

The need to reconceptualise financial literacy

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Abstract:

The article studies how financial literacy can cause a positive change in a person's financial behaviour and ultimately contribute to financial well-being. When financial literacy does not influence financial behaviour, the focus should be given to the regulation of investment products and consumer goods. Financial regulatory awareness is a key factor in defining financial literacy in its true sense which remains an unexplored area of research. A review of literature has been done showing how financial literacy is usually measured across the globe as well as the need for regulatory awareness quoted in other literatures. Although perceived financial policy regulations are seen as an important topic of financial research, there are no studies on the same in the literature. Because of complex financial products and changing financial landscape, regulatory awareness along with financial advice is an added advantage in the case of personal finance. Better financial advice along with regulatory awareness can lead to improvements to an individual's financial well-being.

Keywords: financial literacy, financial regulatory awareness, financial behaviour, financial well-being, financial advice

The financial system consists of institutions that work to promote the exchange of funds on structured rules and practices. Promoting financial and economic stability, safeguarding deposits, promoting efficient capital allocation, providing broad access to financial products and services, and making payments are just a few of the many roles that the financial system plays in society (Wyman 2014). The financial system, with increasingly complex products and services, has increased interest among young people for money management (Van Rooij, Lusardi, and Alessie, 2011; Lusardi, 2015; Potrich et al., 2015; Garg and Singh, 2018; Potrich and Vieira, 2018). Accessibility at affordable prices to those products and services is always a global issue along with the major policy concern, financial inclusion. Financial Inclusion is defined as " The process of ensuring that disadvantaged people, such as poorer sections and low-income groups, have access to financial services, timely and sufficient credit where appropriate at an affordable cost " (Rangarajan 2008). Financial inclusion would aim at creating demand for financial products that may be easily attainable if individuals are financially literate. In its vision statement, the National Strategy for Financial Inclusion 2019-2024 mentions that financial literacy is an unavoidable component for making financial services easily accessible to everyone.

Gone are the days in which bank managers need to visit the plot of the client to grant a loan. Now it is a matter of just one click to see a person's Cibil score. An individual should be aware of the Cibil score-related regulations so that he/ she can navigate the financial system for loans to be made available. An individual to navigate in a complex financial environment and to ensure financial well-being, regulatory awareness along with knowledge of simple and complex financial products, retirement and savings benefits and the role of financial decisions in financial behaviour, are essential. To date, financial literacy has been evaluated across two concepts: financial knowledge and skills. Besides understanding the basic concepts and the ability to use that knowledge, knowing the rules of the game is also essential.

The success of financial literacy efforts rests on financial well-being (Huston, 2010; Measuring Financial Literacy: Results of the OECD / International Network on Financial Education (INFE) Pilot Study, 2012; Lusardi and Mitchell, 2014). Researchers till date viewed financial knowledge, borrowing, savings, investment, retirement, financial decisions, financial confidence, objective and subjective financial literacy as dimensions for measuring financial

literacy(Huston, 2010; Remund, 2010; de BassaScheresberg, 2013; Nejad and Javid, 2018; Rodrigues et al., 2019). After reviewing the literature till 2019, none of these studies leverages regulatory understanding as an element in assessing financial literacy.

There are different types of literacies like computer literacy, civic literacy, health literacy, school literacy, information literacy, media literacy, etc. (Kapur 2019) has said the legal dimension of digital literacy should be recognized, valued and complied with. According to (Stordy, 2015)literacies play a significant role in determining the overall well-being of individuals. The study aims to build an inclusive method, capturing regulation in financial literacy. Also, the study attempts to find out the relevance of financial advice.(Hung, Parker and Yoong, 2009) studied low-literacy investors face difficulty in understanding complex financial products. Hence they may seek the help of advisors. On the other hand, (Calcagno and Monticone, 2015)stated investors with high financial literacy, demanded more professional financial advice. Lack of financial literacy as a potential factor for lack of diversification in the portfolio(Guiso and Jappelli, 2008) (Chauhan, 2020) highlighted the importance of financial literacy in recognizing the value of advice. Sound financial literacy is necessary for any direct regulatory intervention, or else it may backfire. Here, previous research seeking to conceptualize and assess financial literacy is reviewed. SEBI has instructed colour codes to be used for mutual fund schemes. The problem here is how far the individuals are conscious of this in determining the appropriateness of financial instruments on their own.

