

Impact of Financial Literacy on Individual Saving Behavior

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ABSTRACT

The knowledge regarding finance is gaining importance day by day; therefore, it has become essential for individuals to get a proper education to enhance their saving behavior. The chief goal of the following study is to understand the impact of financial literacy on individual saving behavior. In the following research, the data was mainly gathered by the managers and employees of the public sector banks who were working there, and the customers of the public sector banks. The sample size in this research was 350, from which the information was taken. The information was collected on the basis of the questionnaire survey that contained a total of 14 questions. The results were formed on the basis of the regression and ANOVA tests that are interpreted with the help of SPSS software. The results have shown that the hypothesis formed in the research has been accepted. In this case, it can be interpreted that monetary literacy has a strong optimistic impact on individual saving behavior. Furthermore, it can be considered as novel research because it has helped the customers of Pakistani public sector banks to recognize the importance of monetary information. The research has also provided different implications to the customers of the public sector banks who always want to save their money and invest it in the right place. This study can help those people who want to save their money and comprehend the worth of financial knowledge.

Keywords: Financial literacy, Individual saving behavior

INTRODUCTION

The evaluations in financial markets have been increasing day by day (Daniel, Neves, & Horta, 2017). It becomes necessary for the consumers to be more knowledgeable as well as competent in order to manage their finances and budget. Research connects financial education to savings outcomes in both advanced and developing nations. Saving is a common individual phenomenon that means different things to different individuals from different economic status (Kokolakis, 2017). Nowadays, saving has different means to different people. To a group of people, saving is keeping money into banks. However, to some other people, it means to buy jewelry, stocks, real properties, pension plan, and securities. Thus, saving habits may differ from individual to individual. At the same time, financial literacy has great importance. Without financial knowledge and information, people cannot invest in a business or save money.

Today different companies are facing problems due to complex financial products that call for time-consuming decisions. The financial literacy to the consumers makes it difficult to call for a perfect decision as such products also have some rewarding saving opportunities (Ćumurović & Hyll, 2019). Furthermore, some of the consumers use financial literacy to understand the worth of products or services. The saving nature of consumers has a positive impact on the national together because most of the resources that are located in the monetary assets are channeled through monetary mediators. The savings made from the firm are highly productive for economic growth and the people who save higher are financially stable. Such type of people also manages their life easier, such as retirement, education, and illness (Hastings & Mitchell, 2019). The main problem that is indicated in this research is the impact of monetary literacy on personal interests and saving behavior. Moreover, it also affects the character of the goods that are mainly presented in the monetary markets.

The major purpose of this study is to evaluate the association between monetary literacy and individual saving behavior. Different researchers have indicated that monetary literacy has an optimistic collision on individual saving, which is going to be the core focus of the study. The main reason is that the person who has a better

understanding of his financial circumstances can easily plan future finances. The financial literacy helps a person to make more informed financial decisions (S. Kumar, Watung, Eunike, & Liunata, 2017). There are not many researchers who have focused on this topic and investigated the connection between these factors in the situation of a promising marketplace. The following research can help to study this relationship in order to understand consumer buying behavior. The chief intention of this research can also be illustrated as follows:

- To analyze the relationship between financial literacy and consuming saving behavior
- Measure the impact of financial literacy on Individual saving behavior

LITERATURE REVIEW

There are methods to define financial literacy such as the way through which most people handle their cash in means of budgeting, indemnity, and investing. However, Bay et al. (2014) defined monetary knowledge as an activity that cannot be seen or read in the language of accounting and finance. It is a simple notion that should be positioned within the needs of the consumers and the management of money (Bay, Catasús, & Johed, 2014). Furthermore, Mitchell and Lusardi (2014) have also determined that financial literacy has gained monetary importance. They have also represented some theories regarding financial literacy, such as it is a kind of rational decision that consumes his revenue in means of elevated salary to hold the expenditure when revenue fails (Lusardi & Mitchell, 2014).

