# Chapter 6 Review of Literature

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## 6.1 Introduction:

In this chapter an attempt is made to review to research works related to the research topic made by the researchers in the past. The literature reviewed includes- Theses, Dissertations, Research Papers, Research Articles, Books, Journals, Magazines, Unpublished Works, Reports of News paper Associations and so on.

## 6.2 Review of Literature:

According to Worthington Andrew C. (2006), (Worthington Andrew C. , *Predicting Financial Literacy in Australia*, PhD, Faculty of Commerce, University of Wollongong,Australia.), in a broader sense, financial literacy can be stated as "understanding of economics and how economic conditions and circumstances affect household decisions". Thus, from his point of view, the financial literacy not only covers those micro-economic areas of study which affect the individual decision making but also those macro-economic areas that directly or indirectly affects such decisions.

Natalie, Newton and Chrisann (2010), (Natalie Gallery, Cameron Newton and Chrisann Palm (2010), *A Framework for Assessing Financial Literacy and Superannuation Investment Choice Decisions*, Reserach Paper, University of New South Wales (UNSW), Sydney, Australia) have considered the financial literacy in narrow sense and their definition of financial literacy focuses on “basic money management tools such as budgeting, saving, investing and insurance”. Thus as opposed to the broader view this definition considers the importance of the micro-economic tools of financial literacy that affect the individual decision making.

The definition by ANZ Bank (2011), (ANZ Bank (2011), *The ANZ Survey of Adult Financial Literacy in Australia*, The Australia and New Zealand Banking Group Limited (ANZ), Australia.) covers the broader area of macro-economic tools which are used for the decision making b y the individuals and accordingly, “Financial literacy is the ability to make informed judgements and to take effective decisions regarding the use and management of money. Financial literacy is therefore a combination of a person’s skills, knowledge, attitudes and ultimately their behaviours in relation to money”. Thus, here importance is given to the use and management of money with combinations of individual’s own personal skills, knowledge, attitudes and behaviours.

Carol, A. and others (2000), (Carol Anderson, Jamie Kent, Deanna Lyter, Jurg Siegenthaler and Jeremy Ward (2000), *Personal Finance and the Rush to Competence*, National Field Study Commissioned by the Fannie Mae Foundation, Institute for Socio-Financial Studies, USA.) has given stress on the personal financial literacy where individuals own competencies play important role rather than the institutions that provide the financial literacy. Accordingly, “Personal financial literacy is the ability to read, analyse, manage and communicate about the personal financial conditions that affect material well being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future and respond competently to life events that affect everyday financial decisions, including events in the general economy”. Thus in this definition a stress is given on the personal competencies rather than institutions set up for the financial decision making.

Kim (2001), (Kim Jinhee. (2001), *Financial knowledge and objective and subjective financial wellbeing*, Consumer Interests Annual, American Council on Consumer Interests, USA.) relates the financial literacy with basic knowledge about the broader macro-economic aspects and it is about the "a basic knowledge that people need in order to survive in a modern society".

Cathy (2002), relates the financial literacy with the understanding of the key financial terms and use of the same in the routine life for the decision making. According to her, "Financial knowledge is defined as understanding key financial terms and concepts needed to function daily in society".

Marsha and others (2008), (Marsha Courchane, Adam Gailey and Peter Zorn, (2008), *Consumer Credit Literacy: What Price Perception?* Journal of Economics and Business, USA.) considered financial literacy as a knowledges based on the self assessment by an individual and decision making thereof. Thus, they have made a point to the consumer literacy as the literacy of making decisions by a person on the basis of one's own competencies. So, accordingly financial literacy is basically consumer literacy and they define it as- "Consumer literacy is self-assessed financial knowledge or objective knowledge".

According to Lisa and others (2008), (Lisa Servon and Robert Kaestner(2008), *Consumer Financial Literacy and the Impact of Online Banking on the Financial Behavior of Lower-Income Bank Customers*, The Journal of Consumer Affair, USA.) "Financial literacy refers to a person's ability to understand and make use of financial concepts". Thus, here a point is made to the understanding of the financial concepts and use of the same for the decision making about the financial matters.

Mandell, L. (2008), (Mandell Lewis (2007), *The Impact of Financial Education in High School and College.*) also made a point to the financial literacy as "the ability to use knowledge and skills to manage financial resources effectively for lifetime financial security". Thus, the financial literacy here is considered in the context of management of the available financial resources for the effective financial security of the long term.

Even, according to Sandra (2010), (Sandra Braunstein and Carolyn Welch (2002), *Financial Literacy: An Overview of Practice, Research, and Policy*, Federal Reserve Bulletin, USA.) "Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being". Thus, the effective use of the knowledge for the management of financial resources is being pointed out.

As pointed out by ASIC (2003), (ASIC (2003), *Financial Literacy in Schools*, Consultation Paper, Australian Securities and Investments

Commission, Australia.) financial literacy is about the managing the financial resources and is related to "Confidence with managing money". Thus the definition covers over-all management of the financial resources with confidence gained from the financial literacy.

Worthington (2006), (Op.cit.) relates the financial literacy with the mathematical ability and thereby understanding of the financial terms for the effective use of the financial literacy and accordingly for him financial literacy is related to "Mathematical ability and understanding of financial terms".

Mas (2005), (Ignacio Mas, (2010), *How can we increase savings among the poor, Centre for Micro Finance*, working paper, Bill and Melinda Gates Foundation, Washington, USA.) defines financial literacy as- "The ability of people to make informed judgments and take effective decisions in managing their finances". Thus, this definition stresses on the financial literacy as a tool to manage the finances of the person. The definition also specifies the development of ability to manage the financial resources through the financial literacy.

Lusardi and Tufano (2009), (Lusardi Annamaria and Peter Tufano (2009), *Education, Debt Literacy, Financial Experiences and*

*Overindebtedness*, Paper Presented to the OECD-Brazilian International Conference on Financial Education, Rio de Janeiro, Brazil.) studied the financial literacy in the context of Debt literacy. They studied Debt literacy as a part of overall financial literacy. According to them, “Debt literacy determines proficient borrowing”. Thus, they have linked the financial literacy in general and debt literacy in particular with proficiency to borrow and according to them; the debt literacy makes people proficient in borrowings as a part of overall financing. As far as the components involved in the Debt literacy, according to them, “The core competency of a financially literate person is the ability to understand debt, and the processes involved to avoid it, reduce it and repay it. It also relates to competence in using loans”. Thus, according to them, various components studied under the Debt literacy includes: 1. Ability to understand debt. 2. Ability to understand processes involved in obtaining debt. 3. Ability to understand processes involved in avoiding debt. 4. Ability to understand processes involved in reducing debt. 5. Ability to understand processes involved in repaying debt. 6. Competence in using loans. Thus, the study area by the researchers cover the wide components involved in the debt literacy.

Further, to the above components of the debt literacy as the part of the financial literacy, the definition given by the World Bank (2008) includes- “responses to debt including the ability to determine whether debt is justified”. Thus the component of the debt literacy as a part of the financial literacy included by the World Bank is ability to determine whether debt is justified.

Thus, both the above definitions deal with the Debt illiteracy and accordingly Debt illiteracy is related with over- indebtedness, and an inability to reduce existing levels of debt.

Hiroshi (2002), (Hiroshi Fujiki and Cheng Hsiao (2002), *Public Opinion Survey on Household Financial Assets and liabilities,* Institute for Monetary and Economic studies, Bank of Japan, Japan.) studied the financial literacy in the context of the financial investment and stressed on choice of the suitable investment portfolio through the ability gained by the financial literacy. Accordingly, “Competence in investing and choosing the most suitable investment portfolio is another key feature of financial literacy”. The researcher further states that the “Selection of an investment portfolio depends on the finance available for investment and the purpose of investment”. Thus, the importance of the financial literacy in the context of investment and portfolio management lies in the availability of the finance and the purpose of the investment. The researcher has also suggested three basic criteria for choosing investments and those are: safety, liquidity and profitability.

Different definitions of financial literacy in United States (PACFL, 2008), (PACFL, (2008), Annual Report to the President, President's Advisory Council on Financial Literacy, USA.) Canada (Task Force on Financial Literacy, 2010), United Kingdom (FSA, 2011), (Financial Services Authority (2011), *Consumer Council guide to the FSA's Money Made Clear web resource*, UK.), and Australia (Financial Literacy Foundation, Australia, 2008) (Financial Literacy Foundation, (2008), *Understanding Money, Money Management*, Portal by Australia, Australia.) also signify the importance of application of financial knowledge in financial literacy as seen in the earlier literature reviews.

H.M. Treasury (2007), (HM Treasury (2007), *Financial Capability: The Government's Long Term Approach*, Proceedings of the Association for Financial Counselling and Planning Education, U.K.) has dealt with the ability developed by the financial literacy and stated that "financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market." Thus, accordingly, the financial literacy makes people capable to: 1. Plan the financial matters for the future well in advance, 2. find and use information related to the finance and related matters, 3. know when to seek advice on the financial matters and issues, 4. understand and act on this advice for the better management of financial resources and finally, 5. greater participation in the financial services market.

According to Sandra Huston (2010), (Sandra Huston. (2010), *Measuring Financial Literacy*, The Journal of Consumer Affairs, American Council on Consumer Affairs, USA.) “Financial literacy means having the knowledge, skills and confidence to make responsible financial decisions”. Thus, this definition relates the financial literacy not only with the gaining knowledge and skills in the financial matters but also with the making of responsible financial decisions.

According to Remund (2010), (David , Remund ( 2010), *Financial Literacy Explicated: The Case for a Clearer Definition in an Increasingly Complex Economy*, The Journal of Consumer Affairs, USA.)“The conceptual definitions of financial literacy fall into five categories: (1) knowledge of financial concepts, (2) ability to communicate about financial concepts, (3) aptitude in managing personal finances, (4) skill in making appropriate financial decisions and (5) confidence in planning effectively for future financial needs”. Thus in this definition the area of communication skills is added to the Financial literacy. Therefore, according to him, financial literacy requires communication skills also. It includes the ability to apply knowledge and to communicate that knowledge, making financial literacy vital to effective decision making.

According to Fox and others (2005), (Fox, J., Bartholomae, S. and Lee, J (2005), *Building the Case for Financial Education*, Journal of Consumer Affairs, USA.) “Financial literacy is understood by the link” it creates i.e. its relationship with the area of knowledge and the development of ability to deal with the financial matters.

Holzmann (2010), (Holzmann Robert (2010), *Bringing Financial Literacy and Education to Low and Middle Income Countries: The Need to Review, Adjust and Extend Current Wisdom*, World Bank, USA.) extended the above given link of knowledge and ability to the skills and also included the attitudes to behaviour to the given link. According to him the importance of the financial literacy can be well understood with the behavioural and attitudinal changes brought in the financially literate person through the impartment of financial knowledge. According to him, “This link is important, because knowledge influences attitudes which then manifests into particular types of behaviour.”

ANZ Bank (2008), (Op.cit.) also links the financial literacy with the attitudes of the people with respect to gain of the financial literacy.

Financial Literacy Foundation, Australia (2008), (Op.cit.) links the financial literacy with the change in the attitude of the financially literate persons and relates it with the attitude of the financially literate persons with respect to future and risk taking attitude. According to the definition financial literacy is related to "whether people live for today or for the future, or whether insurance is necessary or preferences for risk etc."

Carolynne and Richard and others, (2000), (Carolynne, L., Mason,J , Richard, M. and Wilson,(2000), *Conceptualising Financial Literacy* , Business School Research Paper Series, Loughborough University, London, UK.) in their research study titled 'Conceptualising Financial Literacy'. The main aim of the study was to examine the nature of the term financial literacy. The paper begins by looking at concerns that exist over an individual's ability to use financial information effectively and the implications. The authors argue that financial awareness and financial literacy are not synonymous and financial literacy is a complex phenomenon.

Margaret Miller, Nicholas Godfrey, Bruno Levesque and Evelyn Stark (2009), (Margaret Miller, Nicholas Godfrey, Bruno Levesque and Evelyn Stark (2009),*The Case for Financial Literacy in Developing Countries- Promoting Access to Finance by Empowering Consumers,* World Bank, USA.) in their study titled 'The Case for Financial Literacy in Developing Countries- Promoting Access to Finance by Empowering Consumers' discussed the importance of financial literacy for consumers in developing countries. According to them, "financial literacy is an active process, in which communicating information is only the beginning but empowering consumers to take action to improve their financial wellbeing is the ultimate goal." Further, they state that, "Financial literacy is critical for promoting access to finance by creating incentives and environments that promote desired financial behaviours such as saving, budgeting, or using credit wisely." Thus, the study broadly covers the aspects of financial behaviours like saving, budgeting, or using credit.

Atkinson, Adele and others (2011), (Atkinson Adele and Anne Messy (2011), *Measuring Financial Literacy: Results Of The OECD-INFE Pilot Study*, OECD - International Network on Financial Education (INFE), UK.) in their research work titled, 'Measuring Financial Literacy: Results of the OECD - INFE Pilot Study', focused on variations in financial knowledge, behaviour and attitude across countries and among the people and they found that there is a lack of financial knowledge amongst a sizeable proportion of the population and there is considerable room for improvement in terms of financial behaviour. According to the authors, “financial knowledge, financial behaviour and attitude are the key elements of financial literacy”.

Matthew Martin (2007), (Mathew Martin (2005), *Literature Review on the Effectiveness of Financial Education* , Research Department, Federal Reserve Bank of Richmond , United States.) in his study titled, ‘A Literature Review on the Effectiveness of Financial Education’ dealt with the researches on financial literacy programmes conducted internationally and opined that, “The most financial literacy programs are relatively new; much of the literature reviewed is also new and financial literacy is still developing as a program of research.” The important findings of his study are: - Firstly, Some households make mistakes with personal finance decisions. Secondly, Mistakes are more common for low income and less educated households. Thirdly, there is a causal connection between increases in financial knowledge and financial behaviour and fourthly, the benefits of financial education appear to span a number of areas including retirement planning, savings, home ownership, and credit use.

Susan L. Rutledge (2010), (Susan L. Rutledge, (2010), *Consumer Protection and Financial Literacy Lessons from Nine Country Studies*, World Bank, USA.) in the Working Paper, ‘Good Practices for Consumer Protection and Financial Literacy in Europe and Central Asia: A Diagnostic Tool’ tried to presents a set of ‘Good Practices for Consumer Protection and Financial Literacy’ which were developed for the World Bank's Europe and Central Asia Region. Accordingly, The Good Practices are expected to provide a practical tool for systematic analysis of laws, regulations and institutions involved in consumer protection and financial literacy. According to her, The Good Practices are based on four key concepts viz; (1) simple, easy to understand and comparable consumer disclosure (2) prohibition of abusive business practices by financial service providers (3) an easy, inexpensive and speedy method of resolving disputes with financial institutions; and consumers and (4) financial education to consumers so that they can understand financial services and products and make informed decisions.

Abhijit V. Banerjee and others (2006), (Abhijit V. Banerjee and Esther Duflo (2006), *The Economic Lives of the Poor*, Abdul Latif Jameel Poverty Action Lab, Massachusetts Institute of Technology, Cambridge, Massachusetts, USA) in their study titled- ‘The Economic Lives of the poor’ surveyed the data from 13 countries to document the financial flows of the poor people. The authors compared their patterns of consumption and income generation as well as their access to markets and publicly provided infrastructure and their relationship with financial literacy.

A survey conducted by Master Card Worldwide (2010), (MasterCard Worldwide Insights (2010), *How Well Do Women Know Their Money: Financial Literacy Across Asia/Pacific, Middle East and Africa*, Master Card, USA.) titled, ‘How Well Do Women Know Their Money: Financial Literacy across Asia/Pacific, Middle East and Africa’ tried to understand Basic Money Management, Financial Planning and Investment related issues of women. The survey found out that there is a need for targeted financial literacy education to close the gap between the current level of financial literacy and the level it 'should' be at. Secondly, there is a close correlation between financial knowledge and planning and those women who exhibited higher levels of financial literacy were more likely to be proactive in planning for their future.

Sumit Agarwal (2010), (Sumith Agarwal, (2010), *Financial Counselling, Financial Literacy, and Household Decision Making*, Pension Research Council, WP 2010-34, The Wharton School, University of Pennsylvania, Philadelphia. USA.) in his research paper titled-

‘Financial Counselling, Financial Literacy, and Household Decision Making’ tried to establish a relationship between financial counselling, financial literacy, and consumer decision making. According to his findings, most consumers are ill prepared to meet their goals based on their asset, liabilities and risk profiles and suggested that financial counselling is an important tool in educating consumers in their decision making.

Pallavi Seth, and others (2010), (Pallavi Seth, Patel G.N. and Krishnan, K.K. (2010), *Financial Literacy and Investment Decisions of Indian Investors, A Case of Delhi & NCR*, Birla Institute of Management Technology, Greater Noida, India.) conducted a study entitled ‘Financial Literacy & Investment Decisions of Indian Investors, A Case of Delhi& NCR’ to assess the level of financial literacy among people residing in Delhi and National Capital Region (NCR) who invest in different financial instruments, like Post Office Savings Scheme, Mutual Funds, Life Insurance, Stock market etc. The study analysed the relationship between financial literacy and other factors like age, income and education. The study also tried to find out the financial instruments which are considered to be the most reliable and the source of information which is mostly used by the individuals while taking investment decisions.

Sharma and Padhy (2011), (Sharma, S. N. and Padhy, L. P.(2011), *Financial Inclusion: A Strategic Mantra for Sustainable Business Model for Banks,* Vinimaya, National Institute of Bank Management (NIBM), Pune, India.) in their research article titled- ‘Financial Inclusion: A Strategic Mantra for Sustainable Business Model for Banks’ opined that ‘financial inclusion aims at 'connecting people' with the banking system and not just opening accounts. The success of financial inclusion depends much on the extent of financial literacy.’

Dhawal Paramjeet Singh (2011), (Dhawal Paramjeet Singh (2011), *Community Journalism*, Anmol Publication, New Delhi, India.) in his book “Community Journalism” has noted the role of journalism is shifted to new paradigm with emergence of “service journalism” and the role of service journalism is primarily informational, to enlighten the reader or viewer about behaviour that may be risky in terms of future implications and provide guidance about what steps to take to reduce or control risk.thus, the author implies the active role of journalism in spreading awareness and affecting decisions of readers in financial and other matters.

### 6.3 Research gap:

The above reviewed academic research in the form of government regulations, organizational initiatives, research articles, newspaper articles, research publications, books and research journals, magazines, unpublished research works (in Ph.D. thesis, dissertations, project reports etc.), annual reports of institutions like Reserve Bank of India, Banking and non-banking institutions, private institutions, non-government organizations (NGOs) etc., in the area of financial literacy reveal that the area of financial literacy is relatively new and multi-dimensional and therefore the literatures available for the review are limited and target specific. .

The review of available literature also reveals that even though some comparative studies are conducted about financial literacy in various parts of the world including India, , no systematic attempt is made to study the financial literacy of people in view of the role of newspapers that too in the specific area of the New Mumbai.

## 6.4 Conclusion:

Thus, the research study related to the role of newspapers in spreading the financial literacy and its impact on the people of the New Mumbai region stands distinct than the researches done earlier in the field of the financial literacy.