International Journal of Education and Science Research Review
E-ISSN 2348-6457
Volume-9, Issue-5 Sep - Oct – 2022
P-ISSN 2349-1817
www.ijesrr.org Email- editor@ijesrr.org

A DEEP STUDY ON HOUSEHOLD PORTFOLIO AND FINANCIAL LITERACY

Ms. Akansha Saini
Ph.D. Scholar
Department of Economics
Malwanchal University Indore, (M.P.).

Dr. Jasbir Singh
Supervisor
Department of Economics
Malwanchal University Indore, (M.P.).

ABSTRACT:-The household portfolio is generally defined as the composition of assets and liabilities by a household. It comprises of different types of financial (Bank deposit, Post office deposits, insurance and retirement, PPF etc.) and non-financial assets (Real-estate, gold& silver and livestock, etc.). The word household finance did not get much attention of researchers and scholars until 1990s, the reason may be the unavailability of household series data on investment patterns or it just because of a large number of households holds the simple portfolio. But due to change in investment, borrowing patterns and ever-increasing importance of household saving in economic development, the topic has gained attention of the researchers, and government agencies across the world.

KEYWORDS:-*Household Portfolio, Financial Literacy etc.*

Role of Finance for Households

The financial situation of a family may be seen as a mix of temporal exposure (and) contingent situations. Financial services play an important part in the lives of families by assisting them in smoothly managing and increasing their consumption as well as using their social resources, financial capitals, and many other resources to enhance their well-being. Each household's finances must perform two essential tasks: (i) risk management via resource mobility across uncertain locations and states; and (ii) inter-temporal expenditure smoothing through resource mobility across time.

There are many reasons why household financial research is important in India:

• Portfolios that significantly deviate from normative ideas are nonetheless used by households.

• An excessive dependence on short-term lending to handle all risks, notably health risks, is being caused by inadequate access to other non-credit financial products. For low-income families, this is an expensive approach that has to be handled with a better product mixture at the household level.

• Due to its standardized structure, conventional financial products are difficult for households in economically disadvantaged quintiles to participate in. These households experience variable and uncertain cash flows.

• There is significant variation depending on household traits including geography, class, education, cognitive biases, etc. even within low-income families. In order to address this, various supply techniques may be required rather than the existing one-size-that-fits-all strategy.

Facets of low-income households in India

- Careful observation, identification, and theoretical and experimental investigation of the links between housing and financial systems is required. Academic studies have shown that Indian families of all income levels, from the very poor to the middle class, make biased and unfavorable decisions when it comes to managing their finances and their investments. The characteristics of such families are detailed in the following list.
- Micro and small businesses often have difficulty scaling their industries because they must decide between two production function innovations – one with low capital costs and high reverts that taper off quickly. To overcome the non-convex production function barrier, the poor often have to borrow money since saving up for the purchase would require too lengthy of a time commitment. Alternately, it has been hypothesized that innovations may result in the creation of whole new forms of production. Innovation may take many forms for small companies – one way to increase profits is to increase sales of an existing product or introduce a new line of items.

State of Household Finance in India

Financial Product and Service Allocation and Consumer Involvement in India's Household Financial Committee Report, issued by the Reserve Bank of India in 2017, provides the most comprehensive analysis of the financial status of Indian households to date. 78 percentof families within the millennial generation have access to material goods, while 65 percent of millennial households have access to some kind of financial asset. or other structured credit outstanding. The average Indian family invests 84% of its wealth in real estate and other physical assets, 11% in gold, and the remaining 5% in financial assets, as shown by a survey of household financial statements. Total household debt consists of unsecured loans amounting to 56%, mortgage loans at 23%, gold loans at 8%, and secured debt from various other sources totaling 13%. These numbers demonstrate that few Indian households use regulated financial institutions. Findings also show that

there are substantial differences amongst Indian households in terms of allocations, family life cycles, and the distribution of wealth. The poll found that among the assets owned by young families in India, gold and durable goods made up the largest share. However, as generations approach retirement age, priorities shift to properties and land. Even the wealthiest households are not making the most of these opportunities, as financial assets and pensions only account for 3.7% of their total balance sheets on average. The data shows that the likelihood of intergenerational responsibility sharing rises as the retirement age of a family's breadwinners rises. Finally, two-thirds of those in extreme poverty and one-third of people in extreme wealth have high-interest loans outstanding.

