

# Role of Financial literacy in financial well-being among employees of New-age companies

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## ABSTRACT

Financial education basically consist of fundamental tenet of financial well-being like importance and advantages of saving, there is a necessity for staying away from some unproductive loans that go beyond capacity for repayment, borrowings with formal financial sector, time value of money, power of compounding, concept of interest, insurance, inflation etc. The financial institutions are playing a very important role in making people aware about financial terms and also they are trying to explain about the use of different financial products and services. Financial literacy is not only important for the HNIs, upper middle class or middle class, it is important for every income cadre individuals. Even an illiterate should be able to understand the basics of finance and should be able to participate in the financial system of our country. The objective of this study is to identify financial literacy level among selected employees and to understand the impact of financial literacy on financial well-being of employees. This study is based on primary data which is collected through structured questionnaire. Sample of 100 employees have been considered in this study. The findings indicate that there is a significant impact of financial knowledge on financial well-being among selected employees of new age companies.

**Keywords:** *Financial literacy, financial well-being, New-age*

## 1. INTRODUCTION

The Indian economy has been growing and expanding wherein financial market is concerned. There has been expansion in financial market after privatization, liberalization and globalization and this resulted in high growth of various products and services. This increase has also increased the complexity of the products as more choices are available to the consumers. Social security which

had been in the hands of government has now shifted towards individuals. The individuals need to plan for having a secure retirement. The individuals need to plan for educating their children, manage their current investments and also take care for having a secured future. For financial planning, it is very important that the individuals are financially literate and they are managing their finances. Financial literacy is not only important for the HNIs, upper middle class or middle class, it is important for every income cadre individuals. Even an illiterate should be able to understand the basics of finance and should be able to participate in the financial system of our country. A low level of financial literacy has kept individuals away from all kind of benefits which they could have received by investing in different financial products and services. Individuals could not make judicious choice due to lack of financial literacy. In our country, there is lots of poverty and development is needed at every step for individuals. Financial literacy will help in bridging the gap which exists in between the amount available with people for investment and the actual amount which is invested in various financial products and services. The policymakers and academicians in the entire world have indicated that there is a need for making people financially literate.

### **1.2 Concept of Financial Literacy**

Frequently poor people who are being neglected require a financial services array, this provides an opportunity for earning, for safeguarding individual's hard earned money and/ or any amount which people have taken as loan. Individuals require knowledge about different financial products and services, so that they could plan to select such investment options for their current and future needs. There is also requirement of using services wherein amount needs to be transferred to the near and dear ones which can be said to as risk mitigation services. Insurance is a very important product for future security. This is being observed that critical deprivation for acquiring wealth by people from poor household is deficiency or absence of appropriate financial service. The biggest deprivation amongst households can be said to be lack in financial literacy. There is always a need for educating people regarding financial product and service beside information about finance and money to become part of financial inclusion and financial literacy. Individuals should have financial knowledge, then only they will be able to understand the need for money and also should know how money would be utilized. Financial planning is very important not only for current need but also for future planning and safety.



### 1.3 Concept of Financial wellbeing

Financial education basically consist of fundamental tenet of financial well-being like importance and advantages of saving, there is a necessity for staying away from some unproductive loans that go beyond capacity for repayment, borrowings with formal financial sector, time value of money, power of compounding, concept of interest, insurance, inflation etc. The financial institutions are playing a very important role in making people aware about financial terms and also they are trying to explain about the use of different financial products and services. Different institutions like Bank, regulators, Ministry, stock exchanges and insurance companies are making an attempt to make people aware about financial products and also about return and risk. Financials could be managed well, when people remain aware about financial products and services.

Financial Literacy can be referred to a combination of financial awareness, knowledge, attitude, skills and behavior, which are necessary to make sound financial decision and this ultimately help in achievement of financial wellbeing individually. People could achieve financial literacy through process of financial education.

### 1.4 Four elements of financial well-being

People are having different goals in mind while they are planning for their financial life. Some people think about keeping a control on their bills and some feel that they should make credit card payment. There are some people who do not prefer to take any loan at any point in life and they adjust their expenses and also meet their luxury needs with their own savings. Financial well-being is very important for improving life of people, so that they could present work and goals towards their achievement.

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

Source : Consumer Financial Protection Bureau

Financial well-being plays a very important role in controlling day-to-day finances and also on monthly basis. Short term finances play an important role for long term as well as it is said that small savings could lead to bigger investment. At times, some kind of financial issue comes up as a shock if it is not

insured or people have not kept sufficient funds with them for bearing that loss. Freedom of choice plays a very important role and people should invest while keeping in mind risk and return of investment options.