Method

The study surrounds a general search for literature and an individual review of top rated journals issued under ABDC list. Searches were carried out in January 2020 in which financial literacy was searched for as a term without other limitations. Articles were initially searched with financial literacy in the title. Then, they were judged by their abstracts and if the nature of the article remained uncertain, the text of the article was obtained and quickly read to establish its importance. 38 articles were obtained, of which they were discarded for replicated papers and papers that were not relevant for the current study. Thus in total, 15 articles were found to be useful for the study. The author does not claim that the literature review is all-inclusive articles on financial literacy. The paper was presented before a panel of experts who have already took PhD in personal finance. Their suggestions were also incorporated while perfecting the article. The study also covered literacies from other domains. Articles were initially searched for ‘regulation’ or ‘legal’ aspect. Similarly the abstract were gone through to match with the purpose of the study. Those that did not speak about the need for regulation were set aside. Thus out of 25 articles, 19 were set out to match with the objective.

Table 1 Articles on financial literacy included in the study

Year	Number of articles
2008	1
2009	2
2010	2
2012	1
2014	1
2015	3
2017	2
2019	2
2020	1

Table 2 Articles from other literacy domain included in the study

Year	Number of articles
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2002	1
2003	1
2011	1
2013	1
2015	1
2016	1
2017	1
2018	1
2019	6
2020	3

Review of Literature

(Huston, 2010) defined “Financial literacy as a measure of how well an individual can comprehend and use knowledge related to personal finance”. The author used the following four variables as degrees to measure financial literacy **1. Money basics 2. Borrowing 3. Investing 4. Protecting resources**

(Remund, 2010) defined “Financial literacy is a measure of the degree to which key financial principles are understood and the capacity and confidence to manage personal finances through relevant, short-term decision-making and reasonable, long-term financial planning, while being aware of events in life and shifting economic circumstances”. The operational definition fell in the following four categories. **1. Budgeting 2. Saving 3. Borrowing and 4. Investing**

(Thorn, 2009) OECD has defined “financial literacy as a combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being”.

Financial well-being is defined as “the perception of being able to sustain current and anticipated desired living standard and financial freedom” (Brüggen *et al.*, 2017).

Financial behaviour is dependent upon 3 factors: actual knowledge, perceived knowledge and financial skills (Hung, Parker and Yoong, 2009). FL predicts or measures an individual’s planning behaviour. Financial literacy and materialistic attitude of an individual influences financial behaviour (Garðarsdóttir and Dittmar, 2012)

(Atkinson and Messy, 2011) The authors make use of the definition given by OECD: ‘The study was conducted across 12 countries with questions based on financial knowledge, financial attitude and financial behaviour using personal interview approach and online self-completion survey; aimed at finalizing survey instrument to assess financial literacy.

(Jian Xiao *et al.*, 2014) financial literacy was measured using objective and subjective financial knowledge; financial behaviour was scrutinized under risk paying and borrowing behaviour. The findings showed that subjective financial knowledge ($p=.000$) had a greater impact on financial behaviour.

(Faulkner, 2015) a systematic review of financial literacy in library science studies considered financial literacy skills as basic information and computer or digital literacy is essential to navigating in an uncertain financial environment. A financially literate may be defined based on the individual and circumstantial list of skills.

(Kamania, Mwangi and Mwangi, 2017) A financially literate person enjoys greater financial well-being than a less literate person in a critical literature review. The study adopted the concept given by the OECD for financial literacy.

(Kadoya and Khan, 2019) Financial literacy is defined as the ability to understand the implications of interest, inflation, risks, and diversification. To study the determinants of financial literacy in Japan, apart from demographic and socioeconomic factors, psychological variables namely financial satisfaction, future orientation and anxiety about life in old age were also considered. A two-stage stratified random sampling, with a sample size of 3905 among the age group 22-78 was contacted through visits & placement surveys. Among the demographic features such as age, gender and education, gender appears to be most significantly related to financial

literacy. The relationship between financial literacy and age does not hold good. There is less financial literacy among younger and less educated people. The education of respondents and partners has a positive effect on financial literacy, while the education of parents does not influence financial literacy; economic factors (income and assets) are positively linked to financial literacy. Employment status does not affect financial literacy whereas occupation is positively related to financial literacy. People’s outlook towards the future is a predictor of financial literacy. Financial satisfaction is statistically significant, but not found economically significant. No evidence to support that financial literacy is affected by anxiety about life in old age. However, theoretical evidence suggests that high anxiety affects financial behaviour.

