

ANALYSIS OF FINANCIAL LITERACY RATE AND ITS IMPACT ON THE BANKING SECTOR OF UAE

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ABSTRACT

Financial literacy in simple words is the knowledge about various financial products. Financial literacy is considered to be an important tool to achieve financial inclusion and hence inclusive growth. It enables an individual to understand his financial need and hence plan accordingly. Financial literacy has in recent years gained the interest of various groups including governments, bankers, employers, community interest groups, financial markets, and other organizations, especially in developed countries. 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: for example, it was AED 85,878 (about US \$20,847) in the knowledge of financial concepts is essential for personal financial planning. The S&P Global Fin Lit Survey shows that Country-level financial literacy ranges from 13% to 68%. Hence the main objective of this study is to measure the financial literacy of the respondents. In this study a set of research questions were asked to the respondents to identify the impact of financial literacy on towards banking services. It was found that level of financial literacy was low among the respondents and there is no significant impact of financial literacy.

The purpose of this paper is to assess the financial literacy of the UAE individual investors who invest in the financial markets and its impact on the banking sector. In addition, it examines the relationship between financial literacy and the influence of the factors that affect the investment decision.

Key Words: Financial literacy, economic factors, financial products

INTRODUCTION

The Organization for Economic Co-operation and Development (OECD) has defined financial literacy as “a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual wellbeing”. Financial literacy in simple words is the knowledge about various financial products. Financial literacy is considered to be an important tool to achieve financial inclusion and hence inclusive growth. It enables an individual to understand his financial need and hence plan accordingly. Therefore the knowledge of financial concepts is essential for personal financial planning. The research conducted by various organizations indicated low level of financial literacy across the globe. The S&P Global Fin Lit Survey found that worldwide only 33.33% of the adults are financial literate. Further only 27% of the adults are financial literate in Asia. The policy makers across the globe have expressed concerns about the low level of financial literacy. Hence in 2008, the Organisation for Economic Co-operation and Development (OECD) has created an International Network on Financial Education (INFE) to tackle the issue of financial literacy by creating an international platform for policy makers.

REVIEW OF LITERATURE

Financial Literacy

Financial literacy has been studied from different aspects. Government entities and private organizations in developed nations have conducted surveys to measure the financial literacy level of their population. A study by the OECD (2005) reviewed financial literacy in 12 countries including the USA, the UK, European countries, Australia, and Japan. The study found that all of the surveys conducted in those countries concluded that financial literacy is very low for most respondents. Having an interest to extend their previous work in this field, Chen and Volpe (1998) examined the personal financial literacy of 924 college students from 13 campuses located in the USA. In addition, they investigated the relationship between the financial literacy level and gender, age, nationality, race, income, work experience, academic discipline, and class rank. The results of the study indicated that subgroups of academic discipline, class rank, and years of work experience were significantly different in terms of financial literacy level. Non-business majors, students in the lower class ranks, and those with little work experience had lower levels of financial literacy. In addition, women were far less literate than men, and foreign students were less knowledgeable than the US citizens.

Volpe et al. (2002) measured investment literacy of 530 online investors and found that level of investment literacy varied with people's education, experience, age, income and gender. Men respondents had higher investment literacy when compared to women respondents.

Mirshekary and Saudagaran (2005) assessed how different users of financial statements use the information items disclosed in the annual reports, as well as the importance of different sources of information in making investment decisions. They distributed a questionnaire to seven different groups of users of financial statements in Tehran including stockbrokers, bank investment officers, and institutional investors. In general, respondents ranked the annual reports as the main influential source of information. The second most influential source of information was oral information and the third was published daily share price. On the other hand, the respondents ranked the least influential factors in sequence of importance: advice of friends and acquaintances, tips and rumors, and stockbrokers' advice. Mirshekary and Saudagaran concluded that the annual reports are used regularly in Iran as a basis for making investment decisions.

ACNielsen Research (2005) conducted a national survey of adult financial literacy in Australia. The main results of this survey indicated that the lowest levels of financial literacy were associated with people who have lower education, unemployed or unskilled workers, and people with low income, single people, and those at both extremes of the age profile. On the other hand, the 2005 results showed an overall improvement in the financial literacy of Australians.