### **1.5 Employees' financial well-being for new-age companies**

There has been a new agenda among new-age companies in India, they all are making an attempt to make their employees aware about financial products and services so that they could manage their finances in a better way. Myntra, Bigbasket, NoBroker, HUL, Wakefit.co and other companies have been looking at financial well-being as crucial tenet for employees' well-being. Such organizations are ensuring that employees could manage their finances in better way and so that they do not put all their funds in the same investment option. During August 2019, Myntra started 'Thrive' which can be referred to as wellness framework towards financial well-being of employees which was among the main tenets. Company has been getting experts who are working towards asset and wealth management to guide employees that are related to investing in savings for tax and growth of assets and wealth to have secure future. As indicated by Mr. Abhishek Sen, the HR head in Myntra responded to the Economic Times, that they wish their employees could create good investment habits. Further he mentioned that they also provided advice from financial experts to their employees so as to keep them free from stress related to financial matters. The Company planned to leverage internal expert to extend peer support. As per "India Health and Wellbeing Study" which was carried out by "Willis Towers Watson", there are 63% employers who have already started development of strategy to improve financial well-being of employees. Mr. Sudesh Shetty, who is head of "Health and Benefits" in Willis Towers Watson India realized that the employees should have a holistic well being and financial well-being is very important in different aspects i.e. family, emotional, physical and financial. Obligations of financial well-being does only involves making employees literate about financial terms rather they should be able to implement them for future so that they will be able to manage their financials well and this could reduce their financial burden. In startup, at times the employees have enjoyed gains and it is important that employees invest wisely after consultation with experts.

## **2. OBJECTIVES**

- To understand the terms of financial literacy and financial well-being
- To identify financial literacy level among selected employees

- To understand the impact of financial literacy on financial well-being of employees

### 3. HYPOTHESIS IN THE STUDY

H<sub>01</sub> - There is no significant impact of financial knowledge on financial well being among selected employees of new age companies

H<sub>11</sub> - There is a significant impact of financial knowledge on financial well being among selected employees of new age companies

### 4. METHODOLOGY

The research design in this study is descriptive in nature. This study is based on primary data which is collected through structured questionnaire. Sample of 100 employees working in new age companies i.e. Paytm and Zomato have been considered in this study. The employees working in different new age companies in Bhopal and Jabalpur have been selected as sample. Financial literacy and financial well-being are inter-related and both of them are very important in individual's life for making their current and future safe and secure. Individuals having a high or low package could invest in a better way if they are financially literate and this could help them in being financially safe.

### 5. DATA ANALYSIS

#### 5.1 Reliability Analysis

##### Cronbach's alpha - Reliability analysis

##### Reliability Statistics

Cronbach's Alpha	N of Items
.883	13

In this study, there are 13 items that are based on likert scale. Such items are based on financial knowledge and financial well-being.

##### Items used for Cronbach's alpha

Part	Section title	No. of items
Part B	Financial knowledge	7
Part C	Financial well-being	6
	Total	13

In this study, 5 point likert scale has been used in questions related to Financial knowledge wherein 5 stands for "strongly agree" and 1 stands for "strongly

disagree”. Cronbach’s alpha has been applied for finding out reliability of data. Cronbach’s alpha is considered as good when it is above 0.7, and the above table indicates value as 0.883 which indicates that the data collected has a high consistency and the result of this study can be applied in future researches as well.

## 5.2 Analysis of Socioeconomic Characteristics

- **Gender of the respondents**

In this study, 52% are males and 48% are females. Financial literacy and financial well-being plays a very important role in the life of individuals. In many houses the male members of the family takes financial decisions, though financial literacy is very important for males and females. This study involved male and female respondents as financial well-being is important for respondents of both the genders.

- **Age of the respondents**

In this study, there are four age categories i.e. 18 – 30 years, 30 – 45 years, 45 – 60 and 60 years and above. Majority respondents are in the age between 30-45 years i.e. 42%. Employees who are working in new age companies have been a part of this study. It is very important to understand the financial literacy level among employees of different age group, hence no such restriction was made while selection of employees based on age.

- **Education of the respondents**

In this study, majority employees are post graduate i.e. 73%. The remaining employees are professionals and graduates. The level of education also plays a very important role and it is necessary that employees who are having lesser education level are also made aware about financial products and services. The level of financial literacy may vary based on education, but financial well-being is important for all the individuals. During education tenure of post graduation or professional studies, sometimes the employees might have understood about the financial products, but they will be able to invest in such products only when they actually start earning.

