International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2020, 10(5), 145-149.

Role of Planning and Risk Tolerance as Intervening Constructs between Financial Well-being and Financial Literacy among Professionals

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Received: 19 June 2020 **Accepted:** 29 August 2020 **DOI:** https://doi.org/10.32479/ijefi.10466

ABSTRACT

Indian economy has seen various auxiliary and key changes in financial markets. While Indian economy is on development direction, there is an extensive spread realization among all in the financial range that for such development to be practical, a corresponding deepening of financial sector must precede. And, such developing is conceivable, just when people and families are financially literate. Financial literacy is low even in advanced economies with well-developed financial markets. Financial resilience is unquestionably a significant point for analysts, investors, consultants and personal financial planners. This research investigat6es the practice of financial planning among professionals. Financial Risk tolerance is a subjective and complex phenomenon and may diverge from individual to individual. This study aims to analyze the relationship among the constructs, study the role of Financial behavior and Financial literacy as a mediator or moderator between Propensity to planning and financial well-being and finally assesses Financial Literacy score across various demographic factors. Structural equation modeling technique was used to test the variables and the hypotheses. The outcome of the study is that respondents propensity to plan and risk taken seems to be statistically significant. Propensity to planning male respondents are dominating. With Regard to Risk taking ability female employees are more dominating. Financial literacy, risk taken, Financial Behavior and Financial wellbeing range all items have strong positive relationship. it shows that all are interrelated. when exogenous variables such as propensity to planning antecedents is created impact on all factors like financial behavior and Financial wellbeing. When financial behavior enacted as mediator between propensity to planning and Financial wellbeing, it shows the mediator influences on these factors. Therefore, we can infer that there is a strong role of financial behavior on all items.

Keywords: Financial Literacy, Risk, Financial Planning, Mediating and Moderating Variable
JEL Classification: G32

1. INTRODUCTION

Financial literacy has gradually become significant in the course of recent decades. There is an increasing conviction that an individual would need to turn out to be increasingly confident in future. Increased competition and multifarious services in financial market make many people sick to adopt with the erudite choices they have (Balamurugan and Jambulingam, 2017). The changing world has bought an inconsistent income over a long stretch of time. There are times of increased incomes followed by low or unusual or no income by any means (Swapna and Venkataramana Reddy, 2018). Simultaneously people need to make a more prominent arrangement for retirement, health care and insurances to cover unusual consequences (Thomas et al., 2019). Given this, individuals must have essential abilities to settle on appropriate financial decisions to empower them to be more in charge of their own circumstances and have a protected financial future Education can play a critical role in outfitting the financial buyers with the key information required to pick among the bunch of products or services available in financial Markets. Financial literacy is an essential life skill to be sustaining in the Market (Soundaravalli and Jeyakumari, 2016).

Promoting financial literacy through financial education has become a significant approach needed to supplement financial consumer's assurance, and prudential guidelines. Compared to the past generations, there is presently a wide variety of ways people generate and dispose their income (Surendra and Sarma, 2017). Going ahead it is equally important to understand the factors influencing how individuals take action towards investment for financial planning (Rajnalkar and Shiva, April 2018). Financial planning has a role to carryout in helping people with both redesigning and keeping up their lifestyle also. At Last, there are possibilities like health related crises or spontaneous consumptions that an individual may need to adapt to Sound financial planning.

Research Objectives are as follow:

1. To analyse the relationship among the constructs such as Propensity to Planning, Financial literacy, Financial Behaviour, Risk taken, Financial wellbeing and demographics.
2. To study the role of Financial literacy and Financial behavior as a mediator or moderator between Propensity to planning and financial well-being.

In this article, an attempt has been made to explore the financial literacy level, financial planning and risk tolerance of investors and its impact on financial well-being. The study is based on the responses received from professionals in Bangalore city. The study can be performed based on the responses collected from different categories. There is sufficient scope to execute the research by probing the impact of financial literacy on stock market participation, individual saving behavior, individual spending behavior, portfolio diversification, overall financial behaviors well as readiness to participate in retirement planning.