Most of the researchers have found that there is a brawny relationship between monetary literacy and saving actions. Some of the researchers have also asserted that inhabitants who are monetarily educated completely know how to manage their income along with the major functions of the financial institutions (Awais, Laber, Rasheed, & Khursheed, 2016). Several surveys have been conducted in this context to understand the connection between saving behavior and monetary literacy. The result of research by Babiarz and Robb (2014) identified that the households who are highly fiscally

informed or have great confidence in their monetary aptitude are more likely to account for having crisis funds (Babiarz & Robb, 2014).

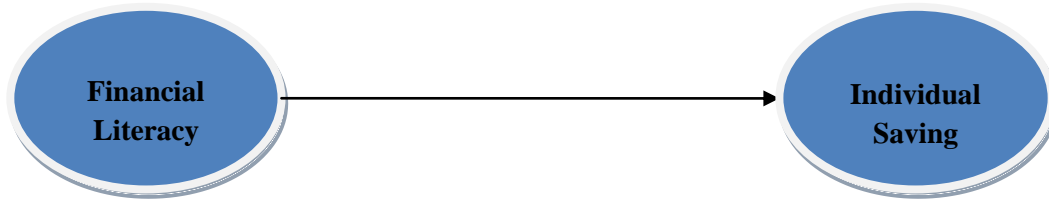
Furthermore, it is highly easy to achieve a state of financially satisfied instead of becoming debt-free, which requires certain strategies and economic behavior over one's cycle. Ali et al. (2015) have described the financial literacy as a financial satisfaction that describes the perception of an individual with his/her concerns on current financial situations (Ali, Rahman, & Bakar, 2015). A conceptual model is also developed and tested in this regard actually to forecast the financial level satisfaction. The following model can easily explain the direct impact of monetary planning on the monetary satisfaction and mediating effects of fiscal literacy with basic money management. A large number of surveys have been taken to understand the relationship between saving behavior and financial literacy (Bhabha, Khan, Qureshi, Naeem, & Khan, 2014). These surveys have provided great insights into savings attitudes and behavior. It has been suggested by these surveys that ill-equipped people or people with poor knowledge of finance can face difficulty in making complex financial decisions. Moreover, such type of people also cannot plan ahead sufficiently due to the poor perceptive of investment concepts (Drexler, Fischer, & Schoar, 2014). It is important to keep the micro-entrepreneurs aware of financial knowledge because they have to craft certain monetary decisions. However, it is necessary to keep the rules of thumb simple and recognized so that an individual could not face any problem in this regard. The rule of thumb training indicated by Fischer et al. (2014) could enhance the financial practices of different firms along with the revenue and quality.

Hypothesis

The hypothesis can be determined in the following research:

H1: There is a significant relationship between financial literacy and saving behavior.

Research Model



METHODOLOGY

Basically, there are two types of methodology that a researcher uses such as primary and secondary research methods (R. Kumar, 2019). However, in this study, the primary research method is used in which the data was collected on the basis of the survey questionnaire. The primary research method is chosen because it provides original data and the degree of accuracy is also high. Generally, data is collected with the help of interviews, focus groups and surveys, but we have chosen surveys. Furthermore, the major source of information in this research was the Pakistani public sector banks from which we took the population sample. In order to collect data, the survey questionnaire distributed via email to about 370 participants in which employees, managers, and customers of public sector banks are included.

From 370 participants, only 350 participants responded, so the final population sample was 350. The sample populations have been selected through cluster sampling. With the help of this sampling method, we divided the population into separate groups and then selected a random sample of clusters from that population. The survey questionnaire was designed on the basis of customer saving behavior and financial literacy. Mainly, there were a total of 14 questions in the survey, in which 5 were demographic questions. However, the other 9 questions were related to financial issues, financial products, easy accessibility to financial information, and financial gain. The results were formed on the basis of regression and ANOVA test and interpreted through regression analysis.