- **Marital Status of the respondents**

In this study, majority employees are married i.e. 52% and the remaining are unmarried. The financial decisions vary among married and unmarried employees. The financial responsibilities are more among the married ones. Sometimes, the married is the only earning member, so it becomes important for

him to take care of their finances in a more minutely observed way as income is required for current as well as future. Security of money becomes more important here and it is not a good idea to take much risk.

- **Annual Income of the respondents**

In this study, majority employees are earning an annual income between Rs. 2,50,001 – 5,00,000 i.e. 63%. Financial literacy plays a very important role in the life of individuals whether their annual income is high or low. They should be able to protect their funds, whatever may be the amount. The finances are required to be managed, there is a need to create budget for every month or even annual so that finances could be managed well and investment could be made for future.

### **5.3 Financial Knowledge Analysis**

Awareness about different investment options and financial terms was analyzed through responses given by employees. Few financial terms and investment options have been selected which are mentioned below and the awareness level towards these options was understood. For evaluating the financial knowledge level among employees, 5 point likert scale has been used, wherein the employees have selected any one option. In this scale, the range is from “strongly agree” (i.e. 5 points) to “strongly disagree” (i.e. 1 point).

#### **(a) KYC for opening account**

Majority employees have shown as “strongly agree” in their response towards the awareness about KYC. It stands for Know your customer. The employees were asked about KYC so that they would also be able to evaluate the importance of KYC. It plays a very important role as it helps the bankers or officials of any financial institute in understanding about any individual and for knowing their identity whether they are genuine or not. KYC helps in identification of any kind of fraud which is likely to happen.

#### **(b) Power of compounding**

Majority employees have shown as “strongly agree” in their response towards the awareness about power of compounding. The value of money increases with time and this could be estimated in long term. The effect of power of compounding could be felt when someone earns interest on interest. The employees should try to understand that investment for long term is always beneficial as the risk gets mitigated.



**(c) Insurance**

Majority employees have shown as “strongly agree” in their response towards the awareness about insurance. Life insurance plays a very crucial role in everyone’s life. Life is important for everyone to whichever income level they belong. Insurance helps in securing future for people as it would provide a basic amount which is required after the death of any person to the nominees so that they could manage the basic requirements of their life.

**(d) Tax saving through investment**

Majority employees have shown as “agree” in their response towards the awareness about tax saving. There are lesser number of employees who strongly agree about their awareness about tax saving options. Investment options are available which could be used as a tool for investment like ELSS, National Savings Certificate, PPF and even fixed deposit is also available for investment and they could be invested for saving of tax.

**(e) Risk diversification**

Majority employees have shown as “agree” in their response towards the awareness about risk diversification. There is an existence of risk and return in every investment option which are available. The option should be chosen based on the risk taking capacity of employees and the return also depends upon the period for which the amount is being invested. Every employee could have a different investment objective based on which the investment has to be made.

**(f) Mutual funds**

Majority employees have shown as “agree” in their response towards the awareness about mutual funds. There are different types of mutual funds which are available and based on the objective of the mutual funds the investment is made in equity or debt based on the ratio which is planned at the initial level when the mutual fund is introduced in the market through NFO.

**(g) Systematic Investment Plan**

Majority employees have shown as “agree” in their response towards the awareness about Systematic Investment Plan (SIP). Investment could be made in lumpsum or through SIP. It depends upon the flow of income among employees. Generally the employees should prefer investment in shares or mutual funds through SIP as their income is received on monthly basis. In case any employee has previous savings or income from any other source then investment could also be done in lumpsum.

#### 5.4 Financial Well-Being analysis

Sr. no.	Statement	SA	A	N	D	SD	Total
1	Satisfied with current financial condition	52	18	7	12	11	100
2	Feel secured regarding future	21	42	10	13	14	100
3	Control current financial resources	49	31	4	7	9	100
4	Track to meet financial goals	12	53	15	9	11	100
5	Handle any financial emergency	47	15	21	10	7	100
6	Financial planning contributes towards saving plans	71	8	11	4	6	100

For the above statements related to financial well-being, the employees have indicated that majority employees have strongly agree towards the statement “Satisfied with current financial condition”, “Control current financial resources”, “Handle any financial emergency” and “Financial planning contributes towards saving plans” and majority has agreed towards the statements “Feel secured regarding future” and “Track to meet financial goals”. The employees are satisfied with their financial condition indicates that they are well prepared with their expenses and they are able to handle finances for their future also. Investment is very important for future as it will help them in managing their expenses which would arise in future. At times, certain expenses come in the way and it becomes difficult to manage them if we are not prepared in advance. Financial goals of the employees who have been considered in this study are well defined and this indicates they are working towards their goals in a phased manner. Financial planning plays a very important role and the employees should spend more time towards planning for the same.

