		100		100				

Interpretation: From the above table it is observed that 86% of the respondents were male and 14% were female, 59% of the respondents are married and 41% of the respondents are unmarried. 36% of the respondents were between 15-25 years, 16% of the respondents were between 26-35 years, 23% of the respondents were in between 36-45 years of age, 16% of the respondents were between 46-55 years and 9% of the respondents were aged above 55.

Table 2: Rate of return of the respondents

	Expected					Actually got				
Rate of return	1-5%	5-10%	10-15%	15-20%	20%+	1-5%	5-10%	10-15%	15-20%	20%+
No. of respondents	3	15	22	27	33	11	28	34	13	14
Total	100					100				

Interpretation: From the above table is observed that 3% of the respondents expect 1-5% return, 15% expect 5-10% return, 22% expect 10-15% return, 27% expect 15-20% return and 33% expect a return of more than 20%. 11% of the respondents get 1-5% return, 28% get 5-10% return, 34% get 10-15% return,13% get15-20% return and 14% get a return of more than 20%.

Table 3: Investment duration of the respondents

Investment Duration	Short term	Medium Term	Long term
No. of respondents	28	49	66

Interpretation: From the above table it is observed that 28 respondents' general duration of investment is short term, 49 respondents' is medium term and 66 respondents' is long term.

Correlation Analysis: Between family income level and financial literacy level of the respondents.

S. No.	Family Income level in lakhs (x)	Financial literacy[0-10] (y)	$(x - \bar{x})$	$(y - \bar{y})$	$(x - \bar{x})(y - \bar{y})$	$(x - \bar{x})^2$	$(y - \bar{y})^2$
1	3	6	-2.375	-0.5	1.1875	5.640625	0.25
2	4	5.8	-1.375	-0.7	0.9625	1.890625	0.49
3	6.5	7.2	1.125	0.7	0.7875	1.265625	0.49
4	8	7	2.625	0.5	1.3125	6.890625	0.25
Total	**$\Sigma x = 21.5$ n = 4 $\bar{x} = \Sigma x/n = 5.375$**	**$\Sigma y = 26$ n = 4 $\bar{y} = \Sigma y/n = 6.5$**			**$\Sigma(x - \bar{x})(y - \bar{y}) = 4.25$**	**$\Sigma(x - \bar{x})^2 = 15.6875$**	**$\Sigma(y - \bar{y})^2 = 1.48$**

rxy = Co-efficient of x and y

$$= \frac{\Sigma(x - \bar{x})(y - \bar{y})}{\sqrt{[\Sigma(x - \bar{x})^2 . \Sigma(y - \bar{y})^2]}}$$

$$= 4.25/\sqrt{(15.6875 X 1.48)}$$

$$= 0.88$$

Interpretation: Since, the value of "r" is 0.88; it shows that there is moderate positive correlation between the two variables. The high numerical values of one variable relates to the high numerical values of the other variable and vice-versa. This shows that those who have high family income have higher financial literacy and vice-versa.

Chi square test:

H0 - Null hypothesis

There is no association between age and financial literacy of the respondents.

H1 - Alternative hypothesis

There is association between age and financial literacy of the respondents.
Calculated value = $x^2 = \Sigma (O-E)^2/E$

$$x^2 = 11.28$$

Degree of freedom = (R-1) (C-1)
= (5-1) (5-1)

= 16

Level of significance = 5%

From the chi- square table value sheet, table value for 16 degrees of freedom and 5% level of significance is 26.30

Interpretation:

The calculated value is less than the table value therefore the null hypothesis is accepted meaning that there is no association between age and financial literacy of the respondents. We can also say that the alternative hypothesis is rejected.

FINDINGS:

- It is observed that the average financial literacy score of the respondents is 6.8.
- It is observed that the male respondents have a financial literacy score of 6.7 which is lesser than that of female respondents who have a financial literacy score of 7.07.
- It is observed that there is no significant difference in the financial literacy of married and unmarried male respondents who have a financial literacy score of 6.69 and 6.85 respectively whereas the financial literacy score of unmarried female respondents is 7.71 and when it comes to married female respondents, the financial literacy score drops down to 6.4.
- It is observed that respondents who prefer “high risk, high return” investment alternative have a financial literacy score of 6.6 whereas respondents who prefer “low risk, stable return” investment alternative have a financial literacy score of 6.9.
- It is observed that the average rate of return respondents got from their investments which included equity is 12.87% p.a. and the average rate of return respondents got from their investments which did not include equity is10.38% p.a.
- It is observed that the average rate of return expected by the respondents is 16.1% p.a. whereas the average rate of return respondents get is only 12.05% p.a.
- It is observed that on an average, respondents invest 16% of their income.

SUGGESTIONS:

The level of financial literacy can be raised by including fundamental ideas in the school curriculum and by updating regulatory bodies regularly. Higher education curricula should also incorporate advanced financial literacy principles. Financial service providers should focus on providing simple and flexible products and speedy transactions, and borrowers should be informed about government programs and schemes. Rural people should be aware that their kids can study even with few resources and that loans are available. National policy reforms are necessary to address the concerns of financial literacy and financial education.

CONCLUSION:

Financial literacy is a key ingredient for any country's economy and is essential for social stability. Nationally, there is a lack of financial literacy, with many people not knowing how to make sound financial decisions in complex markets. Many initiatives have been taken to improve financial literacy, but much work needs to be done to improve financial literacy in developing economies. Financial literacy should be seen as a fundamental right and be pursued at all levels of society.

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