

The influence of financial literacy on a personal financial planning: A case of Nepal.

Sudan Kumar Oli

PhD Scholar (Economics)

(University of International Business and Economics, Beijing China)

Abstract

This paper examines the impact of financial literacy on personal financial planning of Nepalese individuals. Personal financial planning encompasses cash planning, insurance planning, investment planning and retirement planning. A primary data was collected from 700 Nepalese of 7 provinces by using a set of structured closed-end questionnaire. The study associated personal financial planning efforts with major three measures: knowledge, awareness and attitude towards financial planning decision, factor influencing other aspects of personal financial planning.

The results show that the personal financial planning is influence by level of financial awareness and individual financial planning attitude. The result also reveals that demographic factors such as marital status, education level, income level, age, profession, and gender have little impact but not significant. The general final financial investment alternatives are popular in comparison to modern financial assets in Nepal. The level of individual awareness is increasing regarding to the insurance, investment, cash management and retirement plan for the financial security in the future but not enough as should have. This paper has implications on financial planner in formulation financial strategies on how to successfully implement a personal financial planning program for their customers.

Keywords: *Financial literacy, financial awareness, financial attitude, personal financial planning, demographic variables.*

1. Introduction

Financial literacy is a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being. According to Lusardi and Mitchell (2011) the financial literacy is the most basic economic concepts needed to make sensible savings and investment decisions. Similarly, Jariwala (2013) define as the understandings of basic financial concepts, principles, skills and ability to identify the key financial products to make rational financial choice. According to Mahdzan and Tabiani (2013), increasing financial literacy and capability promotes better financial decision-making. Thus, financial literacy enables people to make better planning and management of life events such as education, housing purchase, or retirement. The need of financial literacy has become increasingly significant with the deregulation of financial markets and the easier access to credit,

the ready issue of credit cards and the rapid growth in marketing financial products (Grifoni and Messy, 2012). The review process requires individuals to be equipped with not only cognitive ability but perhaps more importantly financial literacy. Specifically, they require the ability to read, analyze, manage and discuss their personal financial conditions and issues that affect the overall financial well-being (Vitt 2001)

Personal financial planning is process of developing and implementing the proper coordinated plans for achievement of one's overall financial objectives (Kapoor *et. al.*, 2009). The Individual needs and goals change when person moves through different stages of life. Therefore, making financial planning is a dynamic process (Gitman and Joehnk, 2005). According to Lai and Tan (2009), people are investing their own assets and personal income efficiently to ensure that their economic security can be guaranteed, not only during their working life but also after retirement. The gradual increase in the aged population, together with a longer life expectancy, points to the need importance of well-planned personal financial planning. Lusardi (2009) stated that financial literacy has positive causal impact on wealth holdings and saving behavior. From this research, it has been found that financial literacy increases the awareness for importance of savings and planning for retirement. Personal financial management is the process of planning spending, financing, and investing to increase the profit and to optimize the financial situation. In order to achieve the intended goals of a business unit, proper financial plan should specifies the financial goals, describes the spending, financing, investing plans (Mandel and Klein, 2007).

The financial literacy has become a necessary requirement of today's dynamic financial markets. Nonetheless, little attempt have been conducted to explore comprehensive evidence to understanding the impact of financial literacy on personal financial management. This paper, thus reduce the gap by examining the financial attitude, knowledge and awareness and management of personal financial management in Nepal. This study further explored the factors influencing the respondents' financial literacy and personal financial planning in Nepal. The findings will be immensely useful for effective financial plan in tailoring the need of individuals based on financial knowledge, awareness, attitude and demographic variables such as occupation, age, gender, education level, income level, and marital status. It is expected that the findings of this study contribute to the financial planner profession, policy maker, and industry in a developing economy.

2. Literature Review

A review of prior literature is an essential feature of any academic research. An effective review lays foundation for advanced research. It facilitates new theory development and uncovers the areas where research is needed (Webster and Watson, 2002). Thus, there have been conducting many research on this topic which reflect the basic idea about the relationship between financial literacy and personal financial management.

