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Impact of Financial Literacy on Saving-Investment Behavior of Working Women in the Developing Countries

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Abstract
Financial literacy is a combination of the awareness, attitude and behavior necessary to make sound financial decisions and achieve individual financial well –being. A number of countries have now carried out financial literacy surveys of their adult populations, which provide insights into savings –related knowledge, attitudes and behavior. These surveys suggest that people are ill -equipped to take complex financial decisions, do not plan ahead sufficiently, and have a poor understanding of investment concepts. In Pakistan, individuals and especially the working women only know that they deposit money in various financial institutions just to get profit. They don't know what exactly they are doing and they are ignorant about the functions and existence of financial markets. This scenario generates the need to study and measure financial literacy in Pakistan. This study explore the financial literacy of working women in developing countries as an important factor which affects the saving-investment behavior of female workforce in developing countries like Pakistan.
Keywords: Financial Literacy, saving –investment Behavior

1. Introduction

Unless the common person becomes a wiser investor and is protected from wrong doings, wealth creation for the investor and the economy will remain a distant dream. Convert a country of savers into a nation of investors. However, remarkable discussion continues about the role of financial literacy, the extent of the problem it truly represents and the best way to address it. Numerous academic studies have discovered the importance of financial literacy for various aspects of household's wellbeing and economic stability (Huston, 2010). It has been shown by (Bhushan & Medury, 2013), (Beckmann, 2013), (Arrondel, Debbich & Savignac, 2013) that financial literacy has serious implications for wealth accumulation. In connection with the debt side, empirical studies reveal that lack of financial literacy may result in costly borrowing and high debt load (Koenen & Lusardi, 2011), (Klapper & Panos, 2011), (Hallahan, Faff & Mckenzie, 2004). Conjointly, (Worthington, 2006) points out that financial literacy helps to develop confidence in the economy and thus induces growth.

Today's financial world is highly complicated as compared to past (Thilakam, 2012). For many individuals it is difficult to understand about financial instruments (Rasheed and Arshad, 2009). According to Akhter, (2007) the two training institutions which are Institute of Banking and Finance and the Institute of Bankers Pakistan are supporting Central bank of Pakistan for the implementation of financial literacy and improving the capacity of financial institutions. These institutions also help to promote competitive financial services. In Pakistan, from among the entire population, just the 12% are availing formal financial services. From remaining 88% population, only 32% receive informal services and 56% of the population does not use financial services either formal or informal. According to Access to Finance Survey Analysis, 40% of the population which is completely excluded from availing any kind of financial services reported lack of financial knowledge to be the main reason for not being able to avail financial services. This simply means financial illiteracy is causing their financial exclusion [Pakistan Access to Finance Survey (A2FS)].

2. The Review of Literature

2.1 Meaning of financial literacy

Different meanings of financial literacy have been employed by researchers. However, no consistent definition has been developed. According to Houston (2010) financial literacy can be summarized as necessary numerical skills and understanding of basic economic concepts required for educated saving and borrowing decisions. several widely used definitions of financial literacy exist, all of them generally imply the ability of individuals to obtain, understand and evaluate information required to make decisions to secure their financial future as best as possible. Huston (2010) proposed that financial literacy must also include application of financial knowledge; the argument being that absent demonstrated ability to apply financial knowledge, an individual cannot be regarded as being financially literate.

2.2 Significance of financial literacy

There may be unrealized potential for gains in economic efficiency among the population, particularly in societies where a relatively large share of production takes place in informal home-based enterprises run by women. Low levels of female financial literacy and confidence may impede their more active participation in the economy. Financial literacy differences may affect relative economic power within the household. This has implications for well-being if men and women allocate household resources according to different preferences. Research in many countries suggests that households do not act as a single unitary decision maker. Instead, household resources in women's hands has been observed to be more likely spent on improving family well-being, particularly that of children (e.g. see Rawlings and Rubio, 2005; Handa and Davis, 2006; Doepke and Tertilt, 2011). In situations where women are primarily responsible for the care of children and more likely to be single parents, this may obstruct the intergenerational transmission of financial literacy, affecting the early learning, behaviors and attitudes of next generation.

