

Financial Literacy, Saving and Investment Pattern in Rural India: A Case study of Golihole Village of Udupi District

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ABSTRACT

National Financial Educators Council (NFEC) of USA suggests that Financial Literacy refers to “possessing the skills and knowledge on financial matters so that effective actions can be taken efficiently that best fulfills first an individual’s personal and family goals, thereby meeting community goals at large” Thus, Financial Literacy is a combination of financial awareness, knowledge, skills, attitude and behaviors’ necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. Of course, saving is income not spent, deferred consumption or the approach by which the money is kept aside for having a return expectation in future comparatively lesser in comparison to investment and Investment may be defined as the process of purchase of financial instruments or other items of value with an expectation of favorable future return as defined by investorwords.com. Today, in the market economy, entire economic activities depend upon saving and investment in or the other way. Status of financial literacy decides quantum of these two variables. In a country like India where majority population are still inhabited in rural area and as per the observations their financial literacy rate is very low. This paper is an attempt to assess status of financial literacy, Saving and Investment Pattern in rural India. To make study more precise, inhabitants of Golihole Panchayath of

Kundapura Taluk of Karnataka, are selected as sample and collected data from them. The paper works on the objectives like, to know status of financial literacy among the rural people in the study area, to study the main purpose of savings in among rural people, to examine the pattern of investment in the study area and to analyze the problems being faced by rural inhabitants regarding the saving and investment. To analyze the data, simple statical tools like percentage, growth rate, graphs etc are used.

Key words: Financial Literacy, Saving, Investment Pattern, Rural area.

Introduction

National Financial Educators Council (NFEC) of USA suggests that Financial Literacy refers to “possessing the skills and knowledge on financial matters so that effective actions can be taken efficiently that best fulfills first an individual’s personal and family goals, thereby meeting community goals at large” Thus, Financial Literacy is a combination of financial awareness, knowledge, skills, attitude and behaviors’ necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. Of course, saving is income not spent, deferred consumption or the approach by which the money is kept aside for having a return expectation in future comparatively lesser in comparison to investment and Investment may be defined as the process of purchase of financial instruments or other items of value with an expectation of favorable future return as defined by investorwords.com. Today, in the market economy, entire economic activities depend upon saving and investment in or the other way. Status of financial literacy decides quantum of these two variables. In a country like India where majority population are still inhabited in rural area and as per the observations their financial literacy rate is very low. This paper is an attempt to assess status of financial literacy, Saving and Investment Pattern in rural India. To make study more precise, inhabitants of Golihole Panchayath of Kundapura Taluk of Karnataka, are selected as sample and collected data from them. The paper works on the objectives like, to know status of financial literacy among the rural people in the study area, to study the main purpose of savings in among rural people, to examine the pattern of investment in the study area and to analyze the problems being faced by rural inhabitants

regarding the saving and investment. To analyze the data, simple statical tools like percentage, growth rate, graphs etc are used.

II. Objectives

1. To know status of financial literacy among the rural people in the study area,
2. To study the main purpose of savings among rural people,
3. To examine the pattern of investment in the study area and
4. To analyze the problems being faced by rural inhabitants regarding the saving and investment.

III. Data and Methodology

The study is based on primary as well as secondary data sources. The primary data are collected by conducting field survey in Golihole village panchyath area, of Kundapura Taluk. of Udupi District, having inhabitants around 5000. To collect the data structured questionnaire was circulated among the residents of the panchyath and respondents are selected through random sampling method. Totally more than 200 villagers are included in the sample size. Thereafter, tabular analysis is done to analysis Status of Financial Literacy, Saving and Investment Pattern in Rural India. Simple statistical methods like averages, percentages and graphs are used to analyse. Secondary sources used are published reports, Journals, Census, etc.

IV. Profile of the Respondents: Among the randomly selected villagers 33% are from less than 30years of age, 32% belonging to 31-40 years age group. In relating to gender representation, 55% representing male community, 45% from female.

