

A study on “Financial Literacy among self- employed individuals in Aizawl, Mizoram”

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Abstract: Organisation for Economic Co-operation and Development (OECD) defined financial literacy as “the process by which financial consumers/investors improve their understanding about the financial products, concepts, risk and through information, instructions 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 the help, and to take other effective actions to improve their financial well-being”. The research aimsto study the financial behaviour of self- employed and thus have an insight on the level of financial literacy in Aizawl city. Purposive sampling was employed among those who are self-employed in 5 localities in Aizawl city. It is found that the level of financial literacy is very low in the study area. There is therefore a need to address this issue.

Key words: Financial Literacy, Self-employed, Financial behaviour

Date of Submission: 13-02-2019

Date of acceptance: 28-02-2019

I. INTRODUCTION

Organisation for Economic Co-operation and Development (OECD) defined financial literacy as “the process by which financial consumers/investors improve their understanding about the financial products, concepts, risk and through information, instructions 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 the help, and to take other effective actions to improve their financial well-being”.

Financial literacy has secured a vital role in the recent scenario due to many reasons viz. development of the new financial products, complexity of the financial markets, information asymmetry and the changes in the other economic factors in the economy.

Financial literacy is of utmost importance for economic growth because Lack of financial literacy leads to the ill-informed financial decisions and these decisions in turn, have tremendous negative impact on the financial system as a whole.

| Name of the State | General Literacy (in Percentage) | Level of Financial Literacy (in Percentage) |
|--------------------------|---|--|
| ARUNACHAL PRADESH | 55 | 10 |
| ASSAM | 61 | 20 |
| MANIPUR | 69 | 36 |
| MEGHALAGYA | 60 | 24 |
| MIZORAM | 77 | 6 |
| NAGALAND | 68 | 8 |
| SIKKIM | 73 | 8 |

Source- Data Compiled from the National Centre for Financial Education Report, 2015

The level of financial literacy in Mizoram is the lowest among the North East States of India.

II. STATEMENT OF THE PROBLEM:

Financial system comprises of inter-related financial services so as to bridge the gap between the lenders and the borrowers. This gap can be bridged only when both lenders and borrowers have adequate knowledge of the financial products and services available. Not only is financial knowledge enough but the usage of financial knowledge/financial literacy plays a vital role to boost up the activities in the financial system which leads to economic development. Therefore, this paper has been undertaken with some specific objectives which would highlight the status of financial behaviour and thereby indicate the level of financial literacy in the study area.

III. OBJECTIVES OF THE STUDY

1. To study the financial behaviour of self- employed individuals in Aizawl city.
2. To look into the level of financial literacy among the self-employed individuals in Aizawl city.

IV. METHODOLOGY

The study is descriptive in nature. Both primary and secondary data are used for the study. Purposive sampling was employed where 157 individuals were interviewed using structured questionnaire. 5 localities were covered for the study.

V. MAJOR FINDINGS FROM THE STUDY:

Profile of respondents:

| Gender | No. of respondents | No. of respondents in percentage |
|---------------------------|--------------------|----------------------------------|
| Male | 86 | 55% |
| Female | 71 | 45% |
| Age | | |
| Below 30 years | 71 | 45% |
| 30 years – 40 years | 50 | 32% |
| 41 years – 50 years | 28 | 18% |
| Above 50 years | 8 | 5% |
| Educational Qualification | No. of respondents | No. of respondents in percentage |
| Below HSLC | 96 | 61% |
| HSLC – HSSLC | 31 | 20% |
| Graduates | 20 | 13% |
| Above Graduates | 10 | 6% |
| Family size | No. of respondents | No. of respondents in percentage |
| 1-5 members | 103 | 66% |
| 6-10 members | 54 | 34% |
| Marital Status | No. of respondents | No. of respondents in percentage |
| Unmarried | 108 | 69% |
| Married | 45 | 29% |
| Divorced | 2 | 1% |
| Widows | 2 | 1% |
| Monthly Income | No. of respondents | No. of respondents in percentage |
| Below 5000 | 28 | 18% |
| Rs 5000 – Rs.10,000 | 24 | 15% |
| Rs.10,001- Rs.15,000 | 28 | 18% |
| Rs.15,001 – Rs.20,000 | 33 | 21% |
| Above Rs.20,000 | 44 | 28.02% |

Source: Primary Data

- 54% of the respondents were male and 45% were female
- 45% of the respondents were below 30 years, 32% were between 30 years to 40 years, 18% were between 40 years to 50 years and 9.03% were 50 years and above
- The educational qualification for 61% of the respondents were below HSLC, 20% were between HSLC to HSSLC, 13% were graduates and 6% were post graduates
- The size of family members for 65.52% was 1-5 members and 6 -10 members for 34.37% of the respondents
- 69% of the respondents were unmarried, 29% were married, 1% were divorced and 1% were widows.

