



FINANCIAL LITERACY AND PARTICIPATION IN CAPITAL MARKET OPERATIONS- A STUDY AMONG TEACHERS

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ABSTRACT

"We were not taught financial literacy in school. It takes a lot of work and time to change your thinking and to become financially literate". Robert Kiyosaki

This paper aims to assess the level of financial literacy and participation in capital market operations among teachers and linkage between the two. Learning and teaching economics, management, finance, accounting subjects provide a strong base of financial literacy, but it would not effect in the building up of confidence to participate in capital market operations. Even though most of these subjects deal with how to manage money in the individual and corporate environment, it will not encourage them to put their money in the stocks and bonds of companies. Like any other Indian retail individual investor, they depend too much on bank deposits for their savings because of their presumed safety and lack of interest. Financial literacy is not the sole solution for overcoming the reluctance by the investors for participating in stock market operations.

KEY WORDS: *Financial Literacy, Participation, Teachers, Capital Market Operations*

I. INTRODUCTION

Choosing appropriate financial products and services according to one's own savings and investment objective is not an easy task for an ordinary investor. The growing number and complexity of financial products and services offered by financial institutions demand a high degree of financial literacy now a day. Inclusion of financial literacy in school/college curriculum is one solution. Financial literacy impacts the daily decisions an average family makes when trying to balance a budget, buy a home, fund their children's education and ensure an income at retirement. India is undertaking a massive financial education campaign to help people manage money more effectively to achieve financial well being by accessing

appropriate financial products and services through regulated entities. Several studies have been conducted on financial literacy and it is found that studying subjects related to economics has a stronger positive influence in the case of theoretical knowledge on financial matters. One of the objectives of studying economics as a subject in graduate/under graduate programme in universities is to inculcate basic principles of microeconomic theory. The emphasis will be on thinking like an economist and the course will illustrate how microeconomic concepts can be applied to analyse real-life situations. The objective of learning Financial management/corporate finance/business finance is to provide a theoretical framework for

considering corporate finance problems and issues and to apply these concepts in practice and to give everybody the ability and confidence to tackle common financial problems in practice. While the purpose of learning personal finance is to make aware among the students about the importance of goal setting and the need to visualize, quantify, assess and prioritize the financial needs of an individual's lifestyle choice. It also focuses on the necessity of a formal, actively managed household budget and the practical skills required managing one.

As the teachers belong to departments of Economics, Commerce and Business Administration in the universities are more associated with these subjects; they are more familiar with the various concepts, theories and models of finance and complex financial products and services. But the question is whether they apply this knowledge practically for their welfare or they behave rationally when it comes to the investment decisions. It is also interesting to know to what extent they are confident about their knowledge on these matters.

There has been little research on studying the financial literacy and investment pattern among specific groups on the basis of profession or education and the few existing studies are conducted among households and individuals in general. From the studies previously conducted, it is found that financial literacy affects financial decision making. It has an impact on the decision making strategy in the area of money management, the way in which investors search data for taking a financial decision, their choices, stages they covered while taking financial decisions, post investment behaviour etc....

In our paper we will first discuss the concept of financial literacy and its different interpretations. Then we will outline the literature on the topic, which is followed by the introduction of the methods and tools used in our research. Then, by assessing the results of the survey conducted via online with a questionnaire we examine how the educational background and profession as a Economics/Management/Commerce teacher influence their financial literacy and level of participation in capital market operations. Finally, we summarise the conclusions based on the study.

Financial Literacy:-

The dictionary meaning of the term literacy is the ability to read and write or competence or knowledge in a specified area. A teacher is one who train someone to develop this ability to read and write or who inculcate the basic skill of how to do something. The power of literacy lies not just in the ability to read and write, but rather in a person's capacity to apply these skills to effectively

connect, interpret and discern the intricacies of the world in which they live. These skills include numeracy, computer literacy, health literacy, social literacy and financial literacy.

According to the OECD, financial literacy is "a combination of awareness, knowledge, skill, attitude and the behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing". In general, financial literacy means knowledge of financial matters and the ability to process financial information and make good financial decisions.