Empirical evidence suggests financial literacy's positive impact on financial behavior and financial status in a number of behavioral domains. Financially-literate individuals do better at budgeting, saving money, and controlling spending (Moore, 2003; Perry and Morris, 2005); planning for retirement (Lusardi and Mitchell, 2007a; Lusardi and Mitchell, 2008); and ultimately, successfully accumulating wealth (Stango and Zinman, 2009). We note that, despite its significance, recent international efforts to measure financial literacy (reviewed in more detail later) suggest that levels of financial literacy are low across countries. The typical individual and specially working women have limited objective as well as perceived subjective understanding of financial issues and many individuals express lack of ability/motivation to gain and understand financial information and knowledge. Individuals' ability to make appropriate financial decisions may be increasingly important to ensure positive outcomes as the external environment becomes more challenging. Evidence reveals that women tend to have lower levels of financial knowledge. Women are also shown to be relatively less financially skilled than men along several dimensions (Møller, Fincher et al., 2009).

2.3 Impact of financial literacy on saving-investment behavior

There is considerable evidence that financial literacy predicts savings both at cross-country and individual levels. Jappelli and Padula (2011) are of the view find that financial literacy is a determinant for the level of national savings and that its impact is potential as it gives 3.6% increase in national savings. On the individual level most empirical studies are done for developed countries such as the United States, The United Kingdom, Italy and Netherlands. The only study conducted for developing countries is work by Klapper and Panos (2001) . While analyzing households' behavior in developed countries numerous studies demonstrate that financial literacy may have important inferences for retirement planning and saving decisions. It has been shown by Lusardi and Mitchell (2006, 2007, and 2008) that less financial literate people are less likely to save for retirement. This argument was supported by Lusardi and Mi tchell (2009) and Banks et al. (2009) who observe that more financially sophisticated individuals are more likely to be retirement ready and have higher retirement income.

Moreover, several studies reveal that low financial literacy translates into lack of retirement planning (Lusardi and Mitchell (2009), Alessie et al. (2008). This fact may be explained by several factors. First of all, it has been demonstrated that lack of numerical skills impacts perceived financial security (Banks and Oldfield (2007) and retirement expectations (Banks et al. (2009). Secondly, low financial literacy raises planning costs, meaning economic and psychological barriers to obtain information required for saving and investing (Alessie et al. (2008). Concerning the developing countries, Klapper and Panos (2011) are of the view that higher financial literacy is positively related to retirement planning and investing in private pension funds. However, while studying the impact of financial literacy on saving behavior one should be careful because of reverse causality issue since one can acquire financial knowledge in the process of developing and implementing a savings plan.

Several researchers acknowledge the significance of financial literacy with respect to saving decisions (Lusardi and Mitchell (2008), Willis (2009), Delevande et al. (2008). However, only two studies of Jappelli and Padula (2011) and Lusardi and Mitchell (2009) explicitly address this issue with instrumental variable method. They argue that financial literacy is an applicable instrument for predicting the saving-investment behavior of individuals especially the working-women. According to Herd and Holden (2010) early-life financial education is a strong predictor of late-life financial knowledge. To sum up, the literature on factors explaining financial literacy and the effects it has for households' saving decisions is vast, however focusing mostly on developed countries. Only two papers of Cole et al. (2008) and Klapper and Panos (2011) address the above issues for the developing countries of Russia, India and Indonesia.

