

## Socio-Economic Inequality and Financial Literacy: Implications for Personal Finance Planning in Vidarbha

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**Abstract:** There is still the issue of social economic inequality in India, more so in a fairly poorly developed region such as Vidarbha in Maharashtra. Financial literacy is a critical element that is characterizing the ability of respective participants to make good personal finance decisions that dictate saving behaviours, investment preferences, credit usage and or long-term financial stability. This paper assesses the relationship between the financial literacy and socio-economic disparity and determines the financial literacy in households in the Vidarbha region, and its relationship to individual financial planning. The paper, the research that is conducted on the basis of the primary data that will be gathered with the help of the means of the structured questionnaires and which will be supported by the secondary data, by the governmental reports, and prior studies define the variation in financial literacy, based on the income, educational level, occupation, and the dependence between the rural population and the urban population. The findings have shown that the levels of financial literacy have significant disparities whereby, low-income and less-educated individuals demonstrate poor awareness of simple financial knowledge, formal banking products, insurance, and investment instruments. These gaps have an adverse effect on the financial planning of individuals, which leads to the low level of savings, a high degree of non-formal credit utilization, and poor retirement and risk planning. The paper introduces certain financial education, inclusive financial policies and digital financial services as the solution of bridging the literacy divide and reducing socio-economic disparity to contribute. The paper will conclude by giving policy recommendations on improving the financial literacy programs to achieve equitable financial inclusion and sustainable economic growth in Vidarbha.

**Keywords** - Socio-Economic Inequality; Financial Literacy; Personal Financial Planning; Financial Inclusion; Household Finance; Vidarbha Region; India

### Introduction

Socio-economic inequality has turned out to be one of the most urgent developmental problems in contemporary India because the possibility to receive education, healthcare, work, and financial prospects is influenced. Although the economic growth and radical changes have been observed in the country, and the entire financial sector, the benefits of the development have not been shared proportionally among the regions and social sections. To be more specific, there are yet agglomerations of inequalities of income, employment, and living standards in certain parts of it such as in Vidarbha in Maharashtra and this has been accredited primarily to agrarian distress, industrial imbalance and inaccessibility to quality financial services. These inequities are directly associated with the manner in which individuals carry themselves as to concerned their finances and their methods of planning, expenditure and saving of personal money. In this instance, financial literacy will play a fundamental role in helping individuals take proper financial decisions, reduce vulnerability to the financial shocks and achieve economic well being in the long-term. However, one must also remember that the domain of financial literacy is not perfectly even but it has an inclination of being subject to the socio-economic factors, therefore, not minimizing the pre-existing inequities but instead increasing them.



The financial literacy can be characterized as the knowledge and the comprehension of the financial concepts that involve budgeting, saving, borrowing, investing, insurance and planning of retirement and the ability of applying the knowledge in the real financial decision making. With a less centralized and multidimensional financial environment of digital banking, the diversification of investment instruments and a larger credit market, financial literacy has become an important part of an efficient personal financial planning. An increased level of financial literacy allows people to consider the income changes better, calculate the level of financial risk, and choose the financial products which are needed to help in achieving their life objectives. Conversely, lack of financial literacy usually contributes to failures in financial planning, excessive use of debts, poor savings level and being out of a proper financial system. The rural families, informal workers, small scale farmers among the economically weaker groups are most of the acute and these constitute a high percentage of the population in Vidarbha.

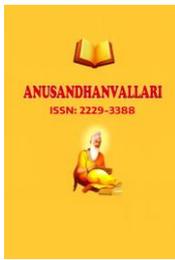
Vidarbha region is characterized by a special socio-economic status and is the reason why this area is an excellent research area when it comes to studying the interaction of inequality and financial literacy. Being an agricultural state, the Vidarbha area has had an experience of farmer indebtedness, crop failure and the absence of crop diversification thus being a capable source of income volatility. Although the policy of the government, such as financial inclusion, financial direct benefit transfers, and payment transactions using digital technology, has expanded the control of formal financial institutions, access does not imply effective use. A majority of the home hold continue to rely on non formal sources of credit and little participation in insurance programs and pension programs and long term investment opportunity. This lack of contact between access and helpful use demonstrates the value of the financial literacy mediating factor in individual financial planning and economic stability.