Capital Market Participation:

The Capital Markets is the market where debt and equity securities are traded (bought and sold). Debt securities traded in our Capital Markets include Debentures-partly convertible, non convertible, warrants/coupons/secured premium notes/other hybrids and equity securities include shares of listed companies and units issued by the units of mutual funds. The Securities and Exchange Board of India has the responsibility for developing our capital markets and to regulate and supervise all the participants (investors and intermediaries) and activities that take place within the markets.

Capital markets provide both new and existing companies access to capital to pay for a company's growth and provide an opportunity for investors to be part of the company as shareholders. As companies increase in size, so will their demand for funds. Capital markets can help meet a company's need for more funds by also providing them with access to capital. In doing so, the capital markets channel the flow of funds from saving entities (investors) to borrowing entities (companies). Capital markets provide a system which enables companies to raise funds directly from investors. The funds raised are long-term funds that are usually borrowed for more than one year and in most instances are used for capital expenditure of the company.

Capital market participation refers to the number of investors who buy and sell equity backed securities either directly or indirectly in a financial exchange. Safety, income, growth of capital, tax minimization, and liquidity are the main objectives of investors in general parlance and these investors purchase securities from capital markets in order fulfil these objectives.

This paper aims to assess the level of financial literacy among teachers in terms of the financial strategies used in different circumstances like buying a car, choosing a college for their children, food and utilities, owning a house/property, purchasing gold, buying a cell phone/internet plan or investment decisions. It also explains

their present investment portfolios, their habit of savings, and setting investment objectives etc.

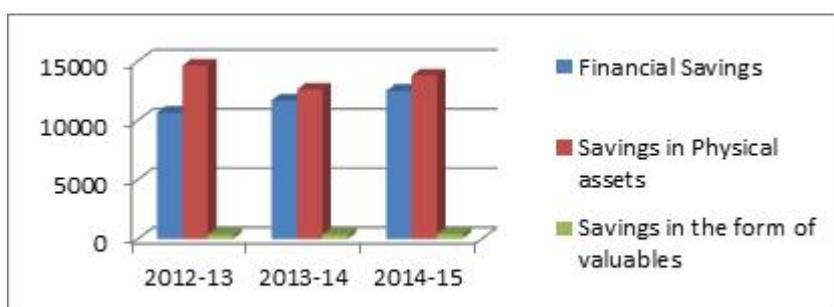
II. LITERATURE REVIEW

(Mwangi Isaac Wachira and Evelyne N. Kihiu) “Impact of Financial Literacy on Access to Financial Services in Kenya”- International Journal of Business and Social Science Vol. 3 No. 19; October 2012, results indicate that households’ access to financial services is not based on levels of financial literacy but rather on factors such as income levels, distance from banks, age, marital status, gender, household size and level of education. However, the study established that the probability of a financially illiterate person remaining financial excluded is significantly high calling for increased investment in financial literacy programs to reverse the trend. The study recommended the development of a curriculum on financial education and administers it in local, middle level and higher learning institutions.

Ashok Thomas and Luca Spataro Discussion Paper n. 194, presentato: Gennaio 2015 “Financial literacy,

human capital and Stock Market participation in Europe:An Empirical Exercise under Endogenous Framework” Besides socio-demographic variables, we find that financial literacy has a positive and significant effect on stock market participation, together with the level of human capital. It also show that higher financial literacy is associated with higher probability to participate in the stock market

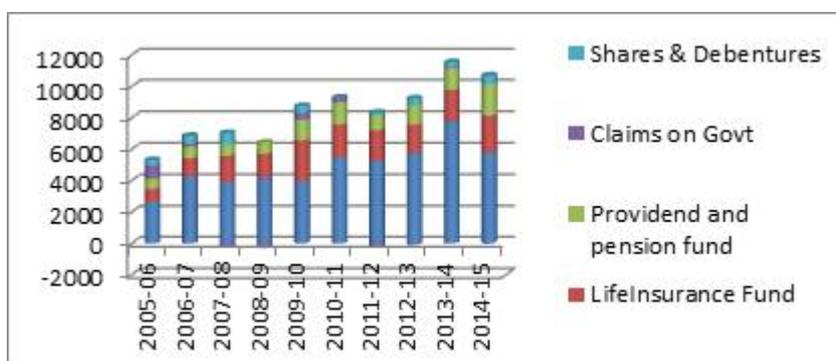
Investors’ Purchasing Behaviour via a Behavioural Finance Approach, Dr. Duygu Firat & Dr. Sibel Fettahoglu International Journal of Business and Management Vol. 6, No. 7; July 2011 . the study examines investors’ profiles and to distinguish different demographic groups in terms of their perspective towards stock markets, other financial markets and socio – cultural factors. It founds that investors are not always rationally, they behave with their feelings in decision making process of investment. The handbook of statistics on Indian economy published the status of component wise savings in household sector as below.



