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DEVELOPMENT AND VALIDATION OF FINANCIAL LITERACY SCALE**S.SUGANYA****ASST. PROFESSOR****DEPARTMENT OF BUSINESS ADMINISTRATION
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KRISHNANKOIL****ABSTRACT**

Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. President's Advisory Council on Financial Literacy (PACFL 2008). The academic literature has given little attention to measure financial literacy. (Sandra J. Huston 2009) This study intends to develop a valid and reliable instrument in measuring financial literacy of self help group (SHG) beneficiaries. Financial literacy were measured by constructing an index using four indicators namely Financial knowledge, Saving skills, Borrowing skills, and Investment skills. Data were collected from 400 self help group members in Virudhunagar District of Tamilnadu by Area sampling. Confirmatory factor analysis was used as the primary method of analysis to test the validity of the instrument by using Analysis of Moment structure (AMOS). This study intends to infer conclusions regarding the sample of items used in the instrument. Correlations among the constructs were tested to assess the nomological validity. There exist composite, construct, and concurrent validity in this instrument.

KEYWORDS

Financial Literacy, Financial knowledge, Self help group, Investment skill, Borrowing skill.

INTRODUCTION

Micro credit projects are a fundamental source of providing financial assistance to Self Help Group (SHG) beneficiaries. Lending to women has become an important principle in micro credit to empower the women. Reddy CS, (2005) reported that the linking of SHGs with the financial sector was good for both sides. The banks were able to tap into a large market, namely the low-income households, transactions costs were low and repayment rates were high. The SHGs were able to scale up their operations with more financing and access to more credit products. Financial literacy should make SHG to take better decisions for their families, increasing their economic security and well being. The concept of Financial Literacy, evolved by Self Employed Women's Association (SEWA) Bank for its members, is essentially spreading the knowledge of good money management practices. It encompasses all monetary transactions that a person enters into such as earning, spending, saving, borrowing and investing. Thus financial literacy is the ability to know, monitor and effectively use financial resources to enhance the well being and economic security of oneself, one's family and business, and also for improving the understanding of the financial service providers. Marcolin, et.al (2006) expressed the need for research on measurement of financial literacy. The purpose of this article is to identify and develop a most standardized model to measure financial literacy among self help group beneficiaries in Virudhunagar District.

REVIEW OF LITERATURE

The purpose of this literature review is to identify, evaluate, and interpret the existing body of work on the financial literacy of different population such as college students, young adults, women, consumers and gender differences in various countries to identify the parameters for measurement of financial literacy among SHG beneficiaries. Hilgert et.al., (2003) found that financial knowledge can be statistically linked to financial practices related to credit as well as the cash-flow management, saving, and investing behaviors. Annamaria Lusardi et.al, (2010) found that financial literacy is strongly related to sociodemographic characteristics and family financial sophistication. Hung.A, et.al, (2012) examined that women have less financially literate than men. Joo (2008) found that financial behaviour is the main determinant of financial well being, and it is influenced by four major factor namely financial attitude, financial socialization, financial socialization agents and financial knowledge. Sandra J. Huston(2010) pointed out that financial literacy assessment instrument consist of four broad area of personal finance like basic concepts, borrowing concepts, saving/investing concepts and protection concepts.. Lusardi.A, (2007) found that households are unfamiliar with basic economic concepts needed to make saving and investment decisions. Personal Finance Research Centre,(2006),financial literacy framework includes four key areas i.e., money management, planning ahead, choosing products and staying informed According to Mike Dixon (2006), financial literacy is highly subjective and reaching optimum scale for individual focused programs are costly and impractical. Based on the above reviews that were found to cover specific group of women such as elder women, young women and female entrepreneur. There were no studies to measure the financial literacy of self help group women. This study will examine the financial literacy of Self help group women by designing a comprehensive scale.

NEED FOR THE STUDY

Financial literacy is important for self help groups to managing their financial portfolios. Lower levels of financial literacy leads to reduce the active participation of SHG's activities. They are facing many challenges to access the finance and make it difficult for them to be financially prepared for the future. Therefore an assessment of financial literacy among self help group must be taken in to account to develop the financial literacy education programs by policy makers such as NABARD, World Bank, NGOs etc.