(Lusardi, 2015) the study followed the definition given by OECD. The study used 3 dimensions for designing the assessment. 1. Content 2. Processes 3. Contexts. Four content areas were identified: money transactions, managing finances, risk and reward and financial landscape. Processes include identifying, analyzing, evaluating and applying financial information. Context included demographic factors(education, work, home, family).

(Rodrigues *et al.*, 2019) The study looked at the determinants of banking complex financial products and investor’s self-assessment of financial literacy. the study found that performing in complex high risk products based on own judgments is more likely to lose money. Women performed better in investment in complex financial products than men. However, in detailed analysis, they have severe financial literacy difficulties.

Other Literacy Domain

(Ju, Ohs, and Park, 2019)The study examined the effects of regulatory knowledge about DTCA (direct-to-consumer prescription drug advertising) concerning knowledge of drug's health risk. A sample size of 264 U.S adults was considered for the study. The study found that regulatory knowledge enhanced consumer's response to risk information.

(Stordy, 2015)Different domains of literacies like civic literacy, health literacy, financial literacy, information literacy, media literacy, ICT literacy are influential in determining the overall well-being of an individual. Regulatory and policy agendas have promoted an autonomous perspective of literacy especially concerning digital literacy, media literacy, and recent media and information literacy.

The health literacy approach in the Netherlands specifies the rights of patients to strengthen vulnerable patients and their legal rights about informed consent(Kickbuschet *al.*, 2013). The study depicts the need for awareness of the rights of patients. For example, it is essential to get the patient's consent for a drug trial. This awareness of regulation will help the patient to navigate the process quite easily.

Table 3 showing evidence from other literacies

S/ N	Title	Author	Variabl es used	Summary
1	Types of Literacy	Dr. Radhika Kapur(2015)	comput er, vernacu lar, digital, visual, school, media, health, emotion al, cultural and moral	The author highlighted the need for legal use of information to protect one's privacy and other's information. It is necessary to consider legal aspects in the digital world, especially with respect to published information.

2	Enhancing Key Digital Literacy Skills: Information Privacy, Information Security, and Copyright/Intellectual Property	Jacquelyn A. Burkell; Alexandre Fortier; Lisa Di Valentino; Sarah T. Roberts(2015)	information privacy, information security , and information ownership	The organisation must appoint information managers who can keep regulatory frameworks in response to changing technological and social contexts.
3	<i>Health literacy: the solid facts</i>	Kickbusch, I. <i>et al.</i> (eds) (2013)	Consumer health information Decision making Health literacy Health management and planning Health policy Social determinants of health	The National Alliance for Health Literacy in the Netherlands provides a strong corridor for protecting patient's rights and at the same time empowers individuals and communities through its websites. The rights of patients are laid down in informed consent law, which obliges health care providers to provide sufficient comprehensible information and obtain patient approval prior to treatment. Health care organisation must provide easy to understand policies and get the consent of patients before providing high cost health care services.
4	Health Literacy: A Policy Challenge For Advancing High-Quality Health Care	Ruth M. Parker, Scott C. Ratzan, and Nicole Lurie(2003)	health literacy, health policy	The U.S. Food and Drug Administration (FDA) has identified the need for extending regulatory awareness in addition to patient's understanding of drug prescription
5	FOODLIT-PRO: Food Literacy Domains, Influential Factors and Determinants—A Qualitative	Raquel Rosas 1,* , Filipa Pimenta 1 , Isabel Leal 1 and Ralf Schwarzer(2020)	food literacy's domains, influential factors and	Food related policy or regulation is considered as an influential factor in food literacy. In spite of soft and hard policy interventions, food related policy must be developed in a wider context to reach the target audience.(Soft policy example: providing information, education,

	Study		determi nants	product labelling & Hard policy: bans, fiscal measures, mandatory regulations
6	Use of food label information by urban consumers in India – a study among supermarket shoppers	Sudershan R Vemula1,*, SubbaRao M Gavaravara pu2 , Vishnu Vardhana Rao Mendu3 , Pulkit Mathur4 and Laxmaiah Avula5(2013)	food labels, nutrition knowledge, consumer awareness	As per the Food Safety and Standards Authority of India (FSSAI), it is mandatory to describe the nutritional content on packaged foods. However, the study concluded that people look for expiry/manufacturing date than nutritional information.
7	Labelling completeness and sodium content of packaged foods in India	Claire Johnson, Sudhir Raj Thout , Sailesh Mohan , Elizabeth Dunford, Clare Farrand, Jason HY Wu, Feng J He , Roopa Shivashankar , Jacqui Webster, Anand Krishnan , Vandana Garg , Pallab K Maulik, Dorairaj Prabhakaran and Bruce Nea(2017)	nutritional labelling, sodium, salt	India has signed WHO global monitoring framework for reducing non-communicable disease in the form of reduced intake of salt through food diet. The results shows that even though nutritional labelling is improving in India, evidence for less salt in Indian packaged foods is comparatively less.