Among the effects of socio-economic inequality on financial literacy, there are the gap in education, career, gender roles, and rural and urban inequalities. Being wealthy and educationally more sophisticated, the financiers are more exposed to financial literacy, and professional guidance, formal financial products can be utilized where the organization of finances is more organized. On the other hand, low level of income families would be short term survival oriented more than those that think long term and thus will engage little in savings and investment. In addition, lack of trust in the financial institutions, low levels of digital literacy, and lack of awareness with regard to the available government-sponsored financial programs also limit their financial decision-making. This is later on followed by finance illiteracy causing poverty and economic vulnerability cycles to become cyclic thereby leading to the socio-economic inequality in the long run.

We should therefore understand what financial literacy entails to personal finances planning to ensure sound policy interventions and education campaigns could be formulated. Personal finance planning is rational management of earnings, investments, savings, insurance, and retirement benefits that has been established to achieve financial stability during the life time. When living in a society with high degree of social-economic inequality, poor financial planning is not only an issue that affects the individual households but the development of the respective regions and social stability is also widespread. Household financial resilience, productive investment behaviour, and inclusive growth can be increased by increasing financial literacy. Against this backdrop, the present study will seek to establish the extent of the socio-economic inequality in the degree of financial literacy in Vidarbha and how the inequalities will impact the personal finance planning decision. Focusing on the location of the region, the study will be necessary in order to fill in the gaps in the literature and to provide the result of empirical data that might be utilized to inform certain financial literacy work and score efficient financial policies, depending on the socio-economic peculiarities of Vidarbha.

#### Literature Review

Financial literacy has also made its recognition as a valid ingredient of effective personal finance management and monetary health. Atkinson and Messy (2012) in the OECD/INFE pilot study have presented one of the frameworks guiding on the measurement of financial literacy on a global scale. They concentrated their efforts on



learning of the expertise about the financial concepts and the abilities of applying the expertise on the ground when making a decision. The conception has influenced numerous subsequent studies and policy interventions which influence financial literacy and inclusion in addition to supporting informed financial behaviour.

Lusardi and Mitchell (2014) presented the financial literacy economic value and its conceptual and empirical relationships with savings, investments, and retirement planning. They stated that financial literacy is not merely an extra competency, rather make up a crucial element of economic empowerment since bad financial literacy is a factor that incriminates individuals to bad financial decisions, save less, and rely on informal lending. Similar to this sentiment, Rooij, Lusardi, and Alessie (2011) gave empirical data following the study of Netherlands, which showed that long-term retirement planning and financial preparedness are positively related with financial literacy, which notes on the fact that the interventions with financial literacy can have a measurable effect on the financial security through the course of life.

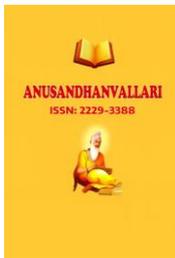
Other studies which have explored the implications of financial literacy have been carried out in a different socio-economic setting and geographical location. Klapper, Lusardi and Panos (2013) examined the problem of the financial literacy in Russian financial crisis and found out that more financially literate people were capable of mitigating the negative effect of economic shock. Similarly, Cole, Sampson and Zia (2011) have observed that knowledge and pricing are twofold in facilitating the need of the financial products in the emerging markets and therefore the financial literacy can help boost the need and utilisation of the formal financial products by the underserved populations.

In an Indian context, the researches have regularly emphasized the distribution of financial literacy, it has always been skewed to demographics. Agarwalla et al. (2013) assessed the urban youth who had work experience in India and concluded that there is a significant deficit of information about the banking, investment and insurance products signifying that age, education level and occupation are a crucial factor in the financial literacy. The only similarity mentioned by Garg and Singh (2018) was the low rates of attention of the youth toward formal financial services due to the low levels of financial literacy and the utilization of informal financial tools. Ramakrishnan and Kannan (2020) paid direct attention to working women in India and discovered that the overall socio-economic barrier of gender nature often impedes the acquisition and implementation of the financial literacy process, which, in turn, affects the financial behavior and decision-making.

Policy-research scholarship has taken center stage on the issue of institutional structures which increase financial literacy. The G20/INFE report organized by OECD (2017) also had plans of adult educational finance based on structured, digital, and public- privately structured cooperation with the aim of eradicating literacy gaps. In India, the Reserve bank of India (2020) has launched the National Strategy of Financial Education (NSFE 2022), the priorities of which are to raise the level of financial literacy of the disadvantaged population, rural households, and young adults, and the task of certain steps to improve the relationship between the groups with a low socio-economic status.