Table 1
Profile of the Respondents

	Frequency	Percentage		Frequency	Percentage
Age Group			Male-Female Ratio of respondents		
18-30	66	33%	Male	110	55%
31-40	64	32%	Female	90	45%
41-50	36	18%	Types Of Family		

51>	34	17%	Joint	78	39%
Total	200	100	Nuclear	122	61%
Marital Status			Occupation		
Married.	118	59%	Farmer	38	19%
Unmarried	74	37%	Wage Labor	84	42%
Widow	08	4%	Self Employed	14	7%
Others	00	00%	Service	08	4%
Total	200	100%	Others	56	28%
Literacy Level			Number of Earning Members in Family		
Illiterate	38	19%	1	82	41%
Primary	82	41%	2	96	48%
Secondary	16	8%	3 and Above	22	11%
Higher secondary	26	13%	Monthly Income of Respondents		
Graduate	26	13%	Below Rs 20000	184	92%
Post Graduate	10	5%	Rs 20000- Rs 40000	16	8%
Diploma/Others	02	1%	Rs 40000 and Above	00	00%
Total	200	100%	Total	200	100%

Source: Primary data.

61% respondents are belonging to nuclear family and only 39% are from joint family. No doubt, Joint families are less in this part of the geography. The percentage of nuclear family indicates its dominance and it also expresses that nuclear families help to earn some income in these days. Among 200 respondents 59% are married 37% are single and 4% are widowed. It illustrates that married members are need to shoulder the responsibility of the family, and find the way of earning more. Education or literacy level of the respondents in this area is comparatively good. 41% are having primary education, 8% got secondary education, higher secondary 13%, 13% are Graduated and 5% having Post Graduation. Occupation profile of the respondents is one of the important factor which becomes either supportive or hindrance to

active participation in the financial matters. As per the sample study out of 200 respondents, 19% are farmers, 42% wage labourers, 7% self-employed and 28% respondents don't have any particular occupations. Thus, majority are landless labourers earning wages, sometime daily bases and sometime weekly bases. Number of earning members in the family 41% one member earning, 48% two members and 11% three and more members earn to maintain family expenditure. Regarding the amount of earning for month, 92% respondents earning less than 20,000 per month, actually, it starts from three thousand per month. Merger 8% respondents earn in between 21,000 to 40,000 per month (Table 1). Thus, it indicates, income and the investment capacity of respondents, is very less, majority struggle to meet their day today expenses.

V. Analysis

1. Financial Literacy among the Rural People:

Financial education is one of the main area through which people of the country economically develop. In turn it impacts positively on socio-political factors and a number of other issues in the country. India even today lies in village economy. As study is carried out in the rural area at Golihole village Panchyath regarding financial literacy, 7% of respondents budget for their family income and expenditures, rest of 93% don't have any type of plan in this regard. 88% respondents have knowledge about open the bank account and 99% are having bank or financial account in one or the other financial institutions (Table 2). Out of 200 respondents, 90% are having savings account with commercial banks, and rest of them in cooperative banks, RRB's, post offices etc. Thus, people are aware and knowledge about financial institutions, They are not approaching more to money lenders (Table 2).

Table 2

Financial Accounts and Preferred place to hoard the money.(out of 200)

	Frequency	Percentage		Frequency	Percentage
Formal Budget for Family Expenditure.			Bank/Financial Transaction Account		
Yes	14	07%	Yes	198	99%
No	186	93%	No	02	1%
Total	200	100%	Total	200	100%

Knowledge about Opening the Account			Preferred Place to Hoard the Money (out of 200 respondents) *		
Yes	176	88%	Commercial Banks	180	90%
No	24	12%	Cooperative Banks	16	8%
Total	200	100%	Insurance Company	16	8%
Type of Account (out of 200)			Post Office	12	6%
Current A/c	02	1%	Through DEMAT A/c	02	1%
Saving Account	194	97%	Money lenders/financers	00	00%
FD Account	04	2%	Regional Rural Banks	38	19%

*32 respondents were preferred two or more places to hoard the money

Source: Primary data

2. Knowledge and Sources of Knowledge about Investments Venues and Opportunities

Financial wellbeing of any individual investor is directly or indirectly related to his or her level of financial literacy. The literacy not only encompasses the approach to understand a basic financial instrument but also involves the complex process by which an investor selects a particular financial product on the basis of his future financial goals. Thus it is highly important to understand the basic financial instrument for securing your financial future. As per the study, meager 1% know about share market investment instruments and 1% about bonds and debentures, 3% about mutual funds, 13% regarding post office saving schemes, provident funds 1%, about fixed deposits 38%, Insurance policies 24%, real estate 00% but gold and silver it is 73%. Thus, study indicates and proves that the majority villagers are not aware about modern financial instruments, who are still believe and invest money in some traditionally popular portfolios like fixed deposit, gold and silver etc.(Table no.3 & Graph no.1)

When it comes to sources of information or knowledge about Investments venues and opportunities, 46% of respondents depended upon friends, relatives, Colleagues, 38% on TV programmes, 20% on bank officers and advisors, 13% on radio, 8% newspapers and magazines, 5% on internet, etc.(table No.3 and Graph no.2). The role of financial experts is very less in the investment decisions of rural people in India. They primarily depend upon friends, relatives, and

colleague because who are easily approachable, reliable & available when they need their help. Most of the time villagers are not ready to hear experts advise about modern financial instruments.