OBJECTIVES OF THE STUDY

This study had two major objectives:

- To identify the components of financial literacy using input from both literature and SHG beneficiaries.
- To design a comprehensive scale that can capture these components of financial literacy in a large scale survey.

From the above objectives and reviews the following hypotheses are formulated:

Hypotheses 1 : Measurement of financial literacy is a four factor construct namely Financial knowledge, Saving skills, Borrowing skills, and Investment skills.

Hypotheses 2: The subscales taken for measurement have acceptable internal consistency.

RESEARCH METHODOLOGY

This study is based on the female population who has been involved in self help group. The respondents for this study were 400 SHG beneficiaries in the Virdhunagar District of Tamil nadu. In this section discussion is made on the data sources and statistical analysis. A survey is based on Area sampling technique with a structured questionnaire. The Questionnaire was used to measure Financial Literacy by Likert items (ranging from 1 as strongly disagree to 5 as strongly agree).

TABLE 1- COMPONENTS OF FINANCIAL LITERACY SCALE

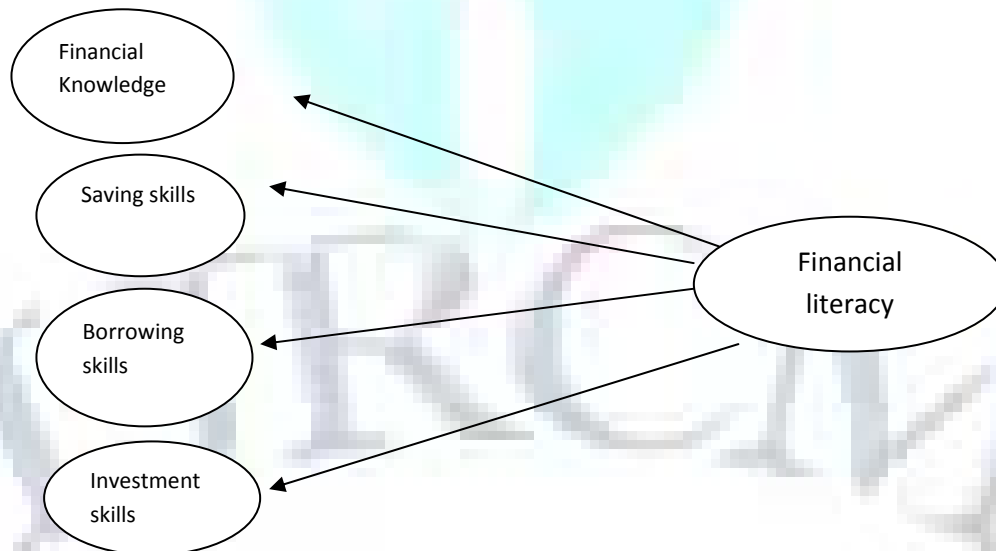
Construct	Items
Financial knowledge	10
Saving skill	15
Borrowing skill	10
Investment skill	10

A series of interviews was conducted with several experts to confirm the content and face validity of questionnaire. A pre test was done to measure the reliability of questionnaire. The Cronbach Alpha Coefficient was found to be .943 which is higher than the figure 0.80 Bryman (2004) as a rule of thumb to denote of reliability of instrument.