RESULTS AND ANALYSIS

The results have been formed on the basis of the regression analysis, which is a commonly used method for the determination of the results. Regression testing is used to form the results. Basically, the regression analysis is used when an independent variable is sequential. The sequential indicator helps in determine the difference between different orders of explanatory variables. It means that in this case, the independent variable in this research is FL, whereas the dependent variable is ISB.

| SUMMARY OUTPUTS | | |
|------------------------------|-------------|--|
| Table 1 | | |
| <i>Regression Statistics</i> | | |
| Multiple R | 0.876269194 | |
| R Square | 0.7678477 | |
| Adjusted R Square | 0.690924623 | |
| Standard Error | 1.043709742 | |
| Observations | 14 | |

The above table shows the summary outputs for the regression analysis. Basically, the value of multiple R in regression analysis is constant means less than 1. In the following table, it has been indicated that multiple R is smaller than 1 which means that there are a positive connection among FL and ISB. Similarly, the value of R square is also less than 1, which means that there is an optimistic impact of FL on individual saving behavior. On the other hand, the standard value of the adjusted R square is greater than 0.5 and less than 1, and in this case, it is 0.6 which means that there is an optimistic connection among monetary literacy and person saving behavior. The basic standard value of error is also constantly superior to 1 which also shows the positive association between the FL and ISB. The observation, on the other hand, shows that there were major 14 questions asked by the respondents.

Table 2

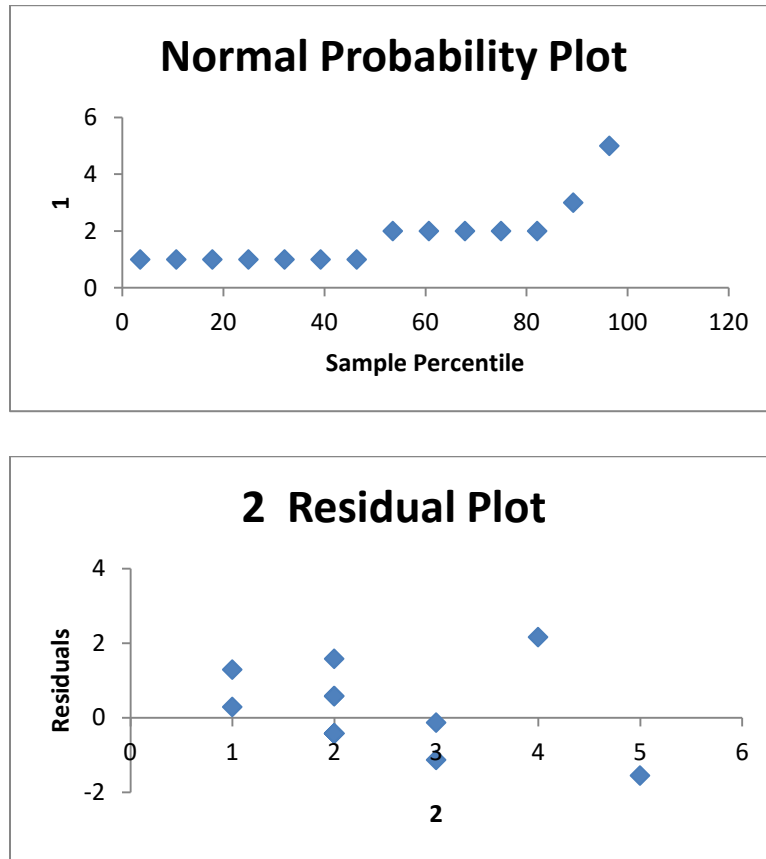
| ANOVA | | | | | | | | |
|-------------------|---------------------|-----------------------|---------------|----------------|-----------------------|------------------|--------------------|--------------------|
| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> | | | |
| Regression | 1 | 46.83871 | 46.83871 | 42.99772 | 2.7E-05 | | | |
| Residual | 13 | 14.16129 | 1.08933 | | | | | |
| Total | 14 | 61 | | | | | | |
| | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> | <i>Lower 95%</i> | <i>Upper 95%</i> | <i>Lower 95.0%</i> | <i>Upper 95.0%</i> |
| Intercept | 0 | #N/A | #N/A | #N/A | #N/A | #N/A | #N/A | #N/A |
| 2 | 0.709677419 | 0.108228 | 6.557265 | 1.83E-05 | 0.475866 | 0.943489 | 0.475866 | 0.943489 |