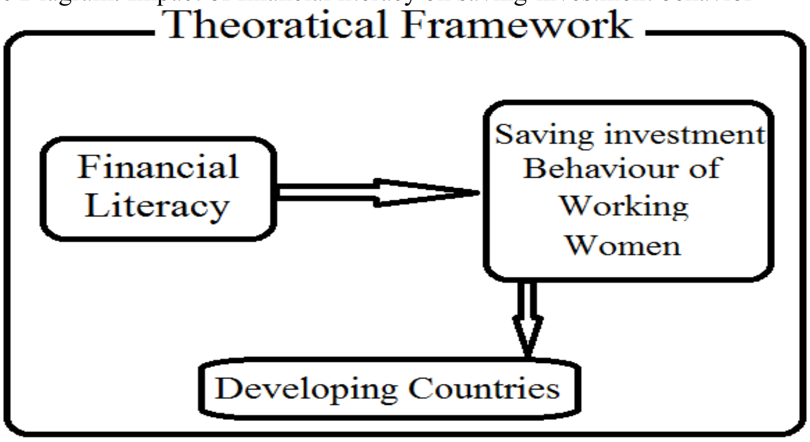
2.4 Methods and Tools

The survey of the existing literature was done to exhaust the different aspects of the research variables understudy. In qualitative research, researchers mostly prefer to use the examination, categorization, tabulation and recombination as methods of data analyses, yet, in the current study in hand, the researchers have used hermeneutics (James, 1992), discourse (Max, 1990) and heuristic (Moustakas, 1990) analyses to find the fact about the research questions. Likewise, a computer based software ATLAS. It was used for data analysis.

2.5 Theoretical Framework of the Issue

The theoretical framework of this study is based on the survey of the existing research. The theoretical framework elaborates the relationship between the dependent variable and independent variables. Following figure 1 highlights the relationship of financial literacy and saving-investment behavior of working-women in developing countries in general and Pakistan in particular. There may be several other related factors but the discussed factor has been placed on the top by the current researchers

Figure 1: Schematic Diagram: Impact of financial literacy on saving-investment behavior



3. Discussions

Financial literacy is of particular relevance to emerging economies. As these economies endeavor to improve the financial situation of their citizens by achieving higher economic growth rates, enhancement of financial literacy would help improve the financial well-being of their people even further through sound financial decision making. Research from around the world reports inadequate financial literacy which raises serious concerns about the ability of individuals to secure their financial well-being. There is evidence that individual's under-save, fails to invest wisely and is often indebted (Mitchell 2011, Poterba et al. 2007).

Female workers possess less/no financial literacy in comparison with the male counterparts this has been confirmed by the findings of Kharchenko & Olga, (2011), Arrondel et al, (2013), Koenen and Lusardi, (2011), Lusardi and Mitchell, (2006; 2008).many research studies also reveal that the more educated an individual will be the more that individual possesses financial literacy which supported the findings of(Bashir et. al ,2011) who proposed that respondents who hold high educational degrees had higher financial literacy level than others. One of the big problems, with working women in developing countries like Pakistan, is that they do not treat Personal Finance as something that's important for them (Bashir, et al,2011). For ages, they have not participated in Personal finance, regarding it as the man's area; just as men felt cooking was theirs. Obviously, this isn't true now, in this day & age. Cooking is as much a guy's activity as Personal Finance ought to be a woman's. Women, in general, don't show real eagerness for these activities, for some reasons like Women treating their earning as time pass activity: The biggest reason for this is that, since the dawn of time, Man has been the main provider and the primary bread-winner of the Family (Rasheed & Arshad, 2009). He was responsible for earning and managing money and taking care of financial goals, Women, on the other hand, were mainly responsible for raising children and taking care of household activities and to a big extent, maintaining relationships outside the house and in the community. Many women in spite of being qualified enough, and having skills to earn money, view their earning as secondary compared to men. They "feel" that they are not at the same level, even though it's not true; most of this is psychological.

4. Conclusion

Financial literacy is ability to understand financial instruments and terms. This research study was aimed at to assess the financial literacy and its impact on saving-investment behavior of working women in Pakistan. Various studies e.g (Nasir & Khalid, 2004), (Rehman, Faridi, & Bashir, 2010), (Wahid, Salahuddin & Noman, 2008), reveal that people of Pakistan are financially illiterate; only one third people possess knowledge about financial services and products. It is due to low literacy rate of the country, the larger portion of population resides in rural areas that are deprived of basic education facilities. Political instability is also the reason of less financial knowledge due to less implementation of the policies to enhance financial literacy. The working women though possess better understanding about basic financial concepts but they lack knowledge about advanced financial concepts. It is concluded that working-women in Pakistan are financially illiterate; female workers in Pakistan only know that they are depositing money in various institutions in order to get more wealth in name of profit but they don't know what exactly they are doing and they are ignorant about the functions and existence of financial markets. It is also concluded that saving-investment behavior of working women in Pakistan heavily depends on the financial literacy.

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