Zakaria, *et.al* (2012) examine to the factors affecting financial position or financial well-being of the Malaysians. Study was done in Klang Valley region in Malaysia. Data was collected with survey method from Urban Household and then analyzed with help of Structural Equation Modeling. Study revealed that Positive Financial behavior is most dominant factor of having good financial position. Also financial behavior is strongly related to sound financial literacy. Yadav and Tiwari (2012) study explained factors affecting customer's investment towards Life Insurance Policies by using primary data which collected with the help of structured questionnaire. Study was conducted in Jabalpur, sample size was 150 policyholders. Chi- Square and correlation test were used to analyze the data. Pant (2013) study assessed the level of awareness and attitude of female faculties towards retirement planning. For the study, 50 female faculties of Bansathali University were selected. Study revealed that marital status of the samples was major determinant towards awareness and preparedness of retirement.

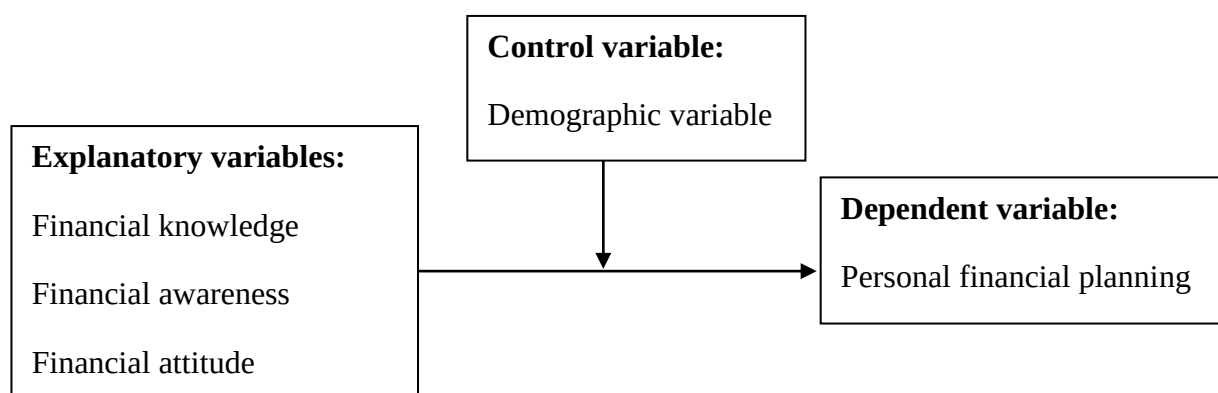
Mohamad (2010) study found that there are significant differences in financial literacy between Gender and Working Sector. Study was conducted in Malaysia. Researcher stated that there is a significant impact of Gender on frequency of managing Financial Planning, but working sector didn't have any impact on frequency for managing personal financial planning. Nga, *et.al* (2010) conducted a study in Malaysia with 280 respondents to find the level of general financial awareness and product awareness among youth of Malaysia. Study revealed that level of education and specialization had a major impact on general financial awareness and product awareness. Study also revealed that Male had higher awareness than females. Rajna *et.al* (2011) had done survey in Malaysia to find financial attitude and practices of Medical practitioners in Public & Private Medical practices. Sample size was 400. Primary data was collected with the help of questionnaire. Financial attitude and practices were measured with five point Liker scale.

Major findings of the study are, more than 75 % of the doctors have shown positive attitude towards personal finance but only 35% of the doctors practice active money management.

Obago (2014) study examined effect of financial literacy on management of personal finances. Study was conducted on Commercial Bank Employees of Kenya. Simple random sampling was used to select 100 bank employees of five commercial banks in Nairobi. Main objectives of the study were: to assess the financial literacy of the respondents and to evaluate influence of financial literacy on management of personal finance. Multiple Regression technique was used to establish relation between financial literacy and financial management. Financial Management score was used as dependent variable. Gender, Age, Level of Education, Saving Plan Index, Investment Plan Index were used as Independent variables in Regression model. Major findings of the study are Age, gender, education level, work experience is positively related with investment plan, saving plan and thus positively related with personal financial management.