2. LITERATURE REVIEW

Anamaria (2019) has analysed how financial literacy affects our long term financial choices, and the researcher has given implications for both society as well as for the individuals. The lack of financial literacy, even in a portion of the world's most very well developed financial markets, is significant concern and needs prompt consideration. The author expresses that it is imperative to keep gaining strides in promotion of financial literacy, by accomplishing scale and effectiveness in future projects as well.

Dube and Asthana (2019), in his study tries to investigate the financial literacy among the college students in Lucknow. The data for this study was collected through primary source with the help of well structured questionnaire using systematic random sampling technique. The study concludes that the financial literacy is essential for taking sound financial decisions and for which imparting of financial education among college students is of utmost importance.

Adam and Boadu (2017), in their study have examined how financial behaviour, financial literacy and retirement planning impact on the financial well-being of retirees in Cape Coast Metropolis. The findings uncover that financial literacy and retirement planning fundamentally sway the financial well-being of retirees. The impact of retirement planning and family support on retiree's financial well-being is more grounded than the one of financial literacy.

Fatemeh et al. (2017), conducted survey of 900 Malaysian individuals both male and female based on 10 financial knowledge questions ranging from basics of interest rates to complex questions on stocks and bonds. Financial literacy among males is more than females and government needs to give special attention from school level to develop overall money management skills.

Chetan et al. (2017), discussed the challenges of women empowerment through education, financial liberty and independence. Although women are accessing to financial services increased from past decade, ability to exploit the same is limited because of gender. They take small household budget but avoid decision when it comes to large investment. Study concludes that financial literacy among women is extremely low, higher financial literacy enables Women to take sound financial decision.

The Literature review uncovered that a noteworthy exploration has been done on financial education, financial literacy and its necessities for financial well-being of an individual. There were also some studies that focused on specific demographic attributes or industry scope of Financial literacy. There have been more studies conducted to analyse the relationship between the level of financial literacy and their investment decision in national and international perspectives. There a lot of studies which is being done on financial literacy among women, financial literacy and financial behaviour. No study is being done using a combination of these three variables ie financial literacy, Financial planning and risk tolerance which is a predictor of financial wellbeing. Hence the study is undertaken.

3. HYPOTHESIS TESTED AND RESEARCH METHODOLOGY

Null Hypothesis 1: There is no influence of Financial Literacy as mediator between propensity to planning and financial wellbeing.

Alternative Hypothesis 1: There is an influence of Financial Literacy as mediator between propensity to planning and financial wellbeing.

Null Hypothesis 2: There is no significant difference on study constructs such as Propensity to Planning, Financial literacy, Financial Behaviour, Risk taken, Financial wellbeing by various demographic profile (Gender, Type of sector, Number of Dependents, Savings, Mode of Savings, Utilization of savings) of the Investors.

Alternative Hypothesis 2: There is a significant difference on study constructs such as Propensity to Planning, Financial literacy, Financial Behaviour, Risk taken, Financial wellbeing by various demographic profile (Gender, Type of sector, No. of Dependents, Savings, Mode of Savings, Utilization of savings) of the Investors.

The study is exploratory and descriptive research to explore financial literacy level. Both primary and secondary data has been used for the purpose of the study. Primary data consist of administered questionnaire and interview will be conducted to collect required data. Secondary data was collected through various books, journals, research articles, Internet and newspapers at national and international level. The study has also focused on establishing relationship between financial literacy and various constructs. For the current study, non-probability convenient sampling technique was used, with a sample size of professionals of 384 respondents.

4. DATA ANALYSIS

This study followed quantitative research approach which is attempted to prove the above said hypothesis with help of various statistical techniques using Software such as Jamovi, R 1.1 and SMARTPLS. Descriptive Statistics is used to examine each items which is captured through questionnaire. For each attributes both frequency and descriptive statistics such as min, max, mean and standard deviation. etc., is computed.

4.1. Partial Least Square Structural Equation Model

In this model, Propensity to planning is considered exogenous or independent latent variables, Financial behaviour is considered as mediator and financial wellbeing is treated as Endogenous variables (Figures 1 and 2; Table 1).