The above table shows the results from the ANOVA test, which plays a significant role in regression analysis. Basically, the ANOVA test is used in the research when the independent analysis is categorical. There are three things in the above table on which the whole results of ANOVA are based on such as regression, residual values and its sum of values. The regression is constant which is 1, the scientific statistics are 46 whereas the mean square of the values is also less than 50. Furthermore, the f-value, in this case, is considered as a significant value which is less than 50 which means that there is a strong optimistic impact of FL on the ISB. The above table is analyzed on the basis of the significant value such as f-value in the regression. On the other hand, the p-value also plays a great role and its standard value is less than 2 and greater than 1 which is the case here, which indicates that there are a positive affiliation among the FL and ISB.

Table 3

| RESIDUAL OUTPUT | | | | | PROBABILITY OUTPUT |
|--------------------|--------------------|------------------|-------------------------------|-------------------|-----------------------|
| <i>Observation</i> | <i>Predicted 1</i> | <i>Residuals</i> | <i>Standard Residuals</i> | <i>Percentile</i> | <i>1</i> |
| 1 | 2.129032258 | -0.12903 | -0.1283 | 3.571429 | 1 |
| 2 | 1.419354839 | 0.580645 | 0.577329 | 10.71429 | 1 |
| 3 | 0.709677419 | 1.290323 | 1.282953 | 17.85714 | 1 |
| 4 | 1.419354839 | -0.41935 | -0.41696 | 25 | 1 |
| 5 | 1.419354839 | -0.41935 | -0.41696 | 32.14286 | 1 |
| 6 | 1.419354839 | -0.41935 | -0.41696 | 39.28571 | 1 |
| 7 | 2.838709677 | 2.16129 | 2.148947 | 46.42857 | 1 |
| 8 | 1.419354839 | 1.580645 | 1.571618 | 53.57143 | 2 |
| 9 | 0.709677419 | 0.290323 | 0.288665 | 60.71429 | 2 |
| 10 | 1.419354839 | 0.580645 | 0.577329 | 67.85714 | 2 |
| 11 | 3.548387097 | -1.54839 | -1.53954 | 75 | 2 |
| 12 | 1.419354839 | -0.41935 | -0.41696 | 82.14286 | 2 |
| 13 | 1.419354839 | -0.41935 | -0.41696 | 89.28571 | 3 |
| 14 | 2.129032258 | -1.12903 | -1.12258 | 96.42857 | 5 |

Furthermore, the above results are formed on the basis of the residual plot and percentiles of the plot evaluated through regression and ANOVA test. Basically, there were 14 questions asked by about 25 respondents on which the above results are formed. Furthermore, the graphs below also illustrate that there are a positive link among and ISB.



Descriptive Statistics

The given table interprets the link between variables to form variables q 1-7 to 18-14 in questionnaires. We find that there is a strong and positive relationship between financial literacy & individual saving behavior as well.

