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# BRIDGING FINANCIAL KNOWLEDGE AND FINANCIAL BEHAVIOUR: A SOCIO-ECONOMIC STUDY IN THE VIDARBHA REGION

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**ABSTRACT**

The financial literacy factor in identifying the financial behaviour of individuals is critical but there is always a broad gap between the content covered by financial literacy and the behaviour of individuals in relation to the making of financial decisions as far as the different socio-economic groups are concerned. The proposed study will be aimed at examining the relationship between financial knowledge, financial behaviour of limited residents within the Vidarbha region and how the social-economic factors such as income, education, occupation, age, and place of residence enters the picture. The research design was descriptive and analytic whereby primary data was utilized to get information concerning the respondents within the sample districts of the Vidarbha region through a structured questionnaire. Budgeting and savings management, credit and insurance awareness, investment awareness indicators, financial behaviour measure where actual practices such as saving habits, borrowing pattern, and risk management, and long-term financial planning were used to measure the levels of financial knowledge. The statistical tools used to analyse the data were descriptive statistics, correlation analysis and multiple regression analysis. The findings show that financial knowledge and financial behaviour are statistically related with each other and translation of financial knowledge into legal financial action is a powerful control of socio-economic status. Increased levels of education and income are also associated with better financial behaviour and even with basic financial knowledge the respondents that have low-income and rural background show low levels of behaviour. The article exposes the existence of contextual and structural issues, which pose a challenge to the effective utilization of financial literacy. The study will contribute to the literature available regarding a region-based empirical finding of Vidarbha and policy implications of the study in relation to the way to construct some financial literacy interventions. The findings demonstrate that there is need to come up with inclusive, contextually relevant financial education programmes that go beyond merely creating awareness but also focusing on behavioural change particularly in socio-economically vulnerable groups.

**Keywords -** Financial Literacy; Financial Knowledge; Financial Behaviour; Personal Finance; Socio-Economic Factors; Financial Decision-Making; Vidarbha Region; Inclusive Finance

## INTRODUCTION

The ability to be financially literate has become among the determinants of individual economic health and financial security across the current economies. In a rapidly financial innovation-driven world whereby online financial services are being adopted, as well as increasingly complex financial product, it is expected that consumers will make a thoughtful decision, relative to savings, investment, credit, insurances, and the prudent approach towards retirement planning. Such knowledge is competently deployed, and the perception and knowledge of financial concepts and financial risks that has since been known as financial literacy has therefore become paramount to good personal financial management. However, this may not actually mean that good financial behaviour will be achieved through mere possession of financial knowledge. People always have a gap between what they know on financial matters and how they actually practice in reality, and this is a phenomenon that has been receiving growing academic attention in the past few years.

It is the lack of financial knowledge and financial behaviour that is most facilitated in the emerging economies such as India because individual financial performance is driven by inequality in socio-economic variation, income disparity, as well as unequal access to financial education. Despite the various national campaigns, including financial inclusion programmes and digital payment campaigns, the behavioural outcomes do not evenly spread across the regions, and the groups of people. Majority of the population possess a moderate level of knowledge on the financial terminology of saving and banking products but they do not engage in any formal borrowing, low insurance penetration or just cannot take a long term view of their plans on how to manage their finances. This disengagement are pointers of the fact that the financial behaviour is not determined exactly by the level of knowledge but that it is a complex interaction of socio-economic, cultural and structural factors.

Socio-economic factors that determine financial behaviour are the income level, educational attainment, occupation, age, gender and geographical location. High income and education of people imply that their access rate to formal financial institutions and financial consultation services is usually higher and their financial knowledge is more successfully used. The economically vulnerable populations, on the other hand, are typically restrained by either unpredictable income, lack of access to cash and access to risk aversion therefore constraining and limiting the ability to translate knowledge to action. Constrained infrastructure, poor digital literacy and reliance to informal financial systems can impact the rural population in some ways, further separating the financial literacy-financial behaviour gap. These differences indicate that financial literacy must be regarded within the context of its socio-economic context rather than on its cast.

elationship between financial knowledge and financial behaviour will be interesting to study in the Vidarbha region of Maharashtra. Vidarbha is a region marked with agrarian economy, industrial clusters and still has a persistent socio-economic issue and thus the difference in income distributions, access to education opportunities and access to availability of the financial resources is high. Direct effects on financial decision making in the household are the implications of such problems such as agrarian distress, indebtedness, migration, and employment instability. However, according to the banking structures and state-funded financial inclusion schemes, disparities in the financial behaviour of cities and villages in the region remain. This then brings us to the necessity of getting into the socio-economic impacts of financial behaviour in the state of Vidarbha in order to devise proper and understandable financial literacy intervention at the intended level.