Source: Handbook of Statistics on Indian Economy 2016

Since the proportion of physical investment is always looks higher than financial savings the discrepancy reduced over the years. Among the financial assets 50% share is in bank deposit while 20% of the total financial investment is in Life insurance following pension and

provident fund in the third position having a 10 % share. However shares and debentures comprise only below 5%. Remaining 15% in units, government securities and others (see chart)



Source: Handbook of Statistics on Indian Economy 2016

In this context, an attempt is made to find out whether the financially knowledgeable people follow the

same pattern of Indian households, though they are a part of it.

III. OBJECTIVE OF THE STUDY

1. To assess the level of financial literacy and participation in capital markets among teachers.
2. To study the role of financial literacy on active participation in capital market operations.

IV. RESEARCH METHODOLOGY

The present study is based on primary data. The data was collected with the help of questionnaire from the Commerce/Management/Economics teachers of aided/ Govt colleges affiliated to the Mahatma Gandhi University in Ernakulam district of Kerala. The field investigation and data collection for the study were carried out during the period September 2016 to October 2016. The data collected is tabulated and analyzed with reference to the objective of the study. Simple percentages are used to analyse the data

V. ANALYSIS OF DATA

Survey participants are interviewed via internet. The demographic data showed that 50% respondents are male. Out of the 40 respondents 30% represents Department of Management, 35% each from commerce and Economics departments. Regarding the academic rank of the

teachers, 78% are in the assistant professor grade, while 18% associate professors and the remaining 4% professors.

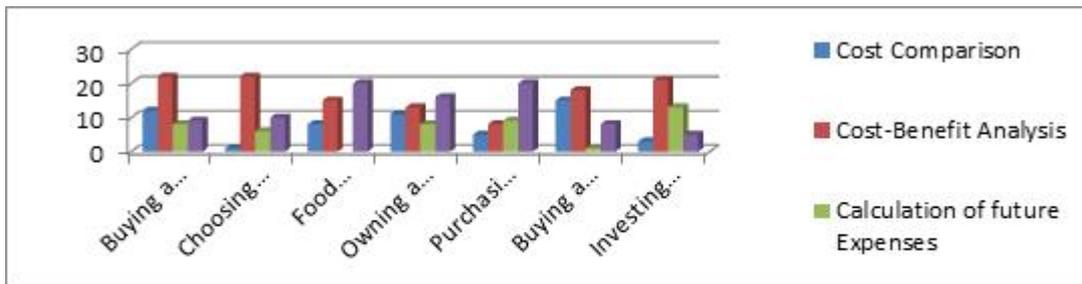
Measurement of Financial literacy:-

In order to measure the level of financial literacy among the teachers, questions relating to their financial decision making strategies, saving habits, investment objective, source of advise/information on financial matters were asked.