Ali *et.al* (2013) Conduct a study to examine factors contributing to level of financial literacy and its relation with financial satisfaction. Model postulated that financial literacy of the person can determine financial satisfaction of the person. To measure the financial literacy, five different aspects were assessed. They were: Basic money management, financial planning, investments know how, attitude to money and financial activities. Lim (2003) analyzed via questionnaire surveys in Singapore towards the attitudes of 204 senior workers towards work and retirement, retirement planning, and their willingness to continue working after retirement, and to undergo retraining. The results showed that work occupied a salient part of the lives of employees in their 40s and above. Based on these previous study review following conceptual framework and hypothesis has developed for this study.

Figure 1: Conceptual framework



Hypothesis:

H1: There is positive relationship between financial knowledge and personal financial planning.

H2: There is positive relationship between financial awareness and personal financial planning.

H3: There is positive relationship between financial attitude and personal financial planning.

H4: There is no impact of gender on personal financial planning.

H5: There is not impact of marital status on personal financial planning.

3. Data and Method

This study employed descriptive research design in order to find impact of financial literacy on personal financial planning in the case of Nepal. The primary data used collected via questionnaire survey of 700 randomly selected respondents from 7 province of Nepal. From each province 100 respondents were selected for as sample in February 2018 as per the research objectives. Self-administered questionnaires were used to obtain information on an individual's financial literacy in the context of personal financial planning. The questions were designed using a close-ended structure. This approach allowed anonymity of respondents when they revealed their financial literacy level. This is deemed useful in encouraging more unbiased responses. It also required less sophisticated interviewing skills and easily manageable by respondents, which amounted to shorter response time (Boon, *et al.* 2011)

The questionnaire was divided into four main sections. The section-A included 7 questions related to the socio-demographic information of the respondents such as gender, education level, age, province belongs to, income level and marital status. The section-B was a series of questions related to the financial knowledge of respondents. The 7 questions involved fundamental financial and economic concepts such as time value of money, product portfolio, interest rate, inflation, risk and return. This study adapted the work of Lusardi & Mitchell (2005) to design questions that were useful to reflect individuals' understanding of such concepts that formed the basis of their daily financial transactions and decisions. Section C was a series of questions on a three point Likert-type scale concerning about financial awareness of respondents. Respondents indicated whether each response was unaware, moderately aware and completely aware on their awareness of the financial products that are available in the financial markets for personal financial planning. Finally, section D was a series of questions on a five-point Likert-type scale

concerning attitudes towards various aspects of personal financial planning. The respondents indicated whether each response was ‘strongly disagree’, ‘disagree’, ‘neutral,’ ‘agree’ or ‘strongly agree’ on their attitudes towards money, insurance, investments, retirement, and estate planning. Cronbach Alpha was used to measure the reliability of the instrument. With the help of SPSS23, reliability test has been performed on Likert Scale items. Cronbach Alpha value obtained was .784. Therefore, the research instrument used considered as reliable. This study also employed regression model for the investigating the impact and relationship between demographic variable, financial knowledge, awareness and attitude with personal financial planning. More especially regression model is defined as bellow:

$$PFP = \alpha + \beta_1 DF + \beta_2 FK + \beta_3 FA + \beta_4 FAT + \varepsilon$$

Where,

PFP = Personal financial planning

DF = Demographic factors

FK = Financial knowledge

FA = Financial awareness

FAT = Financial attitude

α = constant

β_{it} = coefficient of independent variable

ε = error term

4. Analysis and results

The profile of the respondents is shown in Table 1. The male respondents were 432 and female were 268 out of total 700 respondents. The highest respondents were the students (220) where as lowest were academicians (51). The level of education of majority respondents was graduation (436) where as only 4 respondents were having school level of education. Out of the total respondents 441 were married and remaining 259 unmarried.