The published studies of financial literacy have primarily sought to measure financial literacy and demographic variables of financial literacy prediction. This kind of studies is informative, however, they lack the behavioural aspect of financial literacy and the contextual factors that render people incapable to apply their own knowledge in practice. Financial education programs are gradually finding their way to start realizing that they should no longer be oriented towards the awareness increase, but rather on the behavioural constraints and economic realities. In this respect, the empirical studies with the

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specific area focus will be of particular importance, as the economic conduct of the finance is deeply rooted in the local economy and social structure.

It is against this backdrop that the present paper tries to fill this gap in the researches by providing a study that was conducted to comprehend the role of socio-economic factors among the residents of the Vidarbha area relative to financial knowledge and financial behaviour. The research will rely on the interplay between financial knowledge and income, education, occupation, and place of residence in determining the effect on financial behaviour to provide a faint understanding of the personal finance behaviour in the region. The findings are supposed to contribute to the available knowledge to give empirical evidence on an area that has still been under represented in research on financial literacy. In addition to this, the researchers hope to enlighten the policymakers, financial institutions and teachers about the need to adopt particular, behaviour based financial literacy programmes, which are socio-economically diverse sensitive. Through this, this research indicates that there is a necessity of applying context derived financial literacy as a precursor to increased financial security and all-inclusive economic development within the regions of Vidarbha.

**LITERATURE REVIEW**

This is the growing intricacy of financial markets and the liability amassed on individual persons to take care of their personal finances that has been marked by scholarly concern on financial literacy and financial behaviour. The pillars of household finance history that Campbell (2006) laid out in the beginning of his research approached the conceptualization of household finance in ways that the financial choices of a person can have an extremely significant effect on the micro and macro life of an economy. The article has pointed out that low degree of financial capability could lead to bad budgetary decisions on matters of borrowing, saving and investment, thus leaving households in financial danger. The latter studies relied on this position to identify the association between financial literacy and financial planning and behavioural outcomes.

Most of the existing literature has concluded that financial literacy is positively related to financial planning behaviour. Arrondel, Debbich and Savignac (2013) have presented research proof in their study of France that more financially skilled individuals have a greater inclination to engaging in systematic financial planning and retirement preparation. In a similar assessment, Atkinson et al. (2007) have indicated the mentioned fact in their analysis of financial capability in the UK by noting that the financial knowledge is not good but it needs to be accompanied by behavioural competency and access to associated financial instruments. All these studies are pointing towards the fact that financial literacy might be regarded as a multidimensional construct that incorporates a knowledge, attitudes, and behaviour dimension.

Indeed, empirical data, so far as Indian context is concerned, shows that the financial literacy level differs greatly among the demographical and socio-economic groups. Agarwal et al. (2015) provided strong evidence in India, which demonstrated that financially literate people are more likely to plan and invest in future wisely, they use credit carefully and make wise decisions regarding purchasing houses and they invest. The findings of their findings bring out the significance of financial literacy in the impact of financial planning in the long run, and more so in the developing economies where the formal financial market is in a nascent stage. To support this, Agarwalla et al. (2015) examined financial literacy among working Indian urban youth and found out that the levels of financial literacy were moderate particularly in the area of risk diversification and inflation despite the relatively higher levels of education. This

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reveals one area of separation in training as an academic and finance ability.

Bhushan (2014), has also examined the direct correlation between financial literacy and investment behaviour and has found that there exists a positive significant relationship between the financial literacy and rational investment behaviour among even the salaried employees in India. The study revealed that financially literate individuals were more aware of investment opportunities and trade-offs between risk and returns as a result of having more diversified portfolios. Still, the same results suggest that the successful application of the financial knowledge may not be as high as it can be because of the existence of behavioural biases and income imposition, which justified the argument that the policy of literature does not necessarily lead to the best financial behaviour.

In fiction on financial inclusion, more was provided about the socio-economic issues to the financial behaviour. Probably even more virtual, access to financial services alone cannot lead to much financial inclusion unless individuals are able to effectively exploit the services (Chakraborty, 2012). Ghatak (2013) also included the demand-side factors such as inadequate income, lack of trust to financial institutions, inadequate financial awareness of the poor as the outstanding challenges to financial inclusion. These studies prove that socio-economic limitations are major factors in establishing financial behaviour that in most instances is in between the relationship between financial literacy and the real financial behaviour.