The first research on the financial literacy level of the Singapore population was carried out in 2005 by the Money SENSE Financial Education Steering Committee, established by the government. The survey measured whether Singaporeans are knowledgeable about common financial products and services and whether they have been making effective decisions in managing their finances. The research revealed that Singaporeans have a healthy attitude toward basic money management, financial planning, and investment matters. Most Singaporeans save, monitor their spending and have done some basic financial planning.

Al-Tamimi (2006) investigated the most and least influencing factors on the UAE investor's behavior by surveying 343 individual investor. The most influencing factors were, in order of

importance: corporate earnings get rich quickly, stock marketability, past performance of the firm's stock, government holdings, and the creation of the organized financial markets. In addition, two factors had unexpectedly the least influence, namely religious reasons and family member opinions. However, the author did not consider the relationship between financial literacy and investment decision, which will be dealt with in the current study.

Maditinos et al. (2007) examined the techniques and methods used by six different groups of Greek investors: official members of the Athens Stock Exchange, mutual fund management companies, portfolio investment companies, listed companies, brokers, and individual investors. The results revealed that on average the participants ranked their instinct/experience as the most important factor followed by fundamental analysis and the movement of foreign financial markets. Noise in the market and portfolio analysis was considered the least important.

Five sets of general conclusions emerge from this literature review. The first refers to the low level of financial literacy regardless of the stage of economic development of the country.

The second refers to the relationship between financial literacy and demographic variables. The researchers discovered a strong relation between financial literacy level and gender, education, income level, and experience. There is evidence provided by researchers those women are less literate than men in financial matters. Besides, that, less educated individuals and those at the lower end of the income distribution are less literate about financial matters.

The third refers to the relation between the financial literacy level and investment decisions. It has been proven that highly literate investors prefer and use different criteria when making an investment decision than low-literacy investors. Highly literate investors prefer to use financial publications, whereas low-literacy investors rely more on advice from family, friends, and stockbrokers.

The fourth refers to the relationship between the factors that determine the investment decision and the investor type, portfolio size, and investment strategy. Individual investors rely on advice from friends, stockbrokers, rumors, their instinct/experience, and newspapers/media.

The last conclusion refers to the gap which exists in previous work, on the relationship between financial literacy and investment decisions. In the current study, there is an attempt to examine the relationship between financial literacy and investment decisions.

Cole et al. (2008) measured the level of financial literacy and its relationship to demand for financial services in India and Indonesia. The study indicated a strong relationship between financial literacy and the demand for financial products.

Al-Tamimi and Kalli (2009) assessed the financial literacy of the UAE investors. The results indicate that the financial literacy of respondents is far below the needed level. The study also found that financial literacy is affected by income level, education level and workplace-activity.

Almenberg and Soderbergh (2011) investigated the relationship between financial literacy and retirement planning of Swedish adults. It was found that there exist a significant difference in financial literacy between planners and non-planners. Financial literacy level was found lower among older people, women and those with low education or earnings.

OBJECTIVES OF THE STUDY

- To measure the level of financial literacy among the respondents.
- To measure the impact of financial literacy on banking sector.

- To study the impact of financial literacy on customer satisfaction towards banking services.

RESEARCH METHODOLOGY

The title of the study is “A Study of Financial Literacy and its Impact on banking sector. The Research Methodology is a blend of primary and secondary data.

The questionnaire drafted by FINRA Investor Education Foundation consisting of five-questions is considered to test financial literacy and the questionnaire with some modifications to accomplish the objective of this study. The data was analyzed using means and combined means.

ANALYSIS AND INTERPRETATION

The required data has been collected by way of a questionnaire and it has been analyzed and interpreted with the help of tables with relevant descriptions.