Table 4

| Column1 | | Column2 | | Column3 | | Column4 | | Column5 | | Column6 | | Column7 | |
|--------------------|----|----------------------------|----|--------------------|----|----------------------------|----|--------------------|----|----------------------------|----|---------|---|
| Financial literacy | | Individual saving behavior | | Financial literacy | | Individual saving behavior | | Financial literacy | | Individual saving behavior | | | |
| Mean | 1. | Mean | 2. | Mean | 2. | Mean | 2. | Mean | 2. | Mean | 2. | Mean | 2 |

| | | | | | | | | | | | | | |
|---|----------------------------------|-------------------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|----------------------------------|
| | 5 9 7 7 0 1 | | 1 7 8 1 6 1 | | 3 9 6 5 5 2 | | 1 3 2 1 8 4 | | 5 6 8 9 6 6 | | 3 3 3 3 3 3 | | |
| Stand ard Error | 0. 0 5 7 0 1 1 | Stand ard Error | 0. 0 6 6 5 8 9 | Stand ard Error | 0. 0 7 0 5 0 6 | Stand ard Error | 0. 0 7 3 8 0 2 | Stand ard Error | 0. 1 1 1 5 6 5 | Stand ard Error | 0. 0 8 4 0 5 3 | Stand ard Error | 0. 0 7 3 8 1 2 |
| Media n | 1 | Media n | 2 | Media n | 2 | Media n | 2 | Media n | 2 | Media n | 2 | Media n | 2 |
| Mode | 1 | Mode | 2 | Mode | 2 | Mode | 2 | Mode | 1 | Mode | 2 | Mode | 2 |
| Stand ard Devia tion | 0. 7 5 2 0 2 6 | Stand ard Devia tion | 0. 8 7 8 3 7 5 | Stand ard Devia tion | 0. 9 3 0 0 3 2 | Stand ard Devia tion | 0. 9 7 3 5 2 2 | Stand ard Devia tion | 1. 4 7 1 6 4 4 | Stand ard Devia tion | 1. 1 0 8 7 3 2 | Stand ard Devia tion | 0. 9 7 3 6 4 1 |
| Samp le Varia nce | 0. 5 6 5 5 4 4 | Samp le Varian ce | 0. 7 7 1 5 4 3 | Samp le Varia nce | 0. 8 6 4 9 5 9 | Samp le Varian ce | 0. 9 4 7 7 4 4 | Samp le Varia nce | 2. 1 6 5 7 3 6 | Samp le Varian ce | 1. 2 2 9 2 8 7 | Samp le Varia nce | 0. 9 4 7 9 7 7 |
| Kurto sis | 4. 1 8 0 5 2 5 | Kurtos is | 1. 3 6 7 3 9 1 | Kurto sis | 0. 0 4 4 1 1 5 | Kurtos is | 0. 9 9 4 6 9 1 | Kurto sis | - 1. 2 5 0 3 4 | Kurtos is | 1. 0 7 7 2 4 7 | Kurto sis | 0. 7 5 6 3 2 1 |
| Skewn ess | 1. 6 4 1 7 9 4 | Skewn ess | 0. 9 8 9 4 6 9 | Skewn ess | 0. 3 4 9 8 7 7 | Skewn ess | 0. 9 8 6 0 3 1 | Skewn ess | 0. 4 3 5 6 0 4 | Skewn ess | 0. 9 8 2 0 1 8 | Skewn ess | 0. 9 8 8 3 3 2 |
| Rang | 4 | Range | 4 | Rang | 4 | Range | 4 | Rang | 4 | Range | 5 | Rang | 4 |

