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ORIGINAL RESEARCH PAPER

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ASSESSING FINANCIAL LITERACY IN KERALA: A STUDY OF DETERMINANTS, CHALLENGES, AND SOCIOECONOMIC IMPACTS IN KANJIKUZHI PANCHAYATH

KEY WORDS: Financial Literacy, Financial education, Socio-Demographic Factors

Sreedevi Gopalakrishnan	Assistant Professor, Department of Economics, SN College, Chengannur, Kerala
Dr. Mahima S	Assistant Professor, Department of Economics, SN College, Chengannur, Kerala
Jyothish S	Assistant Professor on Contract, Department of Economics, SN College, Chengannur, Kerala

ABSTRACT

This study investigates financial literacy in Kanjikuzhi Panchayath, Alappuzha district, Kerala, highlighting the socio-demographic factors impacting financial knowledge and decision-making in rural areas. Despite global and national efforts, financial literacy remains low, especially in rural India where access to formal financial services is limited. Based on interviews with 50 residents, findings reveal that men, middle-aged individuals, educated respondents, and those in formal employment exhibit better financial literacy compared to women, younger adults, and individuals in informal jobs. Key factors influencing financial literacy include gender, age, education, and income stability, with significant disparities in financial understanding among women and youth. The study emphasizes the need for targeted financial education programs in rural communities, focusing on women, youth, and older adults, to improve informed decision-making and foster economic stability. Beyond education, addressing socio-economic barriers is crucial to effectively elevate financial literacy.

INTRODUCTION

Financial literacy has increasingly attracted the interest of academic communities and international organizations aiming to assess and improve financial and economic knowledge globally. In 2008, the OECD launched a significant initiative with the establishment of the International Gateway for Financial Education. Similarly, the World Bank's Consumer Protection and Financial Literacy project seeks to improve financial literacy worldwide. Developed nations, such as the UK, Canada, the United States, and Australia, have pioneered efforts to promote financial literacy by establishing dedicated agencies like the Financial Services Authority (2000) in the UK, the Financial Consumer Agency (2001) in Canada, the Financial Literacy and Education Commission (2003) in the US, and Australia's Financial Literacy Foundation (2005). In recent years, developing countries have also taken strides to enhance financial literacy among their populations.

In India, financial literacy has gained prominence due to rapid economic developments and policy reforms (Nash, 2012). Some studies suggest India's financial literacy levels are globally competitive (Nash, 2012), while others indicate variability across different demographic segments, with low to moderate levels prevailing in many cases (Rani & Siwach, 2023). The Reserve Bank of India's initiatives, such as "Project Financial Literacy," underscore the critical need for financial education to support financial stability and economic growth (Hridhya & Reddy, 2020). Key factors influencing financial literacy in India include gender, education, income, and employment type, while age and geographical region play a lesser role (Bhushan & Medury, 2013). Despite government efforts to improve financial inclusion and literacy, significant work remains (Rani & Siwach, 2023), particularly as financial literacy is essential for informed financial decisions and individual well-being (Bhushan & Medury, 2013).

Kerala has been the subject of several financial literacy studies, highlighting both progress and persistent challenges. Studies have shown low financial literacy levels among Kerala's educated youth, with gender, age, religion, education, occupation, and income emerging as influential factors (Kiliyanni & Sivaraman, 2018). For working women, digital financial literacy varies, with factors such as financial inclusion, access to technology, and peer influence playing essential roles (Sajeer & Anandalakshmy, 2023). Although Kerala boasts high literacy rates and a relatively high proportion of women in formal employment, challenges in financial decision-making remain, particularly among women (Gopeekrishna & Geetha, 2018). A comparative study between Kerala and Uttar Pradesh illustrates a rural-urban financial literacy divide, with rural areas consistently lagging behind urban areas in financial literacy levels (Azeez & Banu, 2021). These findings underscore the need for targeted financial literacy initiatives tailored to different demographic groups within Kerala.