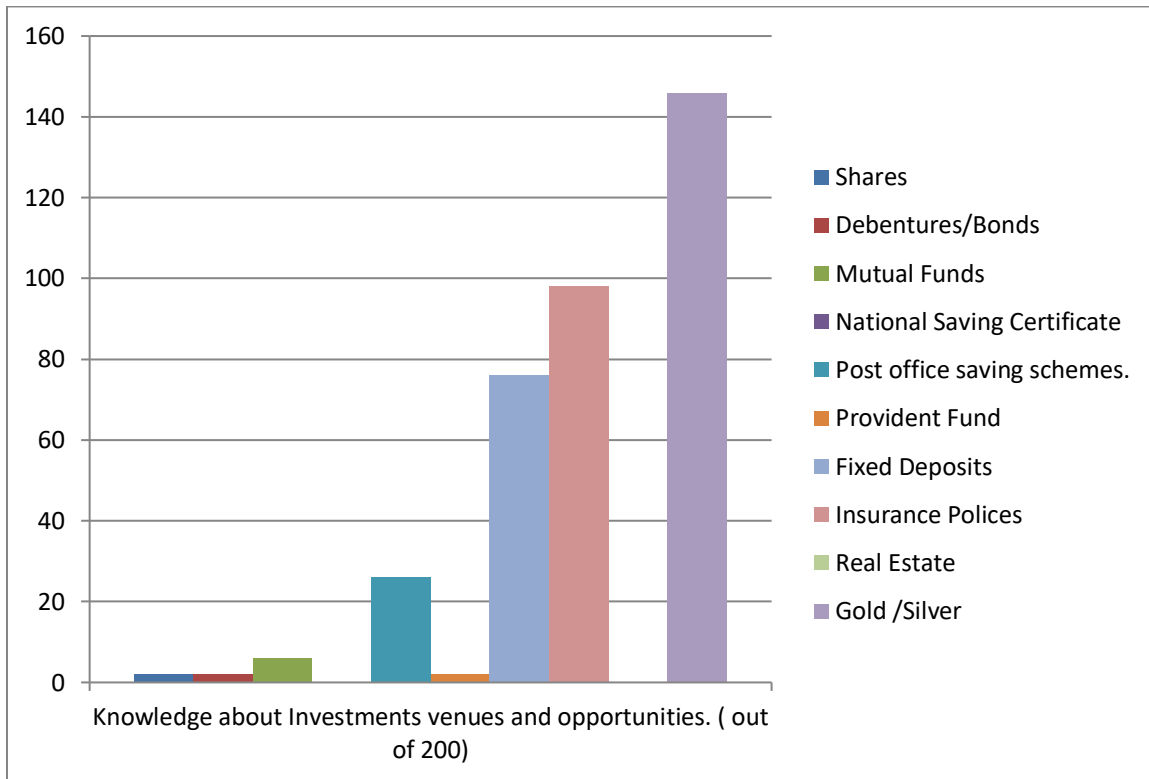
Table 3
Knowledge and Sources of Knowledge about Investments venues
and opportunities (out of 200)

	Frequency	Percentage		Frequency	Percentage
Know about *			Source of Information**		
Shares	02	1%	TV	76	38%
Debentures/Bonds	02	1%	Radio	26	13%
Mutual Funds	06	3%	News Papers/magazines	16	8%
National Saving Certificate	00	00%	Friends/Colleagues / Relatives	92	46%
Post office saving schemes.	26	13%	Internet	10	5%
Provident Fund	02	1%	Books	00	00%
Fixed Deposits	76	38%	Bank officers/Advisors	40	20%
Insurance Policies	48	24%	Certified market professionals/financial planners.	04	2%
Real Estate	00	00%			
Gold /Silver	146	73%			