Altogether, the bodies of literature help to confirm that the socio-economic conditions and the mechanisms of inequality reduction place the financial literacy in the realm of powers and applications. An increase in the financial literacy of people is also associated with higher income, education, and employment security levels due to which, the most marginalized groups of people (low income household, women and rural inhabitants, etc.) demonstrate a worse awareness of formal financial instruments. Especially all these disparities apply in regions such as Vidarbha whereby agrarian distress, rural poverty, and lack of access to banking infrastructure guarantee financial vulnerability. The existing evidence demonstrates that the research studies that center on geographic-based trends of financial literacy and their implications on the financial literature planning should be established empirically hence, informing the policy interventions in respect to how to empower people financially inclusively.

### **Objectives of the Study**



1. To study how much households in Vidarbha are financially literate, as well as how they differ based on various socio-economic factors, such as different income levels, levels of education, occupation, gender and urban or rural dwellers.
2. In order to examine the effect of socio-economic inequality on financial literacy, it is necessary to determine the demographic and economic variables, which lead to differences in financial knowledge and skills.
3. To determine the influence of financial literacy on personal finance planning such as savings behaviour, investing decision, credit use, insurance knowledge as well as retirement preparedness of Vidarbha resident.

**H<sub>0</sub> (Null Hypothesis):** Financial literacy has no significant impact on personal finance planning, including savings behavior, investment decisions, credit utilization, insurance awareness, and retirement preparedness among residents of Vidarbha.

**H<sub>1</sub> (Alternative Hypothesis):** Financial literacy has a significant positive impact on personal finance planning, including savings behavior, investment decisions, credit utilization, insurance awareness, and retirement preparedness among residents of Vidarbha.

### Research Methodology

The article research design is descriptive and analytic research design to determine how they are correlated on both socio-economic inequality and financial literacy and personal finance planning to inhabitants of Vidarbha. The sample population will include adult individuals who have been above the socio economic aspects such as inequality in terms of income, education, occupation, gender, and rural to urban settlement. The questionnaire was embraced, and it was created in a form of a structured survey questionnaire, where Likert-scale items were to be used in measuring the level of financial literacy, personal finance planning behavior, and other socio-economic variables. To bring about clarity, reliability and validity of the questionnaire, the questionnaire was pre-tested. The sampling was in a stratified random sample to encompass the large demographic demographics and the stratification was performed on basis of the income levels, the level of education and the geographical area as well. The study can also use secondary data like government reports, reserve bank of India publications and previous empirical studies in putting the situation into perspective in order to make a comparative analysis of the scenario. Using descriptive statistics, cross tabulation, correlation and regression analysis approaches, the data obtained will be compared in establishing the relationship between the financial literacy and its impact on savings, investment, use of credit, knowledge of insurance and readiness to retire with the exception of socio-economic differences. The research methodology must present effective empirical information of the effect of socio-economic inequality on financial literacy and individual financial decision-making that will ultimately provide information on the policy intervention and financial education programs to promote inclusive financial planning in the Vidarbha region.

### Descriptive statistics table:

Variable	N	Mean	Standard Deviation (SD)	Minimum	Maximum
Financial Literacy Score	300	63.45	12.87	25	90
Savings Behavior	300	3.72	0.85	1	5
Investment Decisions	300	3.55	0.92	1	5
Credit Utilization	300	3.21	0.78	1	5
Insurance Awareness	300	3.05	0.94	1	5

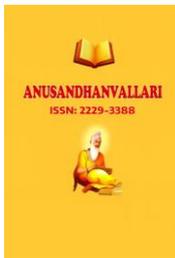
Variable	N	Mean	Standard Deviation (SD)	Minimum	Maximum
Retirement Preparedness	300	2.88	0.97	1	5