Figure 1: Financial literacy as moderator between financial behavior and financial wellbeing

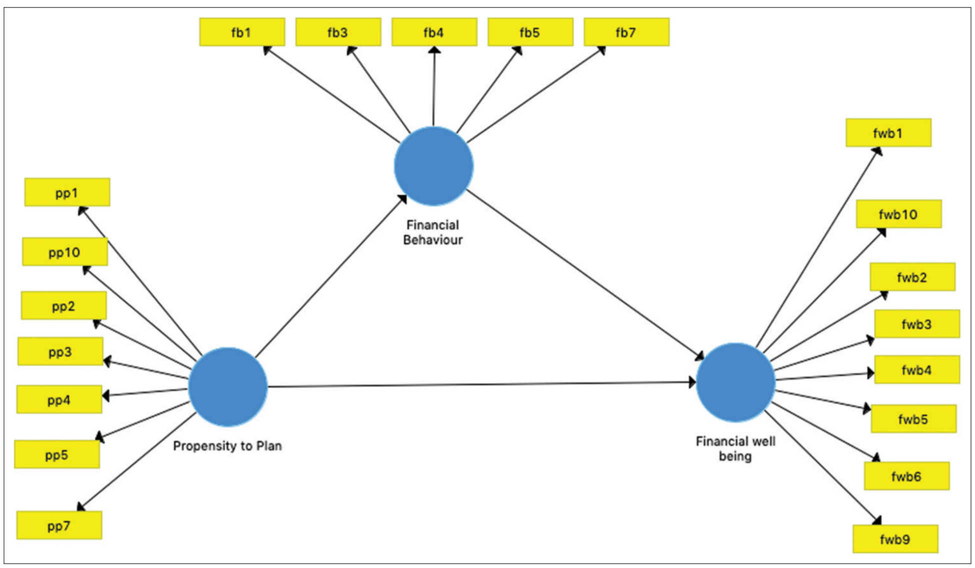
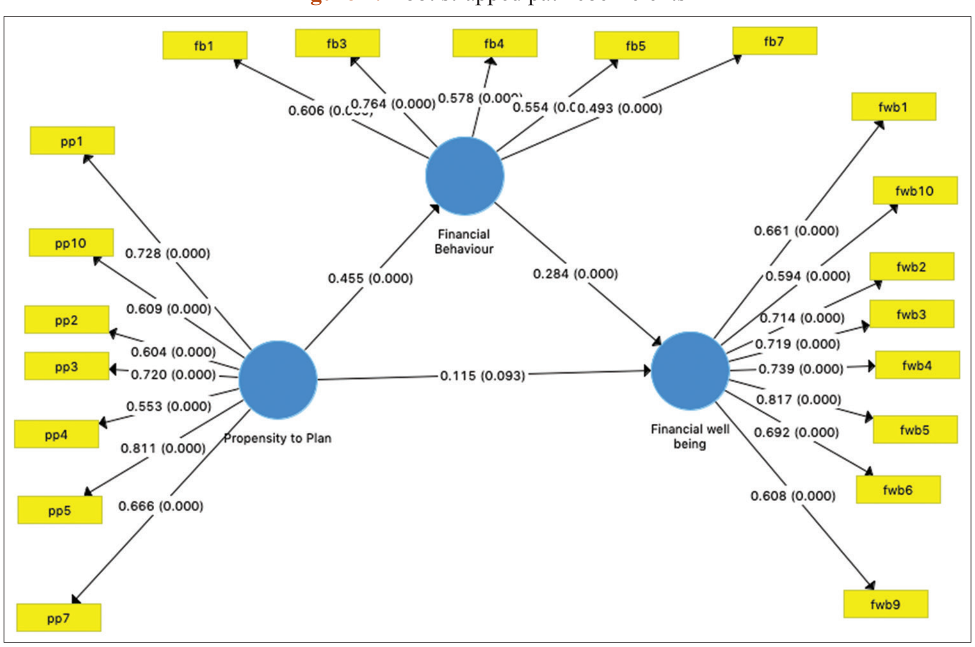


Figure 2: Boot strapped path coefficients



The Figure 3 shows the path model of financial planning and it is indicated that financial literacy (FINLIT) enacts as mediator effect between propensity planning and financial wellbeing (Table 2).