*18 Respondents preferred two or more venues of investment and **13 Respondents had two or more source of Information about Financial Literacy/Behaviour

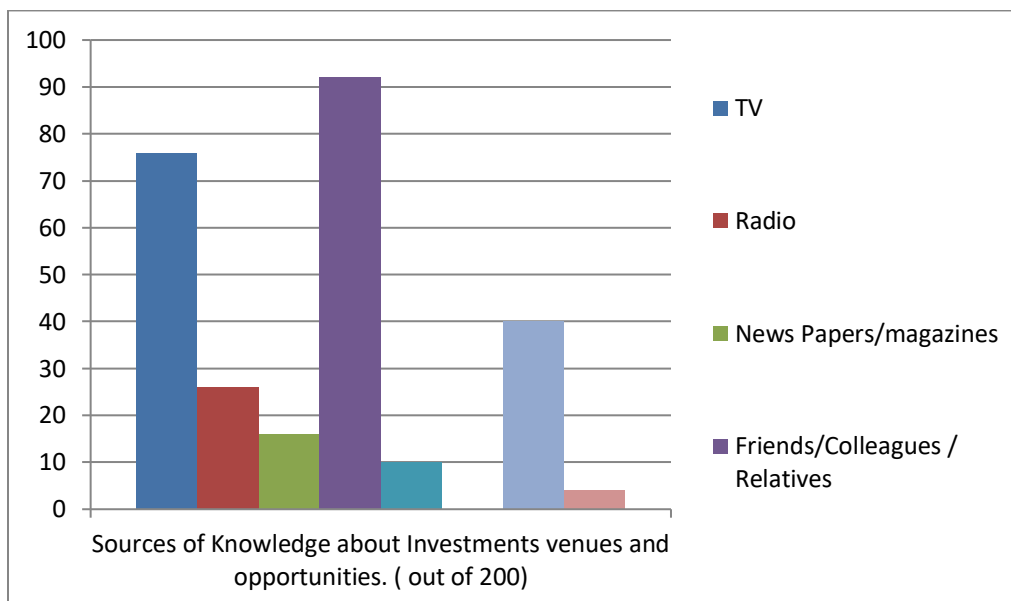
Source: Primary data.

Graph 1
Knowledge about Investments venues and opportunities (out of 200)



Graph 2

Sources of Knowledge about Investments venues and opportunities (out of 200)



3. Purpose of Savings and Different Portfolio Investments:

Savings is the portion of income not spent on current expenditures. Since a person does not know what will happen in the future, money should be saved to pay for unexpected events or emergencies. To be considered financially secure, an individual or household should save or invest at least some amount of money in different form. As per the study, people like to save or invest some money for certain purpose. In rural India, 54% saving is for their children’s marriage (particularly girl child), 32% for children’s education, 21% for future safety, 10% for health and nursing care of family members, 6% for construction of house, 7% for purchase of vehicle and 6% to purchase home appliances.(Table no.4 and Graph no.3). The purposes are lined up like that because marriage of a girl child and education to children is considered to be expensive even today by rural people in India. Future safety, Health, Home, vehicle, appliances are next priority areas. To fulfil their purposes, villagers postpone their consumption and save or invest money in 63% respondents in gold and silver, 24% in Insurance policies, 16% in post office savings, Fixed deposits etc. (Table 4 & Graph 4). It indicates that village people feel even today that gold and silver is the safest and highly liquid investment.

Table 4
Purpose of Savings and Different Portfolio Investments (out of 200)