CONCEPTUAL FRAMEWORK

This section has outlined the conceptual framework for financial literacy. The concepts in the framework were represented into questions to collect the data to assess the financial literacy among SHG beneficiaries. It lays out major variables that are addressed in the assessment instrument. Literacy is an expanding set of knowledge, skills and strategies which individual build on throughout the life. It has been expanded to the study of particular skill sets, for example Wecker, et.al, (2007) assessed Computer Literacy, Callingham and Watson (2005) measured Statistical Literacy, Baker (2006) found Health Literacy. Each type of literacy measures how well an individual can understand and use information. Likewise financial literacy is concerned with how individuals understand, manage and plan their own and families financial affairs. Existing empirical evidence Lusardi (2009) suggest an improved level of financial literacy can lead to positive behaviour change. Sandra J. Huston (2010) found that financial literacy instrument consist of both knowledge and applicaton of human capital specific to personal finance. It consists of personal finance basics, borrowing, saving/ investing and protection. Lusardi and Mitchell,(2011) design the financial literacy instrument consists of three dimension on interest, inflation, and risk diversification and found that greater financial knowledge are more likely to accumulate higher amount of wealth. Schuchardt, et al., (2009) found that there is lack of consistency among researchers in how to design and measure financial literacy program success. Program for International Student Assessment (PISA 2012) found that assessment of financial literacy draws on a range of knowledge and skills associated to deal with the financial demands of every day life. Mason and Wilson (2000) developed a framework based on three dimensions such as financial knowledge, financial skill and financial responsibility. The training programmes offered to SHG beneficiaries through Non Governmental Organization (NGO) helps in developing their skills on savings, borrowings and investment. Taking this into account, the four constructs are identified to measure financial literacy. Financial Knowledge component is taken from Mason and Wilson (2000) on Conceptualizing Financial Literacy and other components of Savings, Borrowings and Investment skills are taken from Sandra J. Huston’s financial literacy instrument (2010).

FIGURE 1- CONCEPTUAL MODEL



FINANCIAL LITERACY SCALE (FLS) CONSTRUCTION

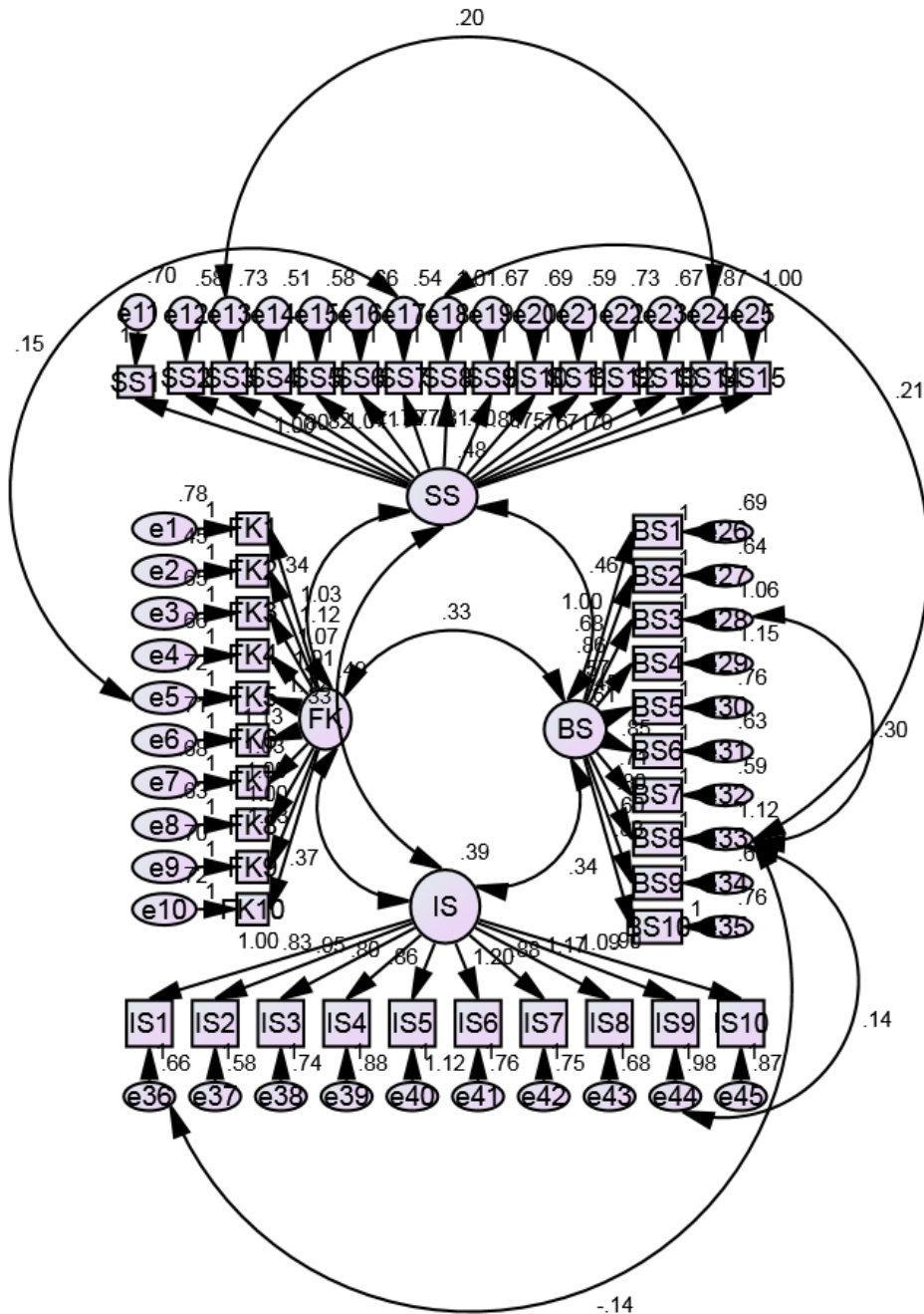
The first step in constructing the FLS was to examine the articles and reports that used to develop the financial literacy assessment. We identified the domains of financial literacy and also noted the domains that were not included in the scales. For example, Sandra J. Huston’s (2010) focused on financial literacy measures the saving and investment skills were frequently measured, whereas Mason and Wilson (2000) reported that awareness of financial schemes, and financial knowledge was less frequently measured. Following the review of previous measures four constructs were selected that were important areas of financial literacy scale. The first construct relates to knowledge and understanding of financial concepts such as training programmes, financial grants and subsidies etc. to perform a particular task. The second construct relates to cognitive process as accessing information, comparing, evaluating and applied skill in a financial context. It includes basic skills in financial literacy such as ability to save, borrow and investment that influence financial decision making. These constructs are used to ensure coverage and validity of the financial literacy assessment scale. The Financial Literacy Scale appears in Appendix A. The FLS included 45 items was measured by Likert items.