In this model, total 3 effect prevailed, total effect is 0.139, Direct is 0.1167 and Indirect effect is 0.023, mt =2.87 and P < 0.05, which indicated that, Financial Literacy enact as mediator between propensity to planning and financial wellbeing (Figure 4).

5. FINDINGS

Boot strapped is resampled method, which is 2000 times resampled and take the average and compared with original value of beta, both values matches very closely, and perc. 0.025 (lower limit) and per. 0.975 (upper limit) of confidence interval, when the values are not indifferent sign (both are positive or negative) the beta seems to be not equal to zero, or statistically significant. The paths are statistically significant, it showed when exogenous variables such as propensity to planning antecedents is created impact on all factors like financial behavior and Financial wellbeing. In case of financial behavior enacted as mediator between propensity to planning and Financial wellbeing, it shows the mediator influences on these factors. From this output, we may infer there is strong role of financial behavior on all items.

Figure 3: Path model

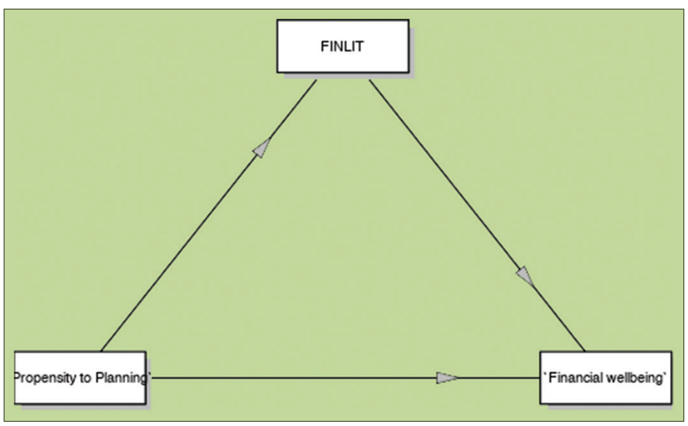


Table 1: General linear model mediation analysis

Model specification		
Mediator's model	m1	FINLIT~Propensity to Planning
Full model		
	m2	Financial wellbeing~FINLIT+Propensity to planning
Indirect effects		
	IE 1	Propensity to planning⇒FINLIT⇒Financial wellbeing

This model has mediating variables from the theoretical model, it is understood that Propensity to planning are Independent variable, Financial wellbeing are Dependent variable and Financial behaviour is enacted as mediator between these two variables. Here, these variables are statistically significant at 5% level of significance value. It is proved that mediator effects between independent and dependent variable. Therefore, understanding the role of indirect effect is quite important. However, this shows the indirect effect contributed towards all variables are quite good.

According to Heterotrait-Monotrait Ratio of Correlations (HTMT) the value among and between the constructs satisfy the criteria, as it is ranged between 0.284 and 0.597.

According to path estimates of moderator on Independent and dependent variables. Here it is proved that moderator effect, which is product of Financial Literacy and Financial behaviour can influence financial wellbeing and statistically significant.

The values of the correlation coefficient of all propensity to planning items like financial literacy, risk taken, financial behaviour and financial wellbeing range from 0.14 to 0.79. Therefore, all items have strong positive relationship. It shows that all are interrelated except financial behaviour with financial literacy and propensity planning.

The paths are statistically significant, it showed when exogenous variables such as propensity to planning antecedents is created impact on all factors like financial behavior and Financial wellbeing. In case of financial behavior enacted as mediator between propensity to planning and Financial wellbeing, it shows the mediator influences on these factors. From this output, we may infer there is strong role of financial behavior on all items.

However, financial behaviour acted as a mediator between propensity to planning and financial wellbeing relationship between financial behaviour and well-being can become positive when financial literacy is very high. It becomes negative when financial literacy has attained lower score.