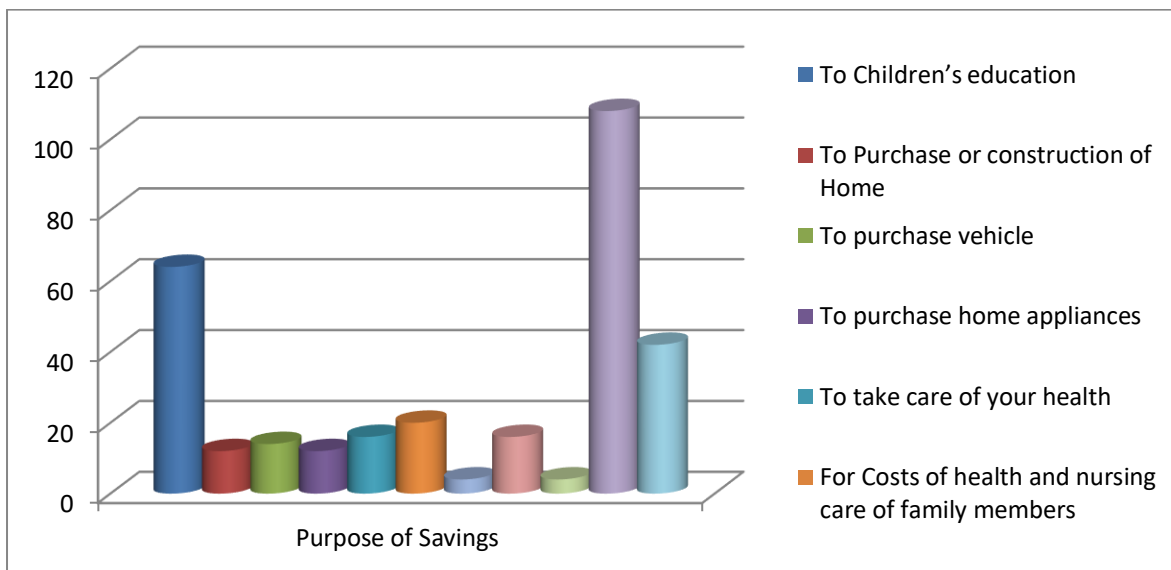
	Frequency	Percentage		Frequency	Percentage
Purpose of Saving and Investment* (out of 200)			Different Portfolio Investments ** (out of 200)		
To Children's education	64	32%	Shares	02	1%
To Purchase or construction of Home	12	6%	Debentures/Bonds	00	00%
To purchase vehicle	14	7%	Mutual Funds	04	2%
To purchase home appliances	12	6%	National Saving Certificate	4	2%
To take care of your health	16	8%	Public Provident Fund	00	00%
For Costs of health and nursing care of family members	20	10%	Post office saving schemes.	32	16%
To become rich	04	2%	Fixed Deposits	04	2%
To Maintain old age expenses	16	8%	Insurance Policies	48	24%
Wedding expenses for yourself	04	2%	Real Estate/land	00	00%
To children marriage	108	54%	Gold /Silver	126	63%
For future safety i.e Insurance	42	21%	New Pension Scheme	00	00%
			Other, Jan Dhan etc	08	4%

*46 Respondents have two or more purpose to save the money

**11 Respondents invest their money in more than one way

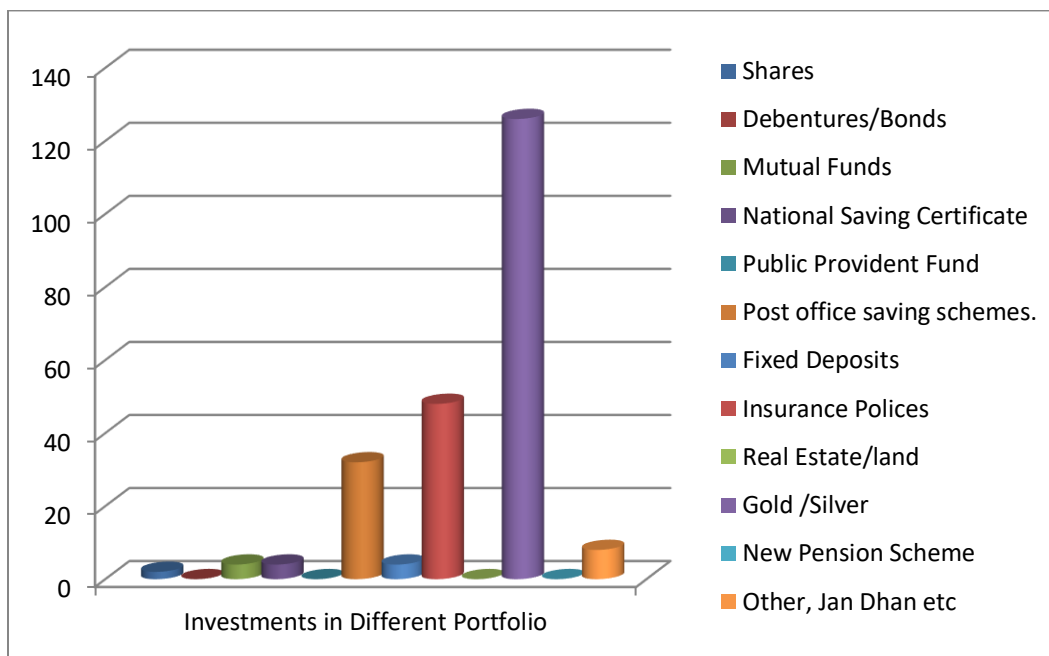
Source: Primary data.