Families in India rely largely on costly loans from non-institutional sources to deal with risks including crop failure, animal death, illness, and damage to houses, farm equipment, and other financial capital from natural disasters. Loans like these are often obtained from close friends and family as well as from moneylenders. Also, studies using AIDIS 2012 data demonstrate a significant negative association between the usage of financial products and the incidence of non-institutional loans, with insurance sector engagement associated with a 20% reduced risk of borrowing money from non-institutional sources. Overall, our results demonstrate that Indian families depend substantially on informal channels for wealth accumulation, risk management, and planning for long-term goals.

Factors Affecting Household Decision Making

Demographic Profile of Households

The quantity and kind of assets and liabilities in a household are strongly correlated with the household's wealth and education level, as reported by the HFC Report. Real estate's share of family wealth increases as income grows, but gold's share decreases, indicating that affluent families could be prepared to trade up to acquire other assets. It's fascinating to see how the share of financial assets and pension money stays constant across income brackets. Having a college degree is also strongly correlated with having monetary assets. For liabilities, higher levels of family wealth and education are inversely related to both unsecured and non-institutional debt.

Behavioral Preferences and Biases of Households

Consumers' inefficient decision-making is often attributed to factors such as psychological biases, lack of self-control, and a demand for immediate gratification. Despite a lack of data and study on the role of behavioral

factors in affecting household choices, the Household Financial Committee Report extensively defines some of the visible drivers of households' activities in the Indian scenario. Indian families' unequal distribution of physical assets and reliance on informal measures to manage debt and risk may be explained, at least in part, by their propensity for risk, their mistrust in and their general perception of financial institutions. According to research conducted by the Finance Planning Standards Boards (FPSB) in India, one must take their individual risk tolerance into consideration while making stock market investments. Nearly 20% of respondents indicate the security of investment earnings, and 15% cite aversion to risk, as considerations in their investing decisions. Additionally, customers prefer to put their money into 'perceived' safe assets such as gold and real estate rather than financial assets such as mutual funds, which are seen as too risky and offer uncertain returns.

There is a comparatively low acceptance of insurance products. According to the HFC Report, one reason for insurance's low market share is because its advantages change over time. Analysis suggests it may be difficult to appreciate the full social advantages of health insurance for the average person. In addition to general mistrust, this is why consumers are hesitant to buy these products. Over 30% of respondents in the NABARD All India Regional Financial Inclusion Study (NAFIS) agreed with the statements "I tend to live for today and let tomorrow keep hold of itself," "Income is there to be invested," and "I find it much more rewarding to spend cash than to prepare for the long term," among others, revealing a polarization towards hedonic spending and short-term alignment towards financial planning. Personal qualities such as intellectual ability, psychological restraints, and self-confidence also affect one's likelihood of engaging in these financial markets. A number of variables contribute to the complexity of Indian families' financial demands, including cognitive and behavioural biases, lack of trust in the financial system, varying requirements according to education, income, geography, and other demographic characteristics.

Uneven penetration of formal financial services across Indian states

The wealth of Indian families varies widely throughout the country. Some states in the north, including Bihar, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Jharkhand, and Haryana, have more than 80% of their wealth in real estate. There are substantial gold allocations for many southern states, notably Tamil Nadu and Andhra Pradesh, and for several Union Territories, including Goa, Daman and Diu, Pondicherry, and Andaman & Nicobar. In light of their substantial gold reserves, some Indian states, notably Tamil Nadu and Goa, have taken out gold loans of up to 40% of their entire debt. The states in the North Eastern region and the Union Territories have the lowest levels of unsecured debt, while the states of Bihar, Rajasthan, Tripura, West

