The Impact of Demographic Factors on Financial Literacy: Evidence from Stock Market Retail Investors in Sri Lanka

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INTRODUCTION

Financial literacy can be described as possessing some education and knowledge to manage personal finance, saving and investing, in an efficient manner. It includes the awareness of making proper decisions on personal finance. When people are limited with the knowledge of financial products and narrowed to a portfolio which is less risky and secure, it can have an indirect impact on sustainable economic growth. But when people have more knowledge, they can select an alternative such as mutual funds which is more secure and of low risk that ultimately have a positive impact on the growth of the economy. Past researches indicated that in the modern world without the ability to read and write (literacy) it is impossible to succeed. Same phenomenon is applied to financial system, as without knowing the basics of economics and finance (financial literacy) it is impossible to succeed (Lusardi, 2009). Considering financial literacy among Sri Lankans, Standard & Poor's global financial literacy survey points out that, *"Sri Lanka has a higher financial print literacy rate compared to South Asian countries. In contrast to that, Sri Lanka has a huge gap between print literacy and financial literacy"*. This concludes that there is more space to provide awareness and promote the financial literacy among the Sri Lankan investors. Further, the Standard & Poor's global financial literacy survey results show that the financial literacy rate in Sri Lanka is 35% as opposed to the average of 65% in more developed economies (Kulasena, 2017).

AIM/ OBJECTIVES

The study aims to examine the gap between print literacy and financial literacy among the Sri Lankan investors in order to provide more awareness and promote the financial literacy among

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the investors. Hence, the main objective of the study is to determine the impact of demographic factors of retail investors on financial literacy.

METHODOLOGY

The primary data was collected from retail investors, who are registered with a licensed stock broker, using a questionnaire as a primary survey. Convenience sampling technique was employed and 150 retail investors were selected as the sample. This method has been used because the target population is hard to determine.

Independent variable	B	S.E.	df	Sig.
AGE			5	.510
AGE(1)	1.143	1.654	1	.489
AGE(2)	1.337	1.273	1	.294
AGE(3)	1.385	1.205	1	.250
AGE(4)	1.669	1.255	1	.184
AGE(5)	-.428	1.599	1	.789
GEN(1)	.176	.525	1	.737
EMPT			3	.088
EMPT (1)	1.924	.785	1	.014
EMPT(2)	.831	1.312	1	.526
EMPT(3)	1.336	.702	1	.057
ACTIV(1)	.020	.589	1	.973
INC			5	.240
INC(1)	-1.633	1.478	1	.269
INC(2)	-2.488	1.225	1	.042
INC (3)	-2.034	1.160	1	.080
INC (4)	-2.663	1.175	1	.023
INCOME(5)	-.618	1.533	1	.687
EDU			5	.076
EDU(1)	2.077	1.371	1	.130
EDU(2)	1.687	.775	1	.029
EDU(3)	1.740	.734	1	.018
EDU(4)	2.605	.833	1	.002
EDU(5)	2.396	.881	1	.999
EXP			3	.824
EXP (1)	.557	1.147	1	.627
EXP (2)	-.281	.643	1	.662
EXP T(3)	-.435	.666	1	.514
MAR(1)	-1.141	.480	1	.018
Constant	-1.501	1.777	1	.398

Descriptive statistics were used to describe the characteristics of the sample. A reliability test was conducted to check the consistency of the data. Logistic regression model was used to analyze data where demographic factors of investors are used as the independent variable while the financial literacy has been identified as the dependent variable.

$$\boldsymbol{log}\left(\frac{\boldsymbol{p}}{\boldsymbol{1-p}}\right)\boldsymbol{FL} = B0 + B1\,(AGE1) + B2\,(AGE2) + B3\,(AGE3) + B4\,(AGE4) + B5\,(AGE5) + B6\,(AGE6)\ B7\,(GEN) + B8\,(EMPT1) + B9\,(EMPT2) + B10\,(EMPT3) + B11\,(EMPT4) + B12\,(ACTV) + B13\,(INC1) + B14\,(INC2) + B15\,(INC3) + B16\,(INC4) + B17\,(INC5) + B18\,(INC6) + B21\,(EDU1) + B22\,(EDU2) + B23\,(EDU3) + B24\,(EDU4) + B25\,(EDU5) + B26\,(EDU6) + B27\,(EXP1) + B28\,(EXP2) + B29\,(EXP3) + B30\,(EXP4) + B31\,(MAR) + ei$$

In order to measure the financial literacy level of the investor, 16 financial literacy related questions were asked. The total percentage of correct answers average value was used to measure the financial literacy. SPSS software was used as the analysis tool. Based on the mean value of central tendency output results, two levels were identified as high and low.

RESULTS AND DISCUSSION

Table 1: Central Tendency of Financial Literacy

Central tendency	Value	Percentage
Mean	7.14	44.63
Median	7.00	43.75
Std. Deviation	3.320	20.74
Minimum	1	6.25
Maximum	14	87.50

Source: Authors' calculation based on data survey

There is a significant impact between employment status, permanent job category and financial literacy. The results of a similar study conducted by Murugesan and Santhi (2015) indicates that salaried category has the highest literacy level. Income levels of Rs.31,000 - Rs.50,000 and Rs.71,000 – Rs.90,000 show an impact on the financial literacy. A study conducted by Mouna and Jarboui (2015) revealed that low income levels tend to possess less financially literate and also a lower level of portfolio diversification. Moreover, Goetzmann and Kumar identified that financial literacy and income level have a positive relationship. Among five categories of education levels, four categories have an impact on the financial literacy. As a result, it can be concluded that there is a significant impact on financial literacy from the investors' education

levels. For instance, the study of Al mansour and Arabyat (2017) indicates that bachelor degree holders are the highest respondents with regards to the financial literacy.

Results also show that there is a significant impact of marital status on financial literacy levels. According to Obamuyi, it was revealed that financial literacy has the highest respondents from married group. Furthermore, the past researchers have identified that there is a significant impact on financial literacy by the number of years' experience in trading in the stock market. For example, a study conducted by Akhter and Ahmed (2013) identified that from the respondents about 36% have more than 5 years of experience and only about 7% have below 1 year experience related to making investment decisions. By contrast, this study revealed that there is no impact from the share market experience on the financial literacy.

IMPLICATIONS

The study explores the impact of demographic factors of retail investors on financial literacy. The finding consisted with positive impact of demographic factors on financial literacy. Due to the nature of the research, various limitations may have affected the accuracy of the results of the study. The study was confined to a small sample covering different areas by using a convenient sample technique. Due to the time duration, the study only considered a small sample of 150 individual investors who have already invested in the stock market. Future research can be undertaken on investigating the determinants of investment decisions.

KEYWORDS

Financial Literacy, Retail Investors, Colombo Stock Exchange, Financial Knowledge

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