VI. RESULTS

Financial decision-making strategies:-

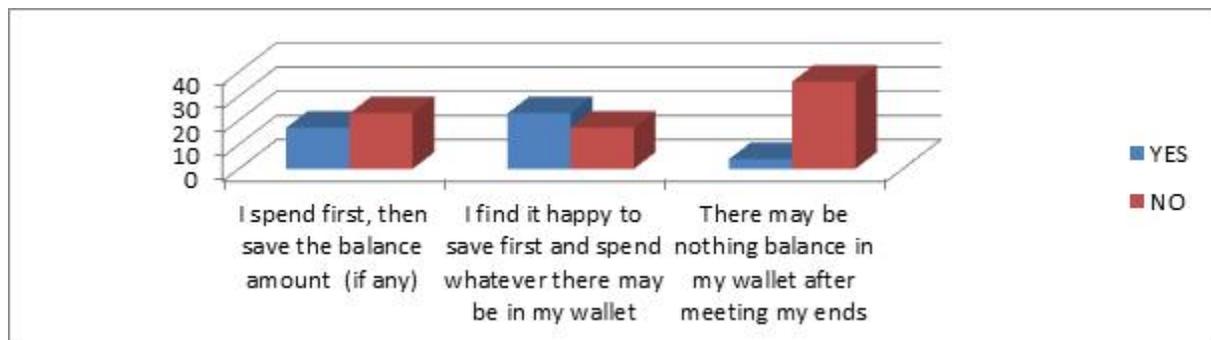
Most respondents choose cost- benefit analysis as strategy for buying a car or choosing a college for their children or even selecting an investment opportunity. Before making a decision regarding buying a cell-phone or internet plan cost comparison is their favourite strategy. And budgeting is used as tool to take decisions regarding purchasing gold or food and utilities or owning a house or property. The real motto of asking these questions is to understand what tools they follow while making financial decisions on routine money matters. (See the chart)



Source: Primary Data

Saving Habit:-

The respondents are saving savvy. They find it happy to save first and spend whatever left rather spending first and save then attitude.



Source: Primary Data

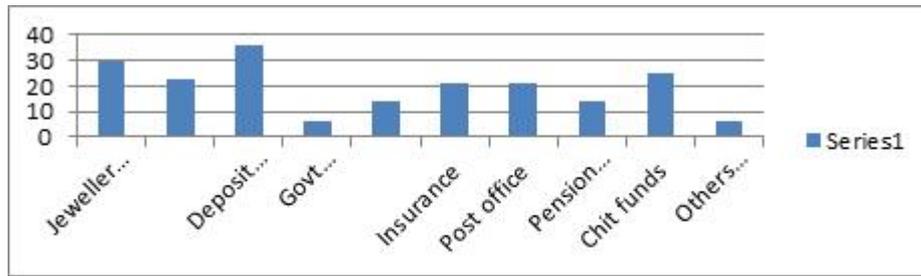
Type of investment:-

Most of the respondents put their savings in diversified investment modes like bank deposits, insurance, gold and real estate. The investment pattern showed that 90% of the respondents have major share of

their savings as deposits in banks. While 75% found jewellery and gold as their suitable investment avenue and 60% have land and property along with bank deposits. Chit funds came forth place. Insurance is also an attractive

opportunity. Only 30% invest their hard earned money in Capital market. Jewellery and gold, bank deposits etc. have more than 50% proportion in their total financial

investment. Land and property have 30%-50% share in total investments. Insurance, post office, chit funds etc forms 10%-20%.



Source: Primary Data

Investment objectives:-

The respondents were asked whether they follow a systematic approach of investment decisions such as setting objectives and it is found that all of them have a specific objective in their minds while putting their money in different instruments. Objectives such as meeting unexpected financial needs (80%) and saving income tax (53%) are the opinions of majority.

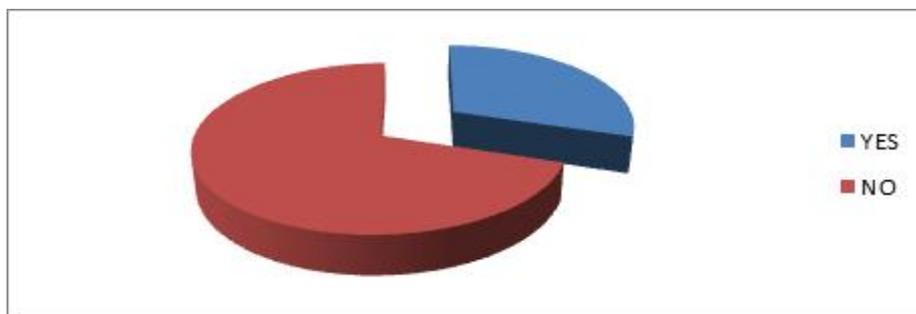
respondents select one particular investment instrument according to the recommendation of Parents/friends/relatives/acquaintance 65%). Financial magazines, guidelines, books, brochures (60%) also play a significant role in influencing the investment decision.