Financial literacy is broadly defined as the ability to understand and manage financial resources effectively, contributing to individual and societal financial well-being (Lusardi, 2014; Huston, 2009). Research shows that low levels of financial knowledge are linked to inadequate financial planning and decision-making, affecting personal finance areas like retirement planning, stock market participation, and borrowing behavior (Lusardi, 2014). Beyond personal finances, financial literacy promotes financial inclusion and stability, benefiting financial institutions, resource allocation, and overall economic growth (Widdowson & Hailwood, 2007). However, given the widespread gaps in financial knowledge, there is a pressing need for standardized measures of financial literacy and comprehensive education initiatives that start early, possibly within school curricula (Lusardi, 2014).

A lack of financial literacy often leads to misinformed financial decisions, inefficient money management, and even vulnerability to financial crises. Policymakers contend that consumers need adequate financial knowledge and tools to make decisions that enhance their economic well-being. Deficiencies in financial literacy can impact not only day-to-day money management but also the ability to save for long-term goals like homeownership, higher education, or retirement. Addressing these gaps is essential to achieving healthier financial habits, fostering a culture of savings, and preparing individuals for future financial challenges (Braunstein & Welch, 2002).

Given the increased attention to financial education globally, there is still no universally agreed-upon definition of financial literacy. A common definition considers it the ability to make informed financial decisions, encompassing skills such as budgeting, investment analysis, and cash-flow management (ASIC, 2003; Noctor, Stoney, & Stradling, 1992). A more comprehensive definition includes managing and communicating personal financial information that impacts material well-being (Anthens, 2004). In India, where low general literacy rates and limited access to formal financial services remain challenges, financial literacy is particularly critical. Without financial knowledge, many individuals, especially those in rural areas, rely on high-cost alternatives, which can worsen poverty and financial exclusion.

In this context, financial literacy emerges as a necessary tool to empower individuals with the knowledge to manage household budgets, allocate resources, and achieve financial goals. While people often save for the future, many do so without structured financial planning, resulting in inefficient savings strategies that do not maximize potential returns (Pallavi Seth et al., 2010). Given the complexities of today's financial markets, financial literacy is essential to guide informed financial choices, thereby promoting economic stability at both individual and societal levels.

Statement of the Problem

Financial literacy in India has gained increasing importance due to recent economic developments and policy changes (Nash, 2012). It is critical for individual financial stability and overall economic growth, enabling informed decision-making in areas such as money management and personal finance (Hridhya & Reddy, 2020; Bhushan & Medury, 2013). Factors influencing financial literacy include gender, education, income, and employment type, while age and geographical region appear to have a lesser impact (Bhushan & Medury, 2013). Studies indicate that India has relatively low financial literacy, with a need for policy interventions to improve it (Rani & Siwach, 2023).

The lack of financial knowledge affects not only individual households but also the economy, as many rural residents depend on local moneylenders due to poverty and limited access to formal financial services (Sharma, 2020). However, recent government initiatives like 'Digital India' and 'Rural Livelihood Mission' have positively impacted financial literacy levels, particularly in rural areas, where increased financial literacy supports both financial inclusion and rural development (Gautam et al., 2022).

This study aims to analyze the financial literacy levels among rural residents in the Kanjikuzhi panchayat of Alappuzha district, Kerala. By examining the socio-economic and demographic factors that influence financial literacy, this research seeks to identify key determinants and barriers to financial knowledge and decision-making in this semi-urban context.

Objectives of the Study

The study seeks to achieve the following objectives:

1. To assess the financial literacy levels among residents in Kanjikuzhi panchayath, Alappuzha district, Kerala.
2. To analyze the relationship between financial literacy and demographic factors, such as gender, marital status, education, and occupation among the panchayat's residents.