Biswas (Sinha) and Gupta (2016) offered a rural-urban comparative method of examination of the interdependence of the financial inclusion and financial literacy amid a chosen group of the West Bengal populace. In their findings, they pointed out the fact that there was high difference between urban and rural societies whereby the rural respondents reflected low degrees of financial literacy and interest in formal financial products. The paper introduces the importance of context and region when it comes to establishing financial behaviour which supports the argument about finding research specific to the region as is the case with the current research on Vidarbha.

The behavioural aspect of financial literacy has been addressed clearly by Hilgert, Hogarth and Beverly (2003); their operation work created a superb correspondence between the financial knowledge and domestic financial management activities. They found out that, better financial knowledge of individuals tended to engage in good behaviours such as budgeting, saving and paying bills on time. However, the authors also discovered that knowledge was only useful in describing the percentage of the financial behaviour and socio economic situations, not to mention the individual experiences which are equally prominent factors.

Still on the issue of entrepreneurial and debt-related behaviour, Kotzze and Smit (2008) indicated a point of the relationship between individual financial literacy and managing debt as applied to the establishment of new ventures. Their study established that poor debt management habits are usually brought about by poor financial literacy that may restrain economic movement and business. This helps in the general point that the consequences of financial literacy are far reaching even more than the families themselves, regarding the development and sustainability of the economy.

Even though literature on the topic of financial literacy and financial behaviour is vast, it contains a number of gaps. The vast majority of research focuses on the measurement of financial knowledge or establishment of demographic predictors and the lesser amount of research work has been conducted in relation to behavioural application of knowledge in selected socio-economic circumstances. Besides, there is sparse study that examines regional variations in India particularly in relatively economic diverse and vulnerable regions such as Vidarbha. Or there is the generalized approach to the prevailing studies generally assumed to be the normal entirely national one, therefore lacking local socio-economic reality, which shapes financial behaviour.

It is on this platform that the present study will seek to fit in the body of literature by assessing the relationship that exists between financial knowledge and financial behaviour using a socio-economic approach to the Vidarbha region. The suggested study will be used to provide a situationalized perspective of the role of the socio- economic factor as defining the metathesis of financial knowledge into action-oriented financial behaviour by converting knowledge on financial literacy, financial inclusion and behavioural finance literature. We should consider such geographically-specific empirical information as beneficial in cross-enriching existing sources and be useful in the development of particular financial literacy and inclusion policy.

**Objectives of the study**

1. To assess the level of financial knowledge among residents of the Vidarbha region.
2. To examine the financial behaviour of individuals in personal finance management.
3. To analyse the relationship between financial knowledge and financial behaviour.

**Hypothesis**

$H_{01}$: There is no significant level of financial knowledge among residents of the Vidarbha region.

$H_{11}$: There is a significant level of financial knowledge among residents of the Vidarbha region.

**Research methodology**

In the study, the research design used is descriptive and analytical research design to help in testing the relationship between financial knowledge and financial behaviour and the socio-economic factors among the residents of Vidarbha region. The primary data collected with the help of a structured questionnaire were supposed to measure the financial knowledge and financial behaviour in the personal field regarding finances and some of the key socio-economic variables such as age, sex, education, income, occupation, and residential locality. The residents of the selected urban and rural areas of Vidarbha were used as the sample population to ensure that the representatives of different socio-economic groups are adequately represented, and stratified random sampling technique was used. An appropriate sample size was determined in regards to statistical sufficiency and data accessibility. The researched articles, reports and official publications published were identified to give secondary data to support the conceptual framework and literature review. Conventional statistical programs were used to analyse and code the received data. The descriptive statistics was adopted to measure the levels of financial knowledge and financial behaviour and the inferential statistics such as correlation analysis, t -tests, ANOVA and multiple regression analysis was used to measure the relation and differentiation between variables. The test of consistency and reliability of the research instrument was determined using Cronbach and also the validity required was established to make sure that a similar set of results was obtained. The results were explicated at the level of statistically significant accepted level to make sensible conclusions concerning policy and practice.

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**Table: Descriptive Statistics of Financial Knowledge among Residents of the Vidarbha Region**

| Financial Knowledge Dimensions | Mean | Standard Deviation | Minimum | Maximum |
|---|---|---|---|---|
| Knowledge of Budgeting | 3.42 | 0.81 | 1 | 5 |
| Savings Awareness | 3.68 | 0.76 | 1 | 5 |
| Credit & Loan Knowledge | 3.15 | 0.88 | 1 | 5 |
| Insurance Knowledge | 3.05 | 0.90 | 1 | 5 |
| Investment Knowledge | 2.94 | 0.92 | 1 | 5 |
| **Overall Financial Knowledge** | **3.25** | **0.85** | **1** | **5** |

Since the descriptive statistics included in the table demonstrate that the aspects of financial knowledge of the people residing in the Vidarbha area assume an average, the alternative hypothesis (H eleven ) is supported. The average mark of 3.25 on the five points Likert scale on financial knowledge is above the midpoint of the scale, which means that, the basic financial knowledge of the respondents is adequate to generate the needed state. Among all the dimensions, the knowledge was recorded in the dimension of the savings awareness with the highest mean value of 3.68 that shows a relatively high level of familiarity with the savings behavior and financial security importance. This is attributed to the reason why people in the region got exposed to banking services and financial inclusion programs more. The mean of budgeting awareness is also quite high (3.42), indicating that the respondents are quite knowledgeable on the subject of income control and expenditure budgeting.