RESULT AND DISCUSSION

DEMOGRAPHIC PROFILE OF THE SAMPLE

Descriptive information of the sample is given in Table 2. The majority of the respondents are in the age between 33 and 42 (41%). The respondents belong up to 32 years are (31%) and those between 43 and above (28%) of the sample. Respondent with age of the group up to 5 years represent 62% and 5 and above years of the age group 38%. Respondent with primary qualification 34%, secondary qualification 44% and higher secondary 22%. Respondents with occupation category belong to self employed 20% and employee 62% and housewife 18% of the sample.

FIGURE 2 - MEASUREMENT MODEL FOR FINANCIAL LITERACY



MODEL FIT

The measurement model was assessed to confirm the scales used to measure financial literacy among self help groups in virhdunagar district. The Measurement model indicates an acceptable model fit to the values of fit indices shows a reasonable model fit (Byrne, 2001). This confirms the four – factor structure of financial literacy model used in this study. The model fit indices are df = 933; P < .001; CFI = .861; CMIN/DF = 1.948; GFI = .834; AGFI = .816; PCFI = .811; RMSEA = .049.

ASSESSING THE MEASUREMENT MODEL

Reliability is the extent to which an instrument is consistent in its measurement over time and across situations (Crocker & Algina, 1986). The reliability analysis was conducted on the four constructs and its contributing variables. Cronbach's Alpha is considered as tool to test the overall reliability of the scale. The reliability for the financial knowledge, Saving skills, Borrowing skills and Investment skills are in acceptable levels which are shown in table no: 2. The Overall Cronbach's Alpha Coefficient was found to be .943 which is higher than the figure 0.80 Bryman (2004) as a rule of thumb to denote of reliability of instrument. Further evidence of the reliability of the scale shows the composite reliability and average variance extracted scores of the different factors obtained. Composite reliability (CR) of all the latent variables is greater than the acceptable limit of 0.70 (Carmines and Zeller, 1982). The average variance extracted for all the factors is greater than or equal to 0.5 which is acceptable (Fornell and Larcker, 1981).