#### 5.5 Impact of financial knowledge on financial well-being

##### Testing of Hypothesis

H<sub>01</sub> - There is no significant impact of financial knowledge on financial well being among selected employees of new age companies

H<sub>11</sub> - There is a significant impact of financial knowledge on financial well being among selected employees of new age companies

For finding the impact of financial knowledge on financial well being among selected employees of new age companies, regression has been applied through SPSS. A sample of 100 employees has been considered based on different demographic profile like age, marital status, annual income and education.

Regression is used for finding the impact of independent variable on dependent variable. In this study, independent variable has been considered as financial

knowledge and dependent variable is considered as financial well-being. The mean score of the response given by employees for financial literacy has been considered for independent variable score and in a similar manner mean score of financial well-being has been considered for dependent variable.

### Summary of R and R Square

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.781 <sup>a</sup>	.629	.612	.517

a. Predictors: (Constant), Financial\_Literacy

On application of regression the above table is obtained which indicates the values of R and R square. The value of R indicates correlation between independent and dependent variable i.e. 0.781 which indicates there is an existence of positive correlation between financial knowledge and financial well-being. The value of R Square represents total variation in dependent variable that can be explained by independent variable. In the table above, R square is 0.629 that represents 62.9% and it shows high relationship among the selected variables.

#### Regression<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	171.890	1	171.890	618.846	.010 <sup>b</sup>
	Residual	110.548	98	.278		
	Total	282.438	99			

a. Dependent Variable: Financial\_well\_being

b. Predictors: (Constant), Financial\_Knowledge

The above table has been obtained on application of regression in SPSS 20. The above table helps in understanding whether the null hypothesis has been accepted or rejected. The significant value is 0.010 which is below 0.05 (based on 5% level of significance), hence the null hypothesis i.e. “H<sub>01</sub> - There is no significant impact of financial knowledge on financial well-being among selected employees of new age companies” has been rejected and the alternate hypothesis i.e. “H<sub>11</sub> - There is a significant impact of financial knowledge on financial well-being among selected employees of new age companies” has been accepted. The individuals should have financial knowledge about different financial products and services, only then they will be able to invest in options based on their risk

and return. Financial knowledge impacts on the financial well-being hence the employees should be able to invest for their future and manage their current expenses.

## **6. FINDINGS**

- Financial literacy and financial well-being plays a very important role in the life of individuals.
- Employees who are working in new age companies in different age groups are aware about different financial terms.
- The level of financial literacy may vary based on education, but financial well-being is important for all the individuals.
- The financial responsibilities are more among the married ones and they have to take more care about the risk involved in investment.
- The finances are required to be managed, there is a need to create budget for every month or even annual so that finances could be managed well and investment could be made for future.
- KYC helps in identification of any kind of fraud which is likely to happen.
- The employees should try to understand that investment for long term is always beneficial as the risk gets mitigated.
- Life insurance plays a very crucial role in everyone's life.
- There is an existence of risk and return in every investment option which are available.
- There are different types of mutual funds which are available and based on the objective of the mutual funds the investment is made in equity or debt.
- The employees are satisfied with their financial condition indicates that they are well prepared with their expenses and they are able to handle finances for their future also.
- Financial planning plays a very important role and the employees should spend more time towards planning for the same.

## **7. CONCLUSION**

Financial literacy is important for all individuals whether they belong to HNIs, upper middle class or middle class or lower middle class. Even an illiterate should be able to understand the basics of finance and should be able to participate in the financial system of our country. A low level of financial literacy has kept individuals away from all kind of benefits which they could have received by investing in different financial products and services. Individuals require knowledge about different financial products and services, so that they could plan to select such investment options for their current and future needs.

There is also requirement of using services wherein amount needs to be transferred to the near and dear ones which can be said to as risk mitigation services. Insurance is a very important product for future security. This is being observed that critical deprivation for acquiring wealth by people from poor household is deficiency or absence of appropriate financial service. The biggest deprivation amongst households can be said to be lack in financial literacy. Investment is very important for future as it will help them in managing their expenses which would arise in future. At times, certain expenses come in the way and it becomes difficult to manage them if we are not prepared in advance. Financial goals of the employees who have been considered in this study are well defined and this indicates they are working towards their goals in a phased manner. Financial planning plays a very important role and the employees should spend more time towards planning for the same.

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