Table: 1
Demographic variable

Demographic Variables	No. of Respondents	Percentage
Gender		
Male	11	18.33
Female	49	81.67
Age		
Under 20	0	0
21 – 30 years	3	5
31 – 40 years	15	25
41 – 50 years	21	35
50-60 years	16	26.67
60 and Above	5	8.33

Educational Level		
Primary	32	53.33
Secondary	9	15
Higher Secondary	7	11.67
Undergraduate	0	0
Graduate	12	20
Post Graduate	0	0
Profession:		
Business	13	21.67
Service	17	28.33
Student	4	6.67
House wife	17	28.33
Others	9	15
Monthly Income (Rs.)		
Below 10,000	30	50
10,000 - 20,000	12	20
20,000 - 50,000	4	6.67

50,000 – 75,000	2	3.33
75,000 – 100,000	2	3.33
100,000 – 200,000	0	0
200,000 – 400,000	7	11.67
400,000 and above	3	5
Duration of Bank Accounts		
Operated by the Respondents		
Less than 1 Year	1	1.67
1-3 Years	11	18.33
3-5 Years	15	25
5-10 Years	30	50
More than 10 years	3	5
Frequency of Using Banking		
Services		
Daily	0	0
Once in a week	1	1.67
Once in 2 weeks	1	1.67
Once in 3 weeks	9	15
Once in a Month	49	81.67

The above table reveals that 49 (81.67%) respondents surveyed were females and 11(18.33) were male. Most of the respondents 21 (35%) belong to the age group of 41 to 50 years. The literacy level speaks the full facts a) Primary level - 32 (53.33%), b) Secondary level - 9 (15%), c) higher secondary level – 7 (11.67%), d) under graduate level – 0 (0 %), and e) graduate level – 12 (20%).

Among the occupational categories, 17 (28.33%) respondents were house wife, 17 (28.33%) were in service, 13 (21.67%) are businessmen, 4 (6.67%) were student and 9 (15%) belonged to other categories. The income wise classification showed that the 30 (50%) were in below Rs 10,000 group. 12 (20%) were in the 10,000 to 20, 000 group, 4 (6.67%) were in the 20,000 to 50,000 group, 2 (3.33%) were in the 50,000 to 75,000 group, 2 (3.33%) were in the 75,000 to 100,000 group, 7(11.67%) in 2,00,000 to 4,00,000 group and 3 (5%) belongs to the group of 4,00,000 and above. Only 1 (1.67%) respondent was dealing with bank for less than one year, 11 (18.33%) were having account between 1-3 year, while 15 (25%) were dealing with this bank for 3 to 5 years. 30 (50%) were account holders for 5 to 10 years and 3 (5%) were dealing with the bank for more than 10 years. Out of the 60 respondents selected for study, no respondent used banking services daily, 1 (1.67%) respondent used banking once in a week, 1(1.67%) respondent used banking once in two weeks, 9 (15%) were banking once in three weeks, and 49 (81.67%) were banking once in a month.

Table 2
Perceptions of Customers about banks

Dimensions	Respondents with high Financial Literacy Level Mean	Respondents with low Financial Literacy Level Mean
Premises	4.27	4.45
Premises	4.5	4.37

Employee Dress	4.14	4.13
Complete Information	3.82	3.85
Bank Statement	3.82	3.85
Combined Mean	4.11	4.06

The data in Table-2 brings to light the difference in the perceptions of the customers on tangibles. The data reveals that the combined mean of respondents with high financial literacy level is 4.11 and with low financial literacy level is 4.06. It clearly shows that level of financial literacy has very low impact on the tangibility factor of customer3.63

Table: 3
Perceptions of Customers about banks assurance factor

Dimensions	Respondents with high Financial Literacy Level Mean	Respondents with low Financial Literacy Level Mean
Security of bank	4.55	4.66
Employee eagerness	4.05	3.95
Knowledge of employee	4.11	4.11
Combined Mean	4.11	4.11

The data in Table No. 3 highlights the difference in the bank assurance factor of the customers with different financial literacy level. The data reveals that the combined mean of respondents with high financial literacy level and with low financial literacy level is 4.11. It clearly shows that level of financial literacy has no impact on bank assurance factor of customer satisfaction.

CONCLUSION

Financial literacy is considered to be an important tool to achieve financial inclusion and hence inclusive growth. The banking sector is undergoing major changes due to competition and the innovation of technology. The customers are looking for better service quality which enhances their level of satisfaction. Hence this study was an attempt to measure the level of financial literacy of the respondents and study the impact of financial literacy on customer satisfaction towards banking services. The study concludes that there is no significant impact of financial literacy on customer satisfaction and impact on the banking services.

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