The result is shown in Table -2

TABLE 2 - RELIABILITY

Factor	Cronbach Alpha	No of itmes
Financial Knowledge	.892	10
Saving Skill	.869	15
Borrowing Skill	.747	10
Investment Skill	.822	10
Over All	.943	45

COMPOSITE RELIABILITY

It is a measure of scale reliability, that assesses the internal consistency of a measure (Fornell & Larcker 1981) i.e., overall reliability of a set of items loaded on a latent construct.

TABLE 3 – COMPOSITE RELIABILITY

Construct	CR Value
Financial Knowledge	0.97
Saving skill	0.97
Borrowing Skill	0.95
Investment Skill	0.97

Since the composite reliability values of all the constructs are greater than .07, it is considered to be good.

CONSTRUCT VALIDITY

Construct Validity is the extent to which a set of measured variables actually reflects the latent construct. (Hair et al., 2006). It is established in this study by establishing the face validity, content validity, convergent validity, discriminate validity and nomological validity.

FACE AND CONTENT VALIDITY

Face validity and content validity was established by adopting the measurement items used in this study from the existing literature and through the use of an expert panel. They also agreed that the FLS measured important financial literacy instrument and adapting the same to the present research context.

CONVERGENT VALIDITY

Convergent Validity was assessed by examining the factor loading and average variance extracted of the constructs as suggested by Fornell & Larcker (1981). It reflects the extent to which indicators of a specific construct 'converge' or share a high proportion of variance in common.

TABLE 4 - CONVERGENT VALIDITY

Construct	CV Value
Financial Knowledge	0.77
Saving skill	0.68
Borrowing Skill	0.69
Investment Skill	0.79

From the above table 5, it can be inferred that average variance extracted (AVE) for each construct is greater than or equal to 0.50, which further supports the convergent validity of the constructs.

DISCRIMINATE VALIDITY

Fornell & Larcker (1981) states that discriminate validity can be assessed by comparing the average variance extracted (AVE) with the corresponding inter-construct squared correlation estimates. It measures whether each variable is correlated to one factor or with any other factor.

TABLE 5 - CORRELATION BETWEEN CONSTRUCT

Construct	Interconstruct Correlation(IC)
Financial Knowledge - Saving Skills	.697
Borrowing Skills - Saving Skills	.966
Investment Skills - Borrowing Skills	.814
Financial Knowledge-Investment Skills	.852
Financial Knowledge - Borrowing Skills	.705
Investment Skills - Saving Skills	.769

TABLE 6 - COMPARISON BETWEEN AVE AND SIC

Construct	AVE	SIC	Comparison
FK	.77	0.49, 0.725, .50	AVE > SIC (for all constructs)
SS	.68	0.49, .933, 0.59	
BS	.69	.933, .66, .50	
IS	.79	0.66, .73, .59	

Table 5 and table 6, indicates the average variance extracted (AVE) values of all the financial literacy construct are greater than the squared inter construct correlation estimates (SIC) which supports the discriminate Validity of the constructs.

NOMOLOGICAL VALIDITY

Nomological validity is tested by examining whether the correlations between the constructs are positive. (Hair et al., 2007).

TABLE 7 - COVARIANCES: (GROUP NUMBER 1 - DEFAULT MODEL)

	Estimate	S.E.	C.R.	P	Label
Financial Knowledge <--> Saving Skills	.336	.043	7.745	***	par_42
Borrowing Skills <--> Saving Skills	.456	.053	8.570	***	par_43
Investment Skills <--> Borrowing Skills	.339	.043	7.867	***	par_44
Financial Knowledge <--> Investment Skills	.370	.046	8.066	***	par_45
Financial Knowledge <--> Borrowing Skills	.327	.043	7.590	***	par_46
Investment Skills <--> Saving Skills	.332	.043	7.797	***	par_47

TABLE 8 - CORRELATIONS: (GROUP NUMBER 1 - DEFAULT MODEL)

	Estimate
FK <--> SS	.696
BS <--> SS	.982
IS <--> BS	.813
FK <--> IS	.852
FK <--> BS	.700
IS <--> SS	.769

Table 7 and table 8, infers that the FLS four construct model indicates that correlations and interconstruct correlations are positive and significant and hence nomological validity is proved.