Graph 3
Purpose of Saving and Investment* (out of 200)



They are least attracted towards a number of modern venues of investments like, shares and bonds, mutual funds, real estate, etc. it may be so because, majority are not aware about these portfolios of investments or they never feel these are safe places for their hard earned money.

Graph 4
Investments in Different Portfolio (out of 200)**



.4 Factors to be considered while making Investment:

The term ‘Investment’ generally refers to any mechanism used for generating future income. Of course, in the financial sense purchase of shares, bonds, real estate property, gold silver, etc. Thus, this act should create a corpus for saving. Cautious village people always play safer game in this respect.

Table 5
Factors to be considered while Making Investment and Problems for saving and Investments

	Frequency	Percentage		Frequency	Percentage
Factors to be considered while Making Investment(out of 200) *			Problems for Saving and Investments(out of 200) **		
Principal of Safety	118	59%	Lack of Knowledge	38	19%
High Returns	22	11%	No Interest in investments	04	2%
Regular Returns	36	18%	Fear of safety	16	8%
Prompt Return on	22	11%	No opportunity	02	1%

Maturity Period					
Low Risk	26	13%	No much earning	130	65%
Any other mention.	00	00%	Inadequate modes of savings	04	2%

*112 Respondents consider two or more factors while making investment and

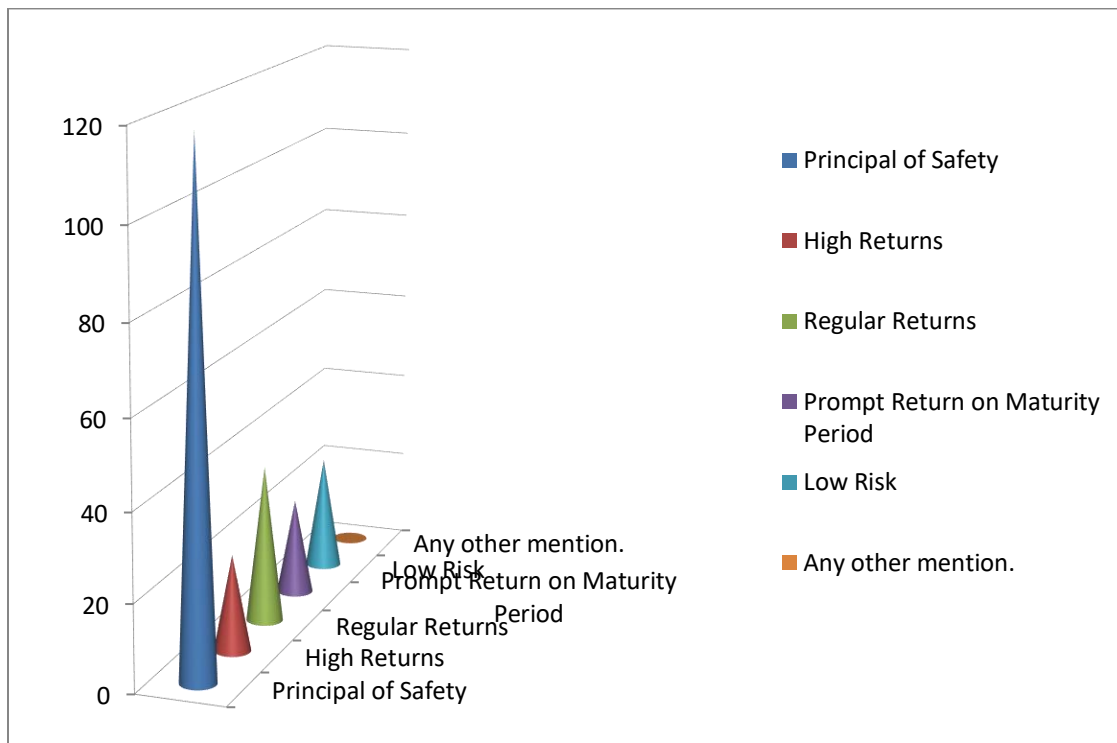
**14 Respondents were more than two Problems

Source: Primary data.