Table 1: Demographic characteristic of the survey respondents

Demographic Profile of respondents			
		Frequency (n)	Percent (%)
Gender	Male	432	61.7
	Female	268	38.3

	Total	700	100
Occupation	Students	220	31.4
	Public Servant	166	23.7
	Business	182	26
	Academician	51	7.3
	Other	81	11.6
	Total	700	100
Level of education	School level	4	.6
	Under graduation	180	25.7
	Graduation	436	62.3
	Post graduation	80	11.4
	Total	700	100.0
Marital status	Unmarried	259	37.0
	Married	441	63.0
	Total	700	100.0
Age Group	16 -25	250	35.7
	26-35	223	31.9
	36-45	144	20.6
	46-55	80	11.4
	56 and above	3	.4
	Total	700	100.0
Income level	Less than 5 lakh	463	66.1
	5 -10 lakh	126	18.0
	10-15 lakh	64	9.1
	15-20 lakh	21	3.0
	20 and above	26	3.7
	Total	700	100.0
Province belong to	Province 1	80	11.4
	Province 2	93	13.3
	Province 3	186	26.6
	Province 4	102	14.6
	Province 5	91	13.0
	Province 6	76	10.9
	Province 7	72	10.1
	Total	700	100.0

Source: Primary source of data. Total number=700 and no missing value.

The highest number of respondents were under age group 16-25 (250) followed by 26-35 (223), 36-45 (144), 46-55 (80) and 56 and above (3) respectively. Similarly, the highest number of respondents have annual less than 5 lakh (463) followed by 5-10 lakh (126), 10-15 lakh (64), 20 and above (26) and 15-20 lakh (21) respectively. Likewise, the highest number of respondents

were from province 3 (186) followed by province 4 (102), province 2 (93), province 5 (91), province 1 (80), province 6 (76), and province 7 (72) respectively.

Financial literacy:

The overall level of financial literacy of the respondents has shown in the table 2. The respondents possessed fairly good knowledge of basic financial literacy regarding all the parameters asked. Only return on long term investments has shown low level of literacy.

Table 2: Financial Literacy of the respondents

Levels	S.N.	Parameters on which literacy has been checked	Frequency (%)
Basic literacy	1	Saving interest and inflation	73.7
	2	Time value of money	55.9
Advanced literacy	3	Concept of diversification	53.9
	4	Basics of financial planning	77.7
	5	Relation between risk and return	74.6
	6	Relationship of bond price and interest rates	87.3
	7	Returns generated by financial assets in long run	30.6

Source: Primary data

The Jariwala(2013) model has adopted in this study to find out whether the respondent is financially literate or not. In this study, 7 questions pertaining to financial literacy were asked. The score of each respondent in terms of correct answers provided by them was found. Median of these scores was found to be 5. So, respondents who gave 5 or more than 5 correct answers are financially literate and those with less than 6 are financially illiterate.

Table 3: Financial literacy of the respondents

	Frequency (n)	Percent (%)
Financial literate	454	64.85
Financial Illiterate	246	35.15
Total	700	100

Source: Primary data

Table 3 depicts that 64.85 percent of the respondents are financial literate and 35.15 percent of the respondents are financial illiterate.

Financial awareness:

The financial level of financial awareness of the respondent has presented in the table 4. The awareness level as measured in 3 point scale where 3 indicate completely aware, 2 indicates moderately aware and 1unware regarding investment alternatives.

Table 4:Level of awareness of respondent’s regarding to the investment alternatives.