SUMMARY AND CONCLUSION

Based on the result and previous research literature evidence that financial literacy is an important basis for effective financial decision making. Hung, A, et al., (2012) examined that more research on the design and effectiveness of financial education programme is needed. INFE/OECD, (2011) found that financial literacy instrument includes the role of financial education for financial inclusion on savings, investments, and pensions. Moore, Danna, (2003), found that financially literate individuals do better at budgeting, saving and spending decision making. Johnson and Staten, (2010) identified financial literacy includes non-cognitive factors such as motivation, confidence have influence on money management behavior. Calvet et al., (2007) found that households with lower financial literacy and cognitive abilities are less likely to participate in risky asset markets to avoid investment mistake. From the results and the discussions of the present study, it is concluded that the study could serve as standard for measurement for financial literacy. The four factor structure of financial literacy was confirmed as well as the internal consistencies of the sub scales. Hence this can be regarded as a potential instrument to measure financial literacy among SHG beneficiaries. This scale offers researchers and practitioners a reliable and valid tool to measure financial literacy though some work to be done to ensure that it is reliable and valid among different sub groups.

SCOPE FOR THE FUTURE RESEARCH

Concerning the effect of financial literacy, it is recommended that further research be conducted to measure the financial literacy influence the economic empowerment. Measurement model alone will not serve the purpose and hence the cause and effect relationship is to be identified by developing structural model by identifying and testing the constructs of economic empowerment of self help groups.

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APPENDIX

APPENDIX A: FINANCIAL LITERACY SCALE

Please rate the extent to which you agree with each statement:

1= strongly disagree, 2= Disagree, 3= Undecided, 4= Agree, 5= Strongly agree

FINANCIAL KNOWLEDGE

This domain focuses on a broad spectrum of knowledge and understanding of financial concepts such as government schemes, training programmes, business activities and information sharing behavior.

- Understand financial knowledge through training programmes;
- Developed financial skills to make right choices;
- Developed social participation;
- Knowledge about government schemes;
- Equipped information seeking behavior;
- Knowledge about information sharing behaviour;
- Improved economic status;
- Training programme give self confidence;
- Attitude to start business;
- Educationally beneficial.

SAVING SKILLS

This content area includes how they plan for short term to avoid the financial crisis.

- Identify saver and spender;
- Effective way to manage money;
- Alternative measure of income;
- Understand the saving schemes;
- Knowledge about withdrawal ;
- Secured feeling;
- Satisfaction on savings;
- Meet out short term need;
- Plan for future well being;
- Promote high standard of living;
- Curtail entertainment expenses;
- Channel into investment outlets;
- Improve confidence;
- Reduce dependence on money lenders;
- Transparent in accounting system

BORROWING SKILLS

This content area involves ability to manage the credit facilities, rate of interest and bank procedures.

- Knowledge about the risk;
- Understand the loan covenants;
- Legal action for default on payment of loan;
- Access the loan amount;
- Repayment of loan out of income;
- Rate of interest on loan;
- Knowledge about credit policy;
- Conflict between members and bank officials;
- Understand the bank procedures;
- Utilize the loan for productive purpose;

INVESTMENT SKILLS

This content area relates to plan for investment and to manage the risk and return.

- Commitment of money;
- Achieve long term goals;
- Expect high return and risk;
- Protect against future loss;
- Failure to consider risk;
- Expected return on investment;
- Deviation between actual and expected return;
- Easy access the marketing of investment;
- Marketing strategies not feasible;
- Relationship between risk and return.

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