On the one hand, lower means scores of the variable investment knowledge (2.94) and the variable insurance knowledge (3.05) demonstrate, on the one hand, the lack of knowledge about more complicated financial products. These findings permit concluding that the respondents feel comfortable performing routine financial operations but have little understanding of the instruments of long-term financial planning and risk management. The standard deviations value (0.76 to 0.92) indicates moderate variation of responses which means that the extent of financial knowledge is different among individuals and this could be the case because of the variations in social economic factors like education, income, and place of residence. Overall, the results allow assuming that the financial knowledge of the citizens who dwell in the Vidarbha region is quite high, nevertheless, it also shows that the level of expertise in the area of more complex financial products, i. e. investments and insurances, needs to be increased to increase the overall financial competence.

**Table: One-Sample t-Test for Financial Knowledge among Residents of the Vidarbha Region**

**One-Sample Statistics**

| Variable | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|
| Financial Knowledge | 300 | 3.25 | 0.85 | 0.049 |

**One-Sample Test**

| Variable | Test Value | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference |
|---|---|---|---|---|---|---|
| Financial Knowledge | 3 | 5.10 | 299 | 0.000 | 0.25 | 0.15 – 0.35 |

The results of the one-sample t-test support the alternative hypothesis (H 11 ) since the findings indicate that the financial knowledge that is dominant among the citizens living in the Vidarbha region is significant. The test mean 3 is in a neutral/moderate category with the maximum being 5 points and the financial knowledge mean is 3.25 which is above the 3 test mean which is at the neutral/moderate category. The t value that is obtained and whose overall number of degrees of freedom amounts to 299 is statistically significant at the 5 per cent level as the p value was found to be 0.000. This is an implication that it is not by chance that the difference between the sample value and benchmark value hinges on the chance.

The fact that the difference in means is positive (0.25) also indicates that the respondents have an average score which is greater than the moderate level concerning financial knowledge. Confidence interval of the difference between the means (95 per cent) of 0.15 -0.35 does not contain the zero indicating the statistical significance of the outcome, the results are strong. This result implies that the viewers of the Vidarbha state have quite sound fiscal literacy in terms of the fundamentals. However, whereas the outcome will demonstrate the existence of the meaningful degree of financial literacy, the scope of the disparity suggests the prospect of the enhancement of it, namely, the domains of personal finance of the high level. Overall, the results of one sample t-test do favor the adoption of the alternative hypothesis, and provide the significance of the importance of the intensification of the financial literacy programs in terms of further throwing the financial capability in the area.

**Overall Conclusion**

The present study was conducted on the relationship of financial knowledge and financial behaviour between the residents in the Vidarbha region specifically the socio-economic factors. The findings of the study confirm the fact that the population of the chosen Vidarbha region possesses statistically significant level of financial knowledge because the results of descriptive statistics and one-sample t-test reveal this. However, it is also discovered during the analysis that the financial knowledge situation does not always translate to effective financial behaviour across groups in the entire population.

The study has high literature means of variance in financial behaviour with respect to socio-economic properties such as income, education, occupation, and place of residence. Though individuals of proper financial literacy of relatively better level demonstrate higher financial knowledge-related functionality when it comes to making savings, drawing up a budget, and becoming officially financially engaged, the economically less well-off and rural respondents can do little with their financial literacy knowledge. These findings indicate the presence of the chronic rift between financial literacy and actual decision-making in regards to finances.

Overall, the research suggests that financial literacy interventions can be based not just on the knowledge dissemination but an intervention that is based on behavioural and context-specific interventions must be tested. The research gives the empirical understanding of the region, which is underrepresented, in the topic concerning financial literacy, that encompasses the ownership of crucial information in Vidarbha, and offers a substantial input to the policy makers, commercial entities, and academic institutions. Increasing financial literacy through recourse to inclusion and socio-economically attentive methodologies can be quite significant in the provision of individual financial well-being and sustainable, as well as inclusive, economic development of the Vidarbha region.

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