- The monthly income for majority of the respondents were above Rs.10,000

Financial behaviour of respondents:

| Prepare monthly budget | No.of respondents | No.of respondents in percentage |
|-------------------------------------|-------------------|---------------------------------|
| Always Prepare monthly budget | 30 | 19% |
| Never prepare monthly budget | 60 | 38% |
| Occasionally prepare monthly budget | 67 | 43% |

Source: Primary Data

- 19% claimed they prepare monthly budget, 38% never prepare monthly budget and 43% occasionally prepare monthly budget.

| Spending behaviour | No.of respondents | No.of respondents in percentage |
|------------------------|-------------------|---------------------------------|
| Economical in spending | 11 | 7% |
| Somewhat economical | 66 | 42% |
| Don't know | 62 | 40% |
| Hardly save | 18 | 11% |

Source: Primary Data

- 7% claimed they are very economical in their spending, 42% claimed to be somewhat economical , 40% don't know and 11% hardly saved.

| Use of Surplus income | No.of respondents | No.of respondents in percentage |
|-----------------------|-------------------|---------------------------------|
| Lend to others | 22 | 14% |
| Keep in cash | 72 | 46% |
| Deposit in banks | 61 | 39% |
| Invest | 2 | 1% |

Source: Primary Data

- 14% of the respondents lends their leftover income to others with/without an interest,46% keep in cash,39% deposit in banks and 1% invest

| Discussion among family members | No.of respondents | No.of respondents in percentage |
|--|-------------------|---------------------------------|
| Argue how they spend money | 12 | 8% |
| Openly discuss financial matters | 90 | 57% |
| Don't openly discuss financial matters | 55 | 35% |

Source: Primary Data

- 8% claimed they argue about how to spend their money,57% claimed they openly discussed their financial matters among family members,35% claimed they don't openly discussed their financial matters among family.

| Ran out of money | No.of respondents | No.of respondents in percentage |
|------------------|-------------------|---------------------------------|
| Always | 8 | 5% |
| Very often | 16 | 10% |
| Sometimes | 62 | 40% |
| Very rarely | 55 | 35% |
| Never | 16 | 10% |

Source: Primary Data

- 5% claimed they always run out of money before their next income arrived, 10% claimed very often, 40% claimed sometimes, 35% claimed very rarely and 10% says never.

| Practice regular saving | No.of respondents | No.of respondents in percentage |
|-------------------------|-------------------|---------------------------------|
| Yes | 42 | 26.76% |
| No | 115 | 73.24% |

Source: Primary Data

- 73.24% did not practice savings regularly.

| Financial Services | Saving Acc | | Loan | | ATM | | Others | |
|----------------------------------|------------|-----|------|-----|-----|-----|--------|-----|
| | Yes | No | Yes | No | Yes | No | Yes | No |
| Use of Financial services | | | | | | | | |
| No. of respondents in percentage | 80% | 20% | 35% | 65% | 80% | 20% | 10% | 90% |

Source: Primary Data

- The type of financial services used by the respondents was mainly Bank savings account (80%) ATM(80%) and loan (35%)
- Majority of them are not aware of financial services and instruments except for bank account, ATM and loan, only 10% uses other forms of financial services which is Mutual Funds Investment.

VI. SUGGESTIONS AND CONCLUSION

It was evident that the levels of financial literacy in the area were very low. This is an issue that must be addressed rapidly.

- It is suggested that schools should consider including financial literacy in their curriculum and also encourage their students to participate in financial literacy contests.
- Bodies like SEBI, BSE, NSE, etc. should sponsor business and economics festivals in colleges to improve financial literacy. These programs will evaluate and certify students on day-to-day money management, based on their understanding of key concepts including financial and economic terms, principles of savings and budgeting, banking, taxation and stock markets, prudent investment avenues, basic accountancy and entrepreneurial skills.
- To keep the efforts to the grass root level, the delivery channels for financial education can be summed through NGOs, social marketing, adult education, self-help groups, microfinance institutes, helpline and other channels
- The commercial banks need to initiate various measures for creating awareness through financial literacy and counselling centres and rural self-employment training institutes. Thus absorbing a large segment of financially illiterate and excluded segments of prospective customers.

In conclusion, financial literacy is the ultimate pillar of a strong financial system. 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.

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Dr. K .Angela Lalhmingsangi. “A study on “Financial Literacy among self- employed individuals in Aizawl, Mizoram”.”. ” *IOSR Journal of Humanities and Social Science (IOSR- JHSS)*. vol. 24 no. 02, 2019, pp. 01-04.