| | | | | | | | | | | | | | |
|--|----------------------------------|--|----------------------------------|--|----------------------------------|--|----------------------------------|--|----------------------------------|--|----------------------------------|--|----------------------------------|
| e | | | | e | | | | e | | | | e | |
| Mini mum | 1 | Minim um | 1 | Minim um | 1 | Minim um | 1 | Minim um | 1 | Minim um | 1 | Minim um | 1 |
| Maxi mum | 5 | Maxim um | 5 | Maxi mum | 5 | Maxim um | 5 | Maxi mum | 5 | Maxim um | 6 | Maxi mum | 5 |
| Sum | 2 7 8 | Sum | 3 7 9 | Sum | 4 1 7 | Sum | 3 7 1 | Sum | 4 4 7 | Sum | 4 0 6 | Sum | 3 4 8 |
| Coun t | 1 7 4 | Count | 1 7 4 | Count | 1 7 4 | Count | 1 7 4 | Count | 1 7 4 | Count | 1 7 4 | Count | 1 7 4 |
| Confi denc e Level (95.0 %) | 0. 1 1 2 5 2 7 | Confid ence Level(95.0%) | 0. 1 3 1 4 3 2 | Confi dence Level(95.0 %) | 0. 1 3 9 1 6 2 | Confid ence Level(95.0%) | 0. 1 4 5 6 6 9 | Confi dence Level(95.0 %) | 0. 2 2 0 2 0 4 | Confid ence Level(95.0%) | 0. 1 6 5 9 0 1 | Confi dence Level(95.0 %) | 0. 1 4 5 6 8 7 |

Then we find other remaining statistics of our data.

Table 5

| s | | Colu mn2 | | Colu mn3 | | Colu mn4 | | Colu mn5 | | Colu mn6 | | Colu mn7 | |
|---|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|
| Mean | 1. 54 08 81 | Mean | 2. 34 59 12 | Mean | 2. 19 49 69 | Mean | 2. 27 67 3 | Mean | 2. 34 59 12 | Mean | 2. 27 67 3 | Mean | 2. 03 77 36 |
| Stand ard Error | 0. 05 33 43 | Stand ard Error | 0. 08 22 56 | Stand ard Error | 0. 07 75 17 | Stand ard Error | 0. 09 26 88 | Stand ard Error | 0. 11 35 61 | Stand ard Error | 0. 08 02 59 | Stand ard Error | 0. 08 41 21 |
| Media n | 1 | Media n | 2 | Media n | 2 | Media n | 2 | Media n | 2 | Media n | 2 | Media n | 2 |
| Mode | 1 | Mode | 2 | Mode | 3 | Mode | 2 | Mode | 1 | Mode | 2 | Mode | 2 |
| Stand ard Deviat ion | 0. 67 26 31 | Stand ard Deviat ion | 1. 03 72 03 | Stand ard Deviat ion | 0. 97 74 55 | Stand ard Deviat ion | 1. 16 87 49 | Stand ard Deviat ion | 1. 43 19 48 | Stand ard Deviat ion | 1. 01 20 29 | Stand ard Deviat ion | 1. 06 07 31 |
| Sampl e Varian ce | 0. 45 24 32 | Sampl e Varian ce | 1. 07 57 9 | Sampl e Varian ce | 0. 95 54 18 | Sampl e Varian ce | 1. 36 59 74 | Sampl e Varian ce | 2. 05 04 74 | Sampl e Varian ce | 1. 02 42 02 | Sampl e Varian ce | 1. 12 51 49 |

| | | | | | | | | | | | | | |
|--------------------------------|----------|--------------------------------|----------|--------------------------------|----------|--------------------------------|----------|--------------------------------|----------|--------------------------------|----------|--------------------------------|----------|
| Kurtosis | 4.060343 | Kurtosis | 0.550778 | Kurtosis | -0.04972 | Kurtosis | 0.363034 | Kurtosis | -0.94314 | Kurtosis | 1.459879 | Kurtosis | 0.394092 |
| Skewness | 1.49222 | Skewness | 0.919285 | Skewness | 0.463474 | Skewness | 1.033665 | Skewness | 0.668484 | Skewness | 1.015928 | Skewness | 0.987477 |
| Range | 4 | Range | 4 | Range | 4 | Range | 4 | Range | 4 | Range | 5 | Range | 4 |
| Minimum | 1 | Minimum | 1 | Minimum | 1 | Minimum | 1 | Minimum | 1 | Minimum | 1 | Minimum | 1 |
| Maximum | 5 | Maximum | 5 | Maximum | 5 | Maximum | 5 | Maximum | 5 | Maximum | 6 | Maximum | 5 |
| Sum | 245 | Sum | 373 | Sum | 349 | Sum | 362 | Sum | 373 | Sum | 362 | Sum | 324 |
| Count | 159 | Count | 159 | Count | 159 | Count | 159 | Count | 159 | Count | 159 | Count | 159 |
| Confidence Level(95.0%) | 0.105358 | Confidence Level(95.0%) | 0.162462 | Confidence Level(95.0%) | 0.153104 | Confidence Level(95.0%) | 0.183067 | Confidence Level(95.0%) | 0.224293 | Confidence Level(95.0%) | 0.158519 | Confidence Level(95.0%) | 0.166148 |