Product	Level of awareness	Frequency (n)	Percent (%)	Aware (%)	Unaware (%)
Saving account	Unaware	3	0.43	99.57	0.43
	Moderately aware	347	49.57		
	Completely aware	350	50.00		
	Total	700	100.00		
Bank Fixed Deposit	Unaware	149	21.30	78.70	21.30
	Moderately aware	252	36.00		
	Completely aware	299	42.71		
	Total	700	100.00		
Equity shares	Unaware	100	14.29	85.71	14.29
	Moderately aware	354	50.57		
	Completely aware	246	35.14		
	Total	700	100.00		
Government Securities	Unaware	131	18.71	81.29	18.71
	Moderately aware	470	67.14		
	Completely aware	99	14.14		
	Total	700	100.00		
Derivatives Products	Unaware	211	30.14	69.86	30.14
	Moderately aware	289	41.29		
	Completely aware	200	28.57		
	Total	700	100.00		
Mutual Funds	Unaware	177	25.29	74.71	25.29
	Moderately aware	423	60.43		
	Completely aware	100	14.29		
	Total	700	100.00		
Life Insurance	Unaware	69	9.86	90.14	9.86
	Moderately aware	473	67.57		
	Completely aware	158	22.57		
	Total	700	100.00		
Money market	Unaware	274	39.14	60.86	39.14
	Moderately aware	341	48.71		
	Completely aware	85	12.14		
	Total	700	100.00		
Mean				80.10	19.90

Standard Deviation	12.06	12.06
--------------------	-------	-------

Source: Primary source of data. Total number=700 and no missing value.

The table 4 shows on an average 80.10 percentage of respondents are aware about different financial investment alternatives. However 19.90 percentages of respondents are still unaware. Specially, money market, derivatives markets and mutual funds products are not familiars among the respondents.

Financial attitudes:

Table 5 shows the respondents' attitudes towards personal financial planning. The respondents' financial attitude towards financial planning is categorized in to five categories: Money Management, Insurance Planning, Investment Planning, Retirement Planning and Estate Planning.

Table 5: Respondents' attitudes towards Personal Financial Planning

Items	Mean score	Standard Deviation
Cash Planning	3.73	0.27
Insurance planning	3.35	0.35
Investment planning	3.84	0.34
Retirement planning	3.4	0.42
Estate planning	3.63	0.55
Average score	3.59	0.39

Source: Primary source of data. Total number=700 and no missing value.

The average mean score of financial attitude towards personal financial planning is 3.59 out of 5. The questionnaires were categories in to five categories to study the respondents view towards financial attitudes. The result also shows that investment planning is more concerned (3.84) followed by cash planning (3.73), estate planning (3.63), retirement planning (3.40) and insurance planning (3.35).

Regression model:

Table 6 shows the ANOVA table. ANOVA table shows the degree of fitness. F-value of regression model is 28.23 which is significant at 1 percent level of significance. It means that there is significant influence of considered variable on personal financial planning.

Table 6: ANOVA table of the overall model estimation

ANOVA Table					
Variable	Sum of squares	df	Mean square	F-value	Sig.
Regression	15.82	4	3.95	28.23	0.000
Residual	97.36	696	0.14		
Total	113.18	700			

Source: Primary source of data. Total number=700 and no missing value.

The given regression equation present that the beta coefficient of financial knowledge, awareness and attitude has positive which indicates that higher the level of financial literacy, more effective would the personal financial planning. However, financial awareness and attitude has a significant impact on personal financial planning. This result satisfy hypothesis H1, H2 and H3.

$$\text{PFP} = 1.28(5.02*) + 0.06(1.24) \text{FK} + 0.27(3.11*) \text{FA} + 0.56(9.27*) \text{FAT} - 0.011(1.34) \text{Male} - 0.001(1.30) \text{Unmarried}.$$

Where,

1) Parenthesis in the bracket is t-value.

*2) * is significant at one percent level of significance.*

The beta coefficient of male has negative which implies that the personal financial planning done more effectively by female in comparison to male. Likewise, beta coefficient of unmarried is negative which explained that the personal financial planning done by married in comparison to unmarried. This result does not satisfy hypothesis H4 and H5. It implies that, there is impact of gender and marital status of respondents on personal financial planning.

5. Conclusion:

The study has employed descriptive analysis model based on 700 respondents from different province of Nepal. Primary data collected by using self administered closed end questionnaires method. Dual data collection strategy has used i.e. direct interview survey and online survey method.

The overall results revealed that the personal financial planning is influence by level of financial awareness and financial planning attitudes of individual. The results also show the 80.10

percentage of people are aware about general investment alternative. However, modern investment alternatives are not known as much. The financial knowledge, awareness and financial management attitude and demographic factor such as gender, marital status, level of income and education impact to the proper personal financial planning. The level of individual awareness is increasing regarding to the insurance, investment, cash management and retirement plan for the financial security in the future but not enough as should have.