As per the study, 59% of rural citizens think about principal of safety while making saving and investment. 11% think about high returns, 18% about regular returns, 13% low risk and 11% prompt returns on maturity period.(Table 5 & Graph 5).Thus ,it is clear that safety is the most important factor before investing in any type of portfolio in the villages of India.

Graph 5

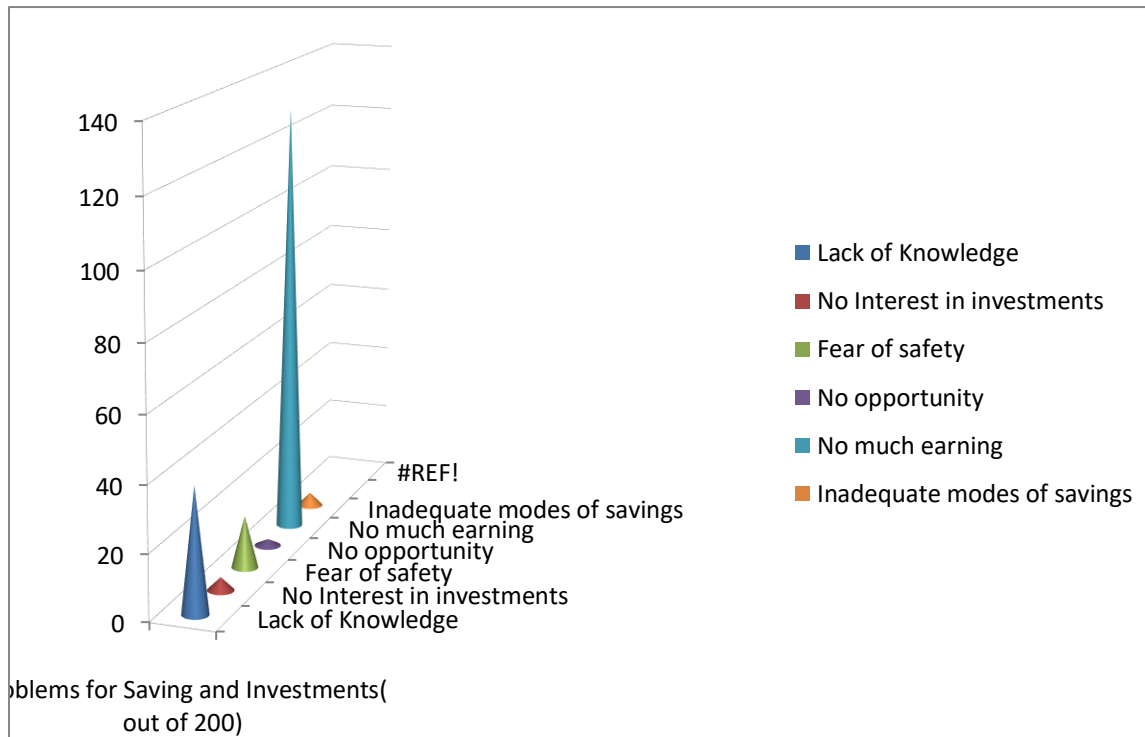
Factors to be considered while Making Investment (out of 200)



5. Problems for Saving and Investments:

Everyone has some dreams for life. For human beings, most of the time, dreams can't be realized without strong financial background. Thus, to fulfill ambition people would like to earn and save, but to residents of Indian villages, opportunities and financial literacy is limited. Usually they face a number of problems for savings and investments. As per the study, 19% respondents don't have knowledge about ways and venues of savings, 65% don't earn enough to save, 8% fear of safety and 2% said inadequate modes of savings.(Table no.5 & Graph no.6) Anyhow there is no upper limit to earn money, but everyone can save with whatever they earn, the need is financial literacy and approachable ways.

Graph 5
Problems for Saving and Investments (out of 200)



VI. Conclusion

The study regarding financial literacy, saving and investment pattern in rural India, revealed that majority in rural India are lacking financial literacy. Adding to that village residents still believe that investment in gold and silver is safer and highly liquid asset which can help them when they are in financial need. Another big problem in their mind is that they are not earning enough money to save. Of course, over the years Self Help Groups have been trying to mobilize small savings in the rural area. However, study indicates that there is dearth of financial education, which can be fought by instilling base camp containing a contingent of financial experts or by campaigning with practical examples. Thus, tendency towards saving and investing money should be boosted among rural Indians instead emphasizing the amount of money earning by the people.

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