Our data consists of 350 answers from 35 respondents with 14 questions. We find descriptive statistics from 175 in q1 to q7 and 175 in 18 to q 14 and find the different results as compared to our above table.

CONCLUSION

The following research study has indicated an important objective of identifying the impact of financial literacy on the individual saving behavior where there is no role of the mediating variable in this research. In this research, most of the information has been collected from the employees, managers, and customers of the Pakistani public sector through a survey questionnaire. Basically, 350 respondents selected for this research and analyzed their responses to form the results. There were almost 100 managers, 100 employees, and 150 customers involved in this research from which the questions were asked and who provided the information regarding saving behavior and financial literacy or knowledge. To create the results different tests were applied such as regression and ANOVA on the basis of which the data was analyzed.

However, it has been concluded through the results that the hypothesis formed in the research is accepted which defines that there is a significant connection between financial literacy and saving behavior. It designates that monetary literacy plays a vital function and provides an insight into the people to save their money and resources in the right way. The results have shown that there is an optimistic impact of monetary education on person saving manners. It means that the individual who has complete knowledge of finance can easily manage its money and save it.

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Impact of Financial literacy on Individual Saving behavior

This questionnaire is designed to assist in collecting data to determine the relationship between financial literacy and individual savings. The findings of this research are only meant for academic purposes and all the responses will be treated with utmost confidentiality.

Please tick for the most appropriate responses / answer in respect of the following items.

| 1 | 2 | 3 | 4 | 5 |
|-------------------|----------|---------|-------|----------------|
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |

1. Organization Name? _____
2. Gender: **(1)** Male, **(2)** Female
3. Age: **(1)**18-22 years **(2)** 23-27 years **(3)** 28-32 years **(4)** 33-37 years **(5)**>38 years
4. Marital status: **(1)** Single **(2)** Married
5. Highest level of education: **(1)** High school **(2)** Bachelor **(3)** Master **(4)** PhD **(5)** other
6. I am well conversant when it comes to matters relating to financial issues
1. SD 2. DA 3. Neutral 4. Agree 5. SA
7. I feel confident in making financial or saving decisions
1. SD 2. DA 3. Neutral 4. Agree 5. SA
8. I manage my own finances

1. SD 2. DA 3. Neutral 4. Agree 5. SA

9. I am well conversant when it comes to matters relating to financial issues

1. SD 2. DA 3. Neutral 4. Agree 5. SA

10. I understand information receive concerning financial products.

1. SD 2. DA 3. Neutral 4. Agree 5. SA

11. An investment with very high return is likely to have high risk

1. SD 2. DA 3. Neutral 4. Agree 5. SA

12. Does the financial information or advice you receive has any influence
on your decision to deliberately save?

1. SD 2. DA 3. Neutral 4. Agree 5. SA

13. Do you think that saving helps to meet emergencies and financial gain

1. SD 2. DA 3. Neutral 4. Agree 5. SA

14. Do you agree that savings help buy expensive items in the future and easy
accessibility to a financial information

1. SD 2. DA 3. Neutral 4. Agree 5. SA