Level of participation in Capital Market:-

Source of Advice:-

According to Maarten van Rooij and Annamaria Lusardi, Rob Alessie National Bureau of Economic Research October 2007 “Those with low literacy are more likely to rely on family and friends as their main source of financial advice and are less likely to invest in stocks”. The

Out of 40 teachers selected for the study only 30% have a D mat account and are actively participate in stock market operations. Majority (70%) are reluctant to put their money in debt and equity instruments in capital market. Among this 30% half of the respondents participate in IPO’s. All are using cash account for their operation.

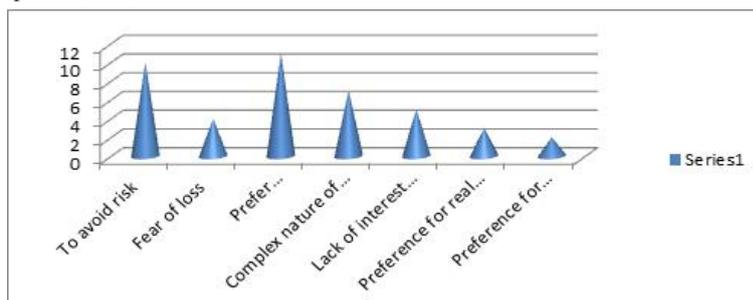


Source: Primary Data

Reason for NOT investing in capital market:-

The respondents are not enthusiastic to think about alternative way of investing their money rather than the conventional bank deposits (40%). Their attitude towards

risk is not different compared to a layman. Lack of interest and ignorance about the working of securities, avoidance of risk and fear of loss is also reasons for not investing in capital market.

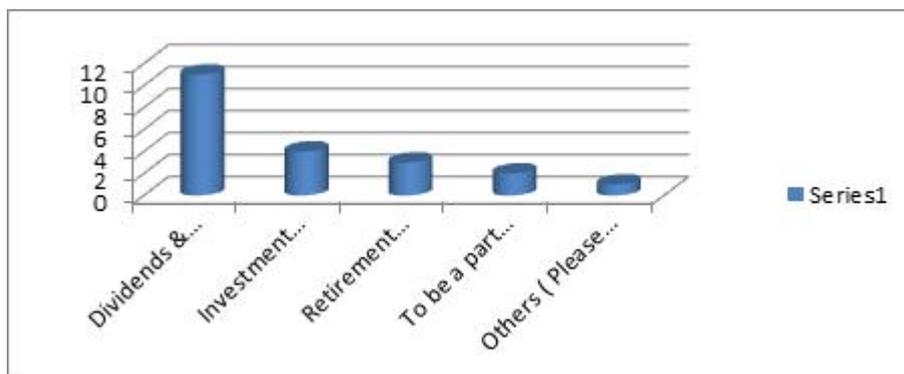


Source: Primary Data

Reason for investing in capital market:-

Dividend and capital gain is the major attraction for investing in capital market (90%) while 33% likes to

invest because they consider capital market as investment preference.

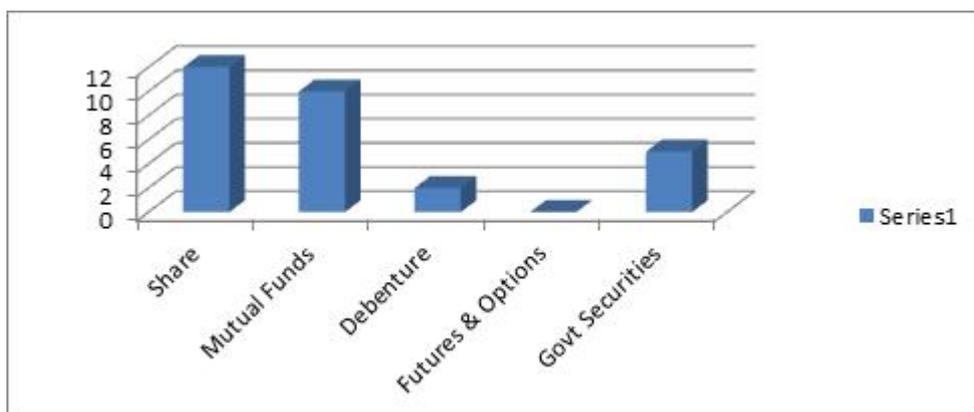


Source: Primary Data

Proportion of investment:-

Equity instruments are the preferable instrument while compared to debt instruments. All respondents invest in equity shares whereas 83% put their

money in mutual funds and equity shares. Debenture and Futures/ Options are the least preferable investment instrument in capital market.