According to the descriptive analysis of the data, the gap between the residents of the Vidarbha area regarding the aspects of the financial literacy and the planning of personal finances is enormous. The mean financial literacy of 63.45 may be seen as the middle level of financial literacy among the sampled population, and standard deviation of 12.87 implies that the financial literacy levels of sampled population are rather different due to the differences in the socio-economic groups. On studying the personal aspects of the finance planning respondents are engaged in more savings behavior (Mean = 3.72, SD = 0.85) then on what they do to the investment behavior and time is on investment decisions (Mean = 3.55, SD = 0.92) and not those which involve a more strategic financial planning. Lower scores on credit utilization (Mean = 3.21, SD = 0.78), insurance awareness (Mean = 3.05, SD = 0.94) and retirement preparedness (Mean = 2.88, SD = 0.97) indicate lack of the key financial planning areas particularly in the domain of the long-term financial security planning as well as the risk management. These dynamics show the influence of socio-economic disparity as the more educated respondents had better financial literacy and a more organized approach to finances where the less-educated and lower-income populations only had low amounts of knowledge and reserve behaviour towards formal financial expression. The findings support the hypothesis of alternative (H 1 ) which predicts that extra activities of financial literacy have a positive impact on the personal finance planning. More financially literate personnel are better placed to make a decision in the matter based on their finances, which includes savings, investment, credit management, insurance and retirement economics because they are unable to exercise it due to the lack of literacy among the low income groups. On the whole, the discussion introduces the need to be specific in the financial education, awareness campaign, and policy-based interventions that may increase the level of literacy and change the orientation to an inclusive financial planning across the socio-economic levels in Vidarbha.

**Table: Pearson Correlation between Financial Literacy and Personal Finance Planning Dimensions**

Variables	Financial Literacy	Savings Behavior	Investment Decisions	Credit Utilization	Insurance Awareness	Retirement Preparedness
Financial Literacy	1	0.621**	0.598**	0.534**	0.489**	0.472**
Savings Behavior	0.621**	1	0.553**	0.462**	0.431**	0.415**
Investment Decisions	0.598**	0.553**	1	0.441**	0.417**	0.402**
Credit Utilization	0.534**	0.462**	0.441**	1	0.395**	0.371**
Insurance Awareness	0.489**	0.431**	0.417**	0.395**	1	0.386**
Retirement Preparedness	0.472**	0.415**	0.402**	0.371**	0.386**	1

The graphical analysis of Pearson correlation reveals a high positive correlation between the financial literacy and all the dimensions of personal financial planning in the background of the Vidarbha residents, which reveals that it supports the proposed alternative hypothesis (H 1 ). The highest correlation is found between financial literacy



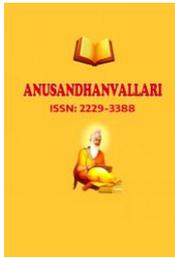
and savings behavior ( $r = 0.621, p < 0.01$ ) indicating that individuals with improved knowledge of finances are highly likely to plan and control their savings. Similarly, it is positively and significantly correlated with investment decision ( $r = 0.598, p < 0.01$ ), credit utilization ( $r = 0.534, p < 0.01$ ), insurance awareness ( $r = 0.489, p < 0.01$ ) and retirement preparedness ( $r = 0.472, p < 0.01$ ). Those findings suggest that financial literacy not only enhances the habitual financial behaviors as such as saving and investing but also results in long-term financial stability such as due credit management, insurance provision and retirement planning. Such mediocre high correlations introduce the necessaryness of financial knowledge in developing successful individual finance planning, and introduce the importance of other socio-economic factors as the pre-eminence of such behaviours. On the whole, the findings point to the nature of increasing financial literacy in different socio-economic groups in Vidarbha to enable the decision-making process of individuals on an inclusive level and reduce the income-earning disparity in personal financial planning.

### Conclusion

The relevance of the financial literacy in the scope of personal finance planning among the Vidarbha residents which is indicated in the current research can be stated as having proved the apparent interdependence of the knowledge level, the behavior as well as the socio-economic status. It has also been determined that there are also much more positive impacts of greater financial literacy on savings behavior, investment choice, credit use, insurance knowledge, and preparedness to retirement that support the rejection of the alternative hypothesis (H 1). Nevertheless, a disparity in levels of literacy, by income, by education, occupation, gender and by rural to urban trends is still present that preaches about the heritage of socio-economic inequality in its impact on access to financial knowledge and resources. The poor and the uneducated masses constitute a minimal exposure to the formal financial instruments and long-term planning and keep them vulnerable to economic crises and financial alienation. These findings suggest the importance of specific financial education, digital literacy and policy-intervention inclusion to minimize the rates of differences in the levels of literary and enable equal-footing in the sphere of financial decisions. By building increased financial consciousness of every social-economic group, the Vidarbha households are bound to make financial choices, enjoy economic security, and enjoy their financial security in the long run. Not only does the research add value to the growing body of literature regarding financial literacy in developing economies, but it also enriches useful information to policy makers, financial institution and educators interested in in the attainment of inclusive financial empowerment in developing regions.

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