The survey results contribute valuable implications to the financial planners in tailoring their customer needs and achieving individual financial satisfaction when the customers move through various stages of their life. The increasing demand of personal financial planning as a profession and the financial discipline in the financial services industry are very assuring. It would be the background of further study related to personal financial planning in different country and examining factors insight trend and status of financial literacy.

References:

- Ali, A., M. S. Rahman, and Bakar, A. (2013). Financial literacy and satisfaction in Malaysia: A pilot study. *International Journal of Trade, Economics and Finance*, 4(5), 319-324.
- Boon, T.H, H. S. Yee and H.W. Ting (2011). Financial literacy and personal financial planning in Klang Valley, Malaysia. *International Journal of Economics and Management*, 5 (1), 149-168.
- Gitman, L.J. and M. D. Joehnk (2005), *Personal financial planning*, Thomson South-Western, New York.
- Grifoni, A., and F. Messy.2012.“Current Status of National Strategies for Financial Education: A Comparative Analysis and Relevant Practices.” *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 16, Paris: OECD Publishing.
- Kapoor, J. R., L. R. Dlabay, and R.J. Hughes (2009). *Personal finance*, Boston, MA: McGraw-Hill Irwin.

- Lai, M. M. and W.K Tan (2009). An empirical analysis of personal financial planning in an emerging economy. *European Journal of Economics, Finance and Administrative Sciences*, 16 (1) 99-111.
- Lim, V.K. G. (2003). An empirical study of older workers' attitudes towards the retirement experience. *The Employee Relation*, 25(4), 330-346.
- Jariwala, H. (2013). To Study the Level of Financial Literacy and its Impact on Investment Decision, An in-Depth Analysis of Investors in Gujarat State. Unpublished Ph.D Thesis. Ganpat: V. M. Patel Institute of Management Ganpat University, Ganpat Vidyanagar.
- Lusardi, A., and O. Mitchell. (2011). Financial Literacy and Retirement Planning in the United States. *Journal of Pension Economics and Finance* 10(4), 509-525.
- Mahdzan, N. S., and S. Tabiani (2013). The Impact of Financial Literacy on Individual Saving: An Exploratory Study in the Malaysian Context. *Transformations in Business & Economics*, 12(1), 41-55.
- Mandel, L., and L. Klein (2007). Motivation and Financial Literacy. *Financial Services Review* 16(1), 105-116.
- Nga, J. K., L. H. Yong, and R. D. Sellappan (2010). A study of financial awareness among youths. *Young Consumers*, 11(4), 277-290.
- Obago, S. O. (2014). Effect of financial literacy on management of personal finances among employees of commercial Banks in Kenya (Doctoral dissertation).
- Pant, G. (2013). Retirement Planning of Female Faculty Members-An Expense or Saving for the Future. *Global Journal of Management and Business Studies*, 3(5), 541-544.
- Rajna, A., Ezat, W. S., Al Junid, S., and Moshiri, H. (2011). Financial management attitude and practice among the medical practitioners in public and private medical service in Malaysia. *International Journal of Business and Management*, 6(8), 105-113.
- Vitt, L.A. (2000) Personal Finance and the Rush to Competence: Financial Literacy Education in the US, Institute for Socio-Financial Studies, Fannie Mae Foundation.

- Webster, J and R.T. Watson (2002). Analyzing the past to prepare for the future: writing a literature review. *MIS Quarterly*, 26 (2), 13-23.
- Yadav, B., and A. Tiwari (2012). A study on factors affecting customers' investment towards life insurance policies. *International Journal of Marketing, Financial Services & Management Research*, 1(7), 55-61.
- Zakaria, R. H., N.I.M. Jaafar and S. Marican (2012). Financial behavior and financial position: A structural equation modelling approach. *Middle-East Journal of Scientific Research*, 12(10), 1396-1402.