Methodology

This study employs both primary and secondary data to assess financial literacy levels and examine the relationship with demographic factors within Kanjikuzhi Panchayath, Cherthala Taluk, Alappuzha district, Kerala. For the purpose of this study, financial literacy is defined as "the ability of an individual to make informed judgments and effective decisions regarding the use and management of money" (ASIC, 2003). This includes basic knowledge of financial concepts, personal budgeting, saving, and an understanding of financial products and service. A structured interview schedule was designed to gather firsthand information from individuals on their financial knowledge, habits, and attitudes. A random sampling method was used to select 50 individuals from Kanjikuzhi Panchayath, a semi-urban area located in the outskirts of Alappuzha district. The data collected were analyzed using percentage and average calculations, providing insights into the financial literacy levels and associated demographic factors among the respondents.

Findings

The study, conducted in Cherthala Taluk with a focus on Kanjikuzhi Panchayath, explores the financial literacy levels of residents and their relationships with demographic and socio-economic factors. The key findings are as follows:

- **Overall Financial Literacy:** The majority of the respondents demonstrated low financial literacy, with limited understanding of basic financial services and concepts. Contributing factors include limited educational attainment and lower income levels, which impact financial awareness and access to financial resources.
- **Gender Differences in Financial Literacy:** .Female respondents displayed lower levels of financial literacy compared to their male counterparts. This trend aligns with broader findings across India, highlighting gender disparities in financial knowledge and access. The lower financial literacy levels among women may be attributed to societal factors, including less exposure to formal financial systems
- **Age and Financial Literacy:** Respondents in the 18–25 and 56+ age groups had lower financial literacy compared to the middle-aged group (26–55 years). Middle-aged individuals, often the primary earners in households, showed higher levels of financial literacy, likely due to the need to manage family finances and plan for future financial stability. These individuals were also found to have better saving habits and financial decision-making capabilities.
- **Saving and Credit Behavior:** Most respondents engaged in saving primarily to cover unexpected expenses, rather than for long-term financial planning or wealth-building. Financial literacy was found to positively influence decision-making related to saving and credit, empowering individuals to make more informed investment choices.
- **Educational Attainment and Financial Literacy:** educated respondents demonstrated significantly better financial literacy compared to those with lower educational levels. This suggests that education plays a key role in financial literacy, enabling individuals to understand and engage with financial services effectively.
- **Employment Sector and Income:** Respondents employed in government, semi-government, and private sectors exhibited higher financial literacy than those in informal or unstructured employment. Formal sector employees, who generally have more stable incomes, were found to possess greater knowledge of financial planning and savings, underscoring the role of income stability in fostering financial awareness.
- **Marital Status and Financial Planning:** Married respondents showed higher levels of financial literacy than single respondents. This may be due to the increased financial responsibilities associated with marriage, such as managing household finances, planning for future expenses, and saving for family needs.

CONCLUSION

The study demonstrates that low levels of financial literacy are a widespread issue, affecting individuals across various countries regardless of their developmental status. Financial literacy levels are influenced by demographic factors such as gender, age, education, and employment type, with specific implications for financial behavior and decision-making capabilities.

In India, low financial literacy is a challenge, particularly among rural populations who lack access to formal financial services. Findings from this study in Kanjikuzhi Panchayat reflect similar trends, with residents showing limited financial knowledge. Kerala, while often seen as one of India's most progressive states in terms of general literacy and economic development, still faces significant gaps in financial literacy. Higher education and formal employment are associated with improved financial literacy, while married individuals tend to exhibit greater financial planning and saving behaviors than their single counterparts.

The results of this study underline the importance of targeted financial literacy initiatives, especially those focusing on enhancing education and financial awareness among women, younger adults, and senior citizens. Improving financial literacy at a community level can empower individuals to make sound financial decisions, reduce reliance on informal lending, and ultimately contribute to economic stability.

Despite the growing focus on financial education, effective strategies require a coordinated approach from national, regional, local, and private entities. Increasing public awareness of financial risks, savings methods, and accessible financial services can help individuals mitigate risks and enhance their financial well-being. However, it's important to note that while financial literacy provides individuals with the knowledge and tools to make informed financial decisions, personal and social factors also play a role in actual decision-making. Thus, while financial literacy lays the foundation for better financial outcomes, a supportive socio-economic environment is equally essential.

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