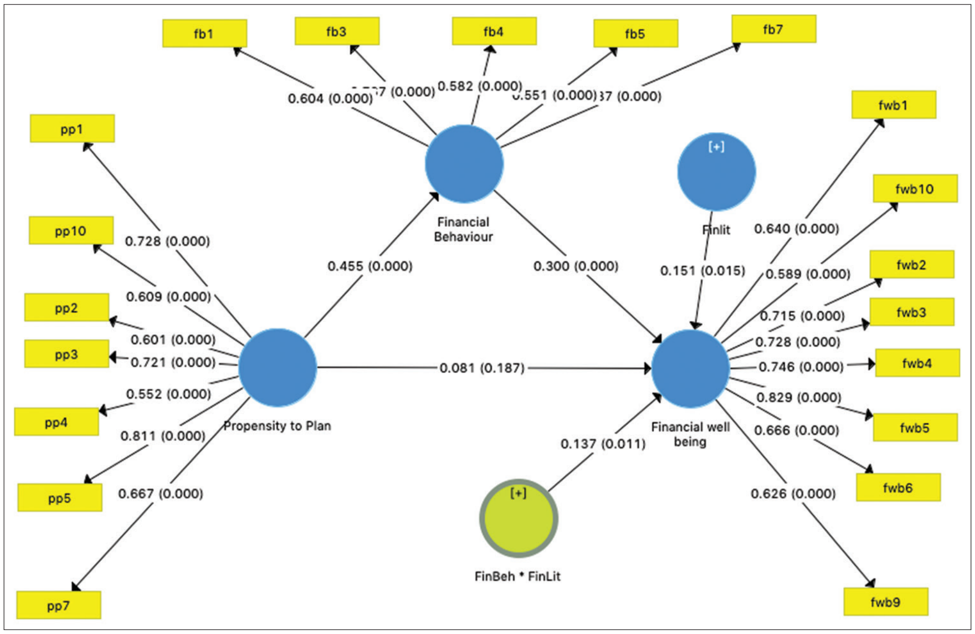
Propensity to planning directly cannot influence well-being but it can influence indirectly through financial literacy.

Table 2: Mediating variable

Indirect and total effects								
Type	**Effect**	**Estimate**	**SE**	**95% CI[a]**		**β**	**z**	**P**
				Lower	**Upper**			
Indirect	Propensity to Planning⇒FINLIT⇒Financial wellbeing	0.0230	0.0111	0.00485	0.0478	0.0240	2.07	0.039
Component	Propensity to Planning⇒FINLIT	0.3518	0.1226	0.11667	0.6028	0.1537	2.87	0.004
	FINLIT⇒Financial wellbeing	0.0654	0.0230	0.01841	0.1106	0.1561	2.85	0.004
Direct	Propensity to Planning⇒Financial wellbeing	0.1167	0.0605	-0.00197	0.2335	0.1217	1.93	0.054
Total	Propensity to Planning⇒Financial wellbeing	0.1398	0.0481	0.04544	0.2341	0.1457	2.90	0.004

[a]Confidence intervals computed with method: Bootstrap percentiles

Figure 4: Outcome model



6. CONCLUSION

The paths are statistically significant, it showed when exogenous variables such as propensity to planning antecedents is created impact on all factors like financial behavior and Financial wellbeing. In case of financial behavior enacted as mediator between propensity to planning and Financial wellbeing, it shows the mediator influences on these factors. We may infer there is strong role of financial behavior on all attributes. Here it is proved that moderator effect, which is product of financial literacy and that the financial behaviour can influence financial wellbeing and is statistically significant at 5% level.

To engage the investors on the idea of financial literacy, the issue of financial literacy ought to be taken either as an arrangement point of view or as a pragmatic viewpoint and ought to be introduced at school level. The development of financial skills and information ought to be preferably commence at home and be proceeded in schools, colleges and workplace. It ought to be effectively and broadly available to all divisions of the community at all phases of the lifecycle. Every Individual should be instructed and educated about Financial Planning and this gives a noteworthy opportunity to financial institutions, stock exchanges and regulatory organization's to educate people.

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