8	Promoting Civic Literacy	Kathleen K. Wilson, Ph.D(2002)	adult education, skill development	The study stated that one has to keep an update on national and local regulations as one of the everyday literacy related activities done by citizens and community members.
9	Constructing a Public Narrative of Regulations for Big Data and Analytics: Results From a Community-Driven Discussion	James Popham , Jennifer Lavoie , and Nicole Coomber(2018)	data literacy, data governance	A study was conducted about Big Data initiatives in Canadian municipalities, wherein, the participants stressed the need for public information campaigns to recognise data collection, individuals rights about legislation and how far they can control the data.
10	Consumer's Regulatory Knowledge of Prescription Drug Advertising and Health Risk Awareness: The Moderating Role of Risk Information Prominence	Ilwoo Ju, Jennifer E. Ohs & Jin Seong Park(2020)	consumer regulatory knowledge, drug advertising	The study found that the higher regulatory experience of customers has resulted in greater awareness to risk information when the health risks of marketed medication were illustrated less prominently than when the risks were evident, sensitivity to risk in detail.
11	Cookie monsters. Anatomy of a digital market infrastructure	Kevin Mellet & Thomas Beauvisage (2019)	digitalisation, cookies, online advertising, personal data	The article explains market infrastructure and how cookies became an integral part of this structure. This infrastructure is being built on three pillars namely knowledge production, capitalisation and coordination. Extensive usage of mobile and regulatory challenges will reduce the usage of cookies
12	Transparency of digital native and embedded advertising: Opportunities and challenges for	Eva A. van Reijmersdal and Esther Rozendaal(2020)	native advertising, regulation	The study highlighted the need for regulatory transparency in communicating digital persuasive content in native advertising.

	regulation and education			
13	The Role of Children's Rights in Regulating Digital Advertising	Valerie Verdoodt(2019)	children's rights, advertising literacy	The study is confined to children's rights specifically to digital advertising. Immersive and personalised advertising makes children difficult to understand informed decisions. The study specifically addresses the provisions of the United Nations Convention on the Rights of the Child into the specific context of digital advertising.
14	Problems of development of environmental initiatives of the public and business in cooperation with municipal management	Anna Balabanova and Nadezhda Keschyan(2019)	Environmental literacy, municipal environment management	The study was conducted to identify public and business problems in environmental initiatives in the tourist city of Russia. Company and Community initiatives had been ahead of the legislation at both state and municipal level. It is necessary to understand changes in legislation to bring about environmental initiatives between government and business.
15	Business literacy and development: evidence from a randomized controlled trial in rural Mexico	Gabriela Calderon, Jesse m. cunha and Giacomo de Giorgi(2019)	business literacy, entrepreneurship	The study developed business literacy course to women entrepreneurs in Mexico, wherein the third module is restricted to the basic legal rights and obligations of small business owners. The results showed an increase in profits to women who attended training, as well as an increase in formal registration with the government that involves payment of tax

16	The Road Not Yet Taken: How Law Student Information Literacy Standards Address Identified Issues in Legal Research Education and Training	Dennis Kim-Prieto(2011)	information literacy	The study used Association of College and Research Libraries(ACRL) five top-level standards for measuring information literacy: know, access, evaluate, use, and ethical/legal. The student must be taught the ethical and legal use of information and its technology. Law student information literacy lays down a common framework for investigation and training in legal studies
17	Copyright Literacy in Finnish Libraries, Archives and Museums	Terttu Kortelainen(2016)	copyright literacy, copyright regulation	The results showed information professionals were reasonably strong in national copyright regulation than international.
18	How India Plans to Protect Consumer Data	Vijay Govindarajan , Anup Srivastava and Luminita Enache(2019)	data protection regulation	The study suggested that apart from India government's initiative to legislate Data Protection Bill, detailed laws and regulations have to be fine tuned to have a win-win situation for individuals, nations and multinational companies

Discussion

The study attempts to ascertain whether awareness of financial regulations can improve financial literacy that ultimately leads to financial well-being. Regulatory knowledge of financial products and services will contribute to improved management of financial capital. Investors will need professional advice and support from the regulators at the same time. Due to financial regulatory understanding with the help of financial advisors, there can be a drastic change in a person's financial conduct.

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