Bengal, and Assam have the highest. The similar pattern applies for loans from non-institutional resources, with the north-east and the union territories getting the smallest amounts compared to the rest of the north. Disparities in access to formal financial services across various product categories, such as savings, credit, and insurance, may be a contributing cause. The CRISIL Inclusix 2018 study evaluates the extent of financial inclusion in each of Indian states using branch saturation, credit penetration, deposit penetration, and insurance penetration as its key criteria. This means that, owing to the uneven availability of these goods among regions, the accounting records of households may reveal differing degrees of absorption and use of formal financial products across locations. According to the report, southern states do best across the board, followed by those in the West, North, East, and Northeast. The relative significance of various economic subsectors and geographical areas is shown by comparing financial indicators like the loan to GDP ratio. While the national average for credit as a share of GDP is 58.6%, certain industries like agriculture and services have substantially lower ratios of 36% and 25%, respectively. When compared to cities like Chandigarh and the National Capital Regions, the ratio of total loans to GDP in the northeastern Indian states of Arunachal Pradesh and Nagaland is more than 150 percentage points greater. This discrepancy exemplifies the inequitable spread of formally sanctioned credit that contributes to sloppy economic exchanges.

Gaps between access and use of financial services

Increased access to formal financial services has been a major focus area for India over the last decade. Eighty percent of Indians, up from 35 percent in 2011, have access to some kind of financial services account, according to the 2017 Global Findex Survey. = Despite innovative efforts to build new channels, products, and services, decentralisation of finance, and technology-enabled fundamental infrastructure, the uptake of financial services remains dismally low. This is a major challenge from the perspective of building the optimum financial portfolio and protecting the financial security of Indian families. The problem of inadequate utilisation of savings accounts has been emphasised by studies that look at the prevalence of dormant, inactive, and zero-balance accounts. The high cost of transactions remains one of the fundamental causes for the underutilization of financial services. Using financial services in a low-access setting is costly because of the time and effort required to travel to and from the locations where these services are offered. The whole cost of opening a bank account for a low-income family is equivalent to about one day's salary. These costs have a disproportionate impact on the most disadvantaged segments of society because of their greater importance to those with lower incomes. Non-monetary expenses, such as a lack of understanding of

the restrictions and limits of formal financial products and services and tedious procedures, may deter Indian families from using these services (paperwork, KYC procedure, etc.).

Over indebtedness

The overall picture of access to finance among low-income households remains unfavorable because of India's uneven distribution of credit products, which produces both over-indebtedness and insufficient access to finance in certain places. Family debt causes significant stress and hardship. In order to avoid further damage to their credit scores, heavily indebted families often resort to a range of revenue sources, such as side hustles or supplemental employment, or they rely heavily on their social media platform. Over-indebtedness may have major repercussions for low-income families because it can force them to make poor choices about their debt, such as reduced spending on basic needs or pulling children out of school to make repayments. While the average number of clients per branch increased relatively slowly between 2012 and 2015, the unexpected surge in joint liability group lending since 2012 has spurred considerable expansions of the microfinance industry, especially in the Indian setting. Since over-indebtedness is one of the biggest threats to consumer security in microfinance, this may be a concern.

Inadequate Risk Protection

To mitigate risks associated with commodity price fluctuations, human longevity, disability, and mortality and the like, the RBI Council on Comprehensive Wealth Management for Small Businesses and Low-Income Households (RBI CCFS) assumed that all low-income households and small businesses would have easy access to providers who could provide them with appropriate insurance and also risk management applications. The current levels of insurance uptake and coverage are still quite different from this utopian goal. Families often have inadequate coverage across a number of risk-reduction products including insurance, pensions, and other retirement assets, on top of the access and outreach concerns previously noted. Dvara study analysed 39 years of government data on insurance and found that at least 988 million Indians do not have any kind of life insurance. A similar assessment of the Atal Pension Yojana (APