

**A STUDY ON FINANCIAL LITERACY RATE OF SELECT EMPLOYEES
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Specialization:
Educational Psychology
National Council Of Educational
Research And Training**ABSTRACT**

Financial literacy has in recent years gained the interest of various groups including governments, bankers, employers, community interest groups, financial markets, and other organizations, private and public organizations. The importance of improving financial literacy has increased due to factors including the development of new financial products, the complexity of financial markets, and the changes in political, demographic, and economic factors. As a result of the increase in oil prices, the real gross domestic product per capita of the UAE has rapidly increased: Therefore, many locals now have extra money to save or invest, and look for investment opportunities. Moreover, with the highly competitive banking industry in the UAE, obtaining credit has been relatively easy. All the above factors make providing financial education an urgent issue. The purpose of this paper is to assess the financial literacy of the UAE individual investors who invest in the local financial markets. In addition, it examines the relationship between financial literacy and the influence of the factors that affect the investment decision. More concentration is given to the people who are employees of Private and Public sector. The financial literature became important for the citizens of every country to eliminate the problems in decision making of financial investment. Without the knowledge it is difficult to invest their hard earning money in various financial instruments excluding the fixed deposits in the banks or other financial institutions, as it gives minimum return compare to other financial instruments. Many investors will expect optimum earnings on their investments so the study is concentrated to know the percentage of people who is having financial literacy in UAE.

Key Words: public sector, private sector, financial literacy, UAE, decision, financial institutions

INTRODUCTION

Years from 2008 the world is yet to recover from the jolt of 2008, although no official pronouncements were made, many countries were still revolving under the impact of the worst financial collapse we had ever witnessed since the 1930s. The US economy was to ling on a slow path. The federal budget deficit was above \$14.5 trillion. The US was saddled with an enormous amount of debt leading to a downgrade of its credit rating in recent times by Standard & Poor's. The Euro zone was also not spared. Greece was almost declared a defaulter. Portuguese and Spain were also on the same bandwagon.

Americans tend to accumulate large unmanageable debt, while failing to save for their rainy days (including retirement), and also commit many other extremely poor financial choices that gradually leaves them to worse off in the end. However before pointing out against consumer, we must consider the following fact:

It's never their fault always. Most of these poor decisions have been caused largely due to the lack of financial Knowledge. This kind of crisis also portrays that the financial well-being of an individual and their families is very crucial for the entire nation's financial stability and the lack of financial literacy can be a major barrier that is capable of lowering standard of living and limit nation's prosperity. Such lack of knowledge can be quelled only when countries understand the need for financial literacy and implement schemes to increase the financial literacy.

The focus on financial literacy has also risen due to various factors including- developing new financial products, financial market complexity and the ever changing dynamics of political, demographic and economic factors. Globally, governments have been launching various initiatives to increase the financial literacy levels of their people. It is known as Money sense in Singapore and in Canada, there is a task Force on Financial Literacy. Financial literacy as emerged as a growing area of research, as more and more governments is keen on this national topic. The concerns regarding financial literacy has increased rapidly in recent

Financial literacy means different things to different people, and this is reflected most clearly in the many definitions used in the literature. For some, it is quite a broad concept encompassing an understanding of economics and how household decisions are affected by economic conditions

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and circumstances. For others, it focuses quite narrowly on basic money management such as; budgeting, saving, investing and insuring

(Worthington, 2006). Financial literacy can simply be defined as “the ability to make informed judgments and to take effective decisions regarding the use and management of money” (Schagen & Lines, 1996) Surveys around the world consistently indicate that financial literacy levels are low in high income countries and even lower in middle and low income countries. Financial literacy surveys have been conducted in the U.K. (Atkinson et al., 2007), Austria (Fessler et al., 2007), Poland (Szafranska & Matysik-Pejas, 2010), Fiji (Sibley, 2010), and Ireland (O'Donnell & Keeney, 2009). Findings from these surveys generally support the low level of financial understanding on an international level. Fin Scope surveys, which focus mainly on financial access and behavior but also measure a few aspects of financial literacy, have been widely implemented in the Africa region. Some of the findings from the most recent Fin scope surveys in fourteen countries generally indicate low levels of financial access. For instance, in Ghana, one of the higher-income countries in the region, only 56 percent of adults use any kind of financial product. This figure rises to 81 percent in Lesotho, but falls to just 22 percent in Mozambique. Awareness of basic financial products and concepts vary from country to country as well, but is generally also low, with many people never having heard of savings accounts. However, the financial literacy data from the Fin Scope surveys is limited in that it generally focuses only on awareness of financial products and providers, and not on other dimensions of financial literacy, such as numeracy or capability.

In UAE also, the levels of financial literacy are very low despite the concerted efforts to raise literacy levels by the government and other stakeholders. The UAE government while admitting the seriousness of this problem said “education and training in UAE today is facing various challenges that have negatively impacted on its economic development. Unless addressed immediately, these challenges are likely to affect unfavorably the current and future development in UAE” (Ministry of Education Science & Technology, 2004).

Findings from Fin Access national survey (2009) revealed that 60 per cent of the adult population in UAE lacks access to formal financial services including banking, insurance and mobile money transfer services. Access to formal financial services is not only important for

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individuals for risk transfer, but also for the economy at large in savings mobilization and capital allocation.

It can be concluded that financial literacy is a major challenge faced by all countries globally. Numerous surveys conducted around the world have consistently indicated that financial literacy levels are low in high income countries and even lower in middle and low income countries. This study focused on financial literacy among employees and examined how well-equipped they are to make financial decisions.

Objective of the Study

The main objective of this study was to identify the determinants of financial literacy levels among employees.

To achieve the general objective, the following specific objectives guided the study;

- i) To determine the effect of demographic characteristics on financial literacy levels among employees.
- ii) To investigate the effect of socio-economic factors on financial literacy levels among employees.
- iii) To establish the effect of the IT & Financial institutions used when making important financial decisions on financial literacy levels among employees.

Research Method

Sample Frame and Sampling Procedures

A convenient sample method is used of individual employees residing in the UAE. These individuals include both citizens of UAE and foreign employees (expatriates) working for service organizations in UAE. The inclusion of both citizens and non-citizens of UAE in the sample was motivated by the move of the central bank of UAE to set maximum limits on borrowing from banks and credit cards that differ between the two categories of individuals (citizens and non-citizens of UAE).

The use of a convenient sample was dictated by the fact that there is no formal or informal sampling frame from which one can select all subjects using a random sampling technique. This type of a sample usually suffers from the problem of non-representation which may limit the

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degree of generalizing the findings beyond the sample. Where it was possible to get a list of employees of an organization and their mailing addresses, a random sample was selected and the questionnaires were distributed accordingly. In most of the cases, the questionnaires were left with the human resources department of the contacted organization for distribution. The total number of distributed questionnaires to employees of service organizations reached 412.

Development of the Questionnaire

The literature on financial literacy indicates that different questionnaires have been designed and used in prior studies. Huston (2010), for example, reviewed more than 50 questionnaires that were cited and used in prior studies. Most of these questionnaires focused on personal financial knowledge and financial applications. The questionnaires also used different formats of questions (e.g., true and false statements, multiple choice questions, agree or disagree with particular statements, etc.) to solicit responses from different groups of individuals (e.g., college students, professional groups, etc.). However, Remund (2010) and Huston (2010) indicated that most prior research focused on subtopics of financial literacy but not all dimensions of the concept. They suggested the inclusion of knowledge, skills, protection, and confidence. To overcome this criticism; we incorporated a number of measures from different prior research with a minimum of three items for each measure as suggested by Huston (2010).

The questionnaire used in this study contained demographic items such as gender, age, and nationality, among others. It also contained 28 items measuring financial literacy, and five items measuring personal financial attitude.

Research Variables

This paper used eight variables. The first variable, forms of personal debt, represented the dependent variable while the other seven variables represented the independent variables. A brief description of each of these variables and its measurement follows.

Forms of Personal Debt

This variable refers to the personal decision to get involved in debt transactions and carry personal debt in one or a combination of three forms: (1) a loan from a bank, (2) a loan from a friend or a family member, and (3) use of credit cards. Each respondent was asked to indicate whether or not he has personal debt in each of the three forms. For statistical analysis, each form

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of a personal debt was coded one for a yes answer and a zero for a no answer. Thus, the personal debt variable (the dependent variable) represents three variables in the regression equation. Although it is possible for a respondent to have one or any combination of the three forms of personal debt, the authors assumed that each form is independent from the other forms to make the interpretation of the results easier. However, in real life, an individual may be motivated to carry debt in one form because the other forms are not available.

Financial Literacy

This variable is defined as the ability of a person to make informed judgment and to take effective decisions regarding the use and management of money. This variable was measured by the average percentage of correct responses to the 28 items on the questionnaire covering five dimensions: investment, inflation and interest, protection, pension, and savings and borrowings. As indicated in the next section, the average percentage of correct responses over the five dimensions reached 43.3%. These 28 items were adopted from different sources. Nine items were adopted from Chen and Volpe (1998), six items from Van Rooij, Lusardi and Alessi (2011), three items from Lusardi, Mitchell, and Curto (2010), six items from Tennysen (2011), and four items from Njuguna and Otsola (2011).

Personal Financial Attitude

This variable refers to the personal disposition toward financial matters. It is measured by respondents' scores on five items, which were adopted from Chen and Volpe (1998). Each respondent was asked to rank his attitude regarding each of the items using a likert-type scale ranging from one (not important at all) to five (extremely important).

Gender

This variable refers to a respondent's classification as male or female. Each respondent was asked to indicate his gender. For statistical analysis, a response for being a male was coded one while a response for being a female was coded zero.

Age

This variable refers to the approximate period of time a respondent has been alive since he was born. It was stated in a form of three categories: under 20 years of age, 20 years to less than 40 years, and 40 years and above. Each respondent was asked to indicate on the questionnaire the

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age category that he belongs to. For statistical purposes, each age category was coded as one when the respondent belongs to the age category and zero if he does not belong to that age category. This means that the age variable was represented by three variables in the regression equation.

Nationality

This variable refers to the home country where the respondent has his permanent residence. Each respondent was asked to indicate on the questionnaire whether he is a UAE national or non-UAE national. For statistical purposes, a national of UAE was coded one and non-UAE national was coded zero.

Education

This variable refers to the respondent's highest level of education. Each respondent was asked to indicate on the questionnaire his highest level of education. Level of education was presented on the questionnaire as four categories: below bachelor's degree, bachelor's degree, postgraduate Diploma, and advanced graduate degree (Master or Doctoral degrees). For statistical purpose, each category was coded as one when the respondent belongs to that category and zero if he does not belong to that category. This means that the education variable was represented by four variables in the regression equation.

Marital Status

This variable refers to the legal status of the respondent. It was stated on the questionnaire in three categories: single, married, and others. Each respondent was asked to indicate on the questionnaire his marital status. For statistical analysis, each category was coded as one when the respondent belongs to that category and zero if he does not belong to that category.

Research Hypotheses

This paper tested the following hypotheses which are stated in the null form:

H₀₁: The average level of financial literacy of employees of UAE is not significantly different from the other prior studies.

H₀₂: The average level of financial literacy among male residents of UAE is not significantly different from that of female residents of UAE.

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H₀₃: There is no relationship between the average score of financial literacy and the decision to carry debt in a particular form.

Data Analysis

We used descriptive statistics, reliability analysis, and multiple regression analysis. Reliability analysis (alpha analysis) was used to judge the internal consistency of each of the two measurement scales used that is financial literacy and personal financial attitude. The multiple regression technique was used for the task of statistically controlling the effect of interrelated variables and revealing the partial contribution of each independent variable to the explanatory power of the model

Results

Sample Responses

Out of the 412 questionnaires distributed to a convenient sample of residents of the UAE, we received back a total of 207 completed questionnaires. However, we excluded 22 questionnaires of respondents who did not carry debt in any form. Thus the final sample used in the analysis was 185 subjects. This represents a response rate of about 45 percent.

About two-thirds of the respondents were non-UAE nationals (expatriates) and in the age category of 20 to less than 40 years old. The sample was almost a balanced one in terms of gender (48% females). In addition, the majority of respondents were married and hold bachelor degrees or higher.

It shows some descriptive statistics about the two-multi item variables (financial literacy and personal financial attitude). The average score for financial literacy represents the percentage of correct answers that was calculated across the 28 items representing this variable. On the other hand, the average for personal financial attitude was calculated across scores of the five items representing this variable.

The table shows that the average financial literacy score of 0.433 is lower than the average score (about 0.5) reported in the reviewed literature. Chen and Volpe (1998) reported an average score for financial literacy of about 53 percent while Lusardi, Mitchell, and Curto (2010) reported an average score of 0.37. Mandell (2004) reported an average score of about 0.52. Jones (2005)

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reported an average score for financial literacy of about 56 percent. This finding leads us to strongly support the conclusion of Chen and Volpe (1998 and 2002), among others, that knowledge on personal finance is inadequate and there is a need to have some modifications to the educational curriculum. The table also shows that the average score for personal financial attitude is above average (about 70%).

Table: 1. Descriptive statistics for financial literacy and personal financial attitude

Variable	Minimum	Maximum	Mean	St. Deviation
Financial literacy	0.00	0.79	0.433	0.16721
Financial Attitude	1.00	5.00	3.509	0.79672

Discussion

The average score of financial literacy reported in this paper was about 0.433 while the average score of financial literacy reported in the literature was about 0.50. An independent two-sample t-test indicates that the difference between the two means is statistically significant ($t \geq 2$, $p \leq 0.05$). This result could be attributable to the difference in time that personal finance and related items have been taught for some time in Western countries while educational development in the financial areas is of recent history in UAE. Although too many universities do exist now in UAE, their existence dates back to only the last 15 years with the exception of one national university. This result indicates that financial knowledge and awareness among UAE population need some actions by the educational authorities to improve financial literacy. However, there were no significant differences between average scores of males and females. This result is contrary to the reported significant difference by Al-Tamimi and Kalli (2009). To guard against possible overstatement (understatement) of the differences between the average scores of males and females, we also tested for possible gender differences within each of the two groups (UAE and non-UAE nationals). The results yielded no significant differences. It is argue that one of the possible explanations for the significant gender difference reported by Al-Tamimi and Kalli (2009) could be attributable to the gender ratios in their study. While our gender ratios for UAE nationals (49% females) were similar to that of non-UAE nationals (47% females), their study

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did not distinguish between UAE nationals and non-UAE nationals and the gender ratio was about 42% for females. It concludes that our results fail to reject the first two null hypotheses.

It is recommend the educational authorities of UAE to review the financial component of the current educational programs to ensure its effectiveness for increasing financial awareness and financial knowledge. Second, we recommend replication of this study using other samples from different industries to judge the robustness of our reported results.

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