Source: Primary Data

Time span of investment:-

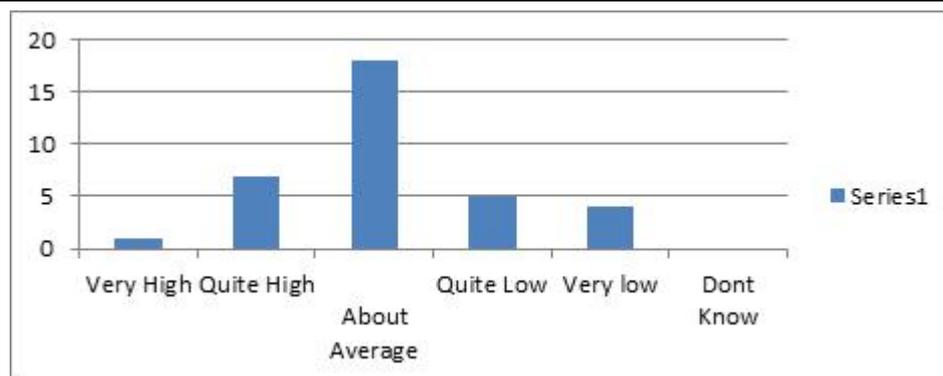
50% of the respondents are likely to hold their investment in shares, mutual funds and government securities for 1-3 years. Out of the 12 participants in capital market less than 20% hold their securities for long term or for short term.

Investors watch publications and media reports and paid attention to economic barometers such as SENSEX, NIFTY etc. while taking investment decisions in capital market. Long term income funds and balanced funds are the favourite mutual fund schemes opted by the respondents. Professional management, affordability and tax benefits are the attractive factors for opting mutual funds as an investment option. 10 out of 12 participants follow systematic investment plan. Value investing, growth investing and information investing are

the preferred investment strategy. Industrial sector selected for current investment are Banking and finance, oil and gas, IT & Communication possess first, second and third rank respectively. EPS/ROI/P/E Ratio/ROE/ROCE is the prime concern while selecting a stock in the market. It shows that they are more following value investing as an investment strategy.

Self assessment about their literacy level:-

The respondents assessed themselves about their financial literacy as about average with 45% and 18% rate them as quite high while 13% opined that their knowledge about money matters is quite low. Warren Buffet is the most favourable investment guru according to their opinion.



Source: Primary Data

VII. SUGGESTIONS

Provide practical exposure to Economics/ Management/Commerce students /teachers in the area of personal finance and new and modern products available in the financial market by inculcating training in curriculum.

VIII. CONCLUSION

An attempt to understand the financial literacy level of teachers belong to the Departments of Economics, Commerce and Business Administration in aided colleges in Ernakulam district focuses their financial decision making strategies, saving habits, reason for investing in capital market, factors that hinder them from participating in capital market operations etc. The findings suggest that learning and teaching economics, management, finance, accounting subjects provide a strong base of financial literacy, but it would not effect in the building up of confidence to participate in capital market operations. Even though most of these subjects deal with how to manage money in the individual and corporate environment, it will not encourage them to put their money in the stocks and bonds of companies. Like any Indian individual retail investor they depend too much on bank deposits for their savings because of their presumed safety and lack of interest. The respondents mark their most preferred investment option as bank deposit followed by gold and jewellery and land and property. They watch publications and media reports and paid attention to economic barometers such as SENSEX, NIFTY etc. while taking investment decisions in capital market. Dividend and capital gains are the attractive force in such a decision and they prefer more on equity shares than on debenture/ bonds. All respondents invest in equity shares whereas 83% put their money in mutual funds also. Nobody is interested in investing in futures/options. The average holding of these instruments are one to three years for majority of the respondents. Long term income funds and balanced funds are the favourite mutual fund

schemes opted by the respondents. They rate themselves their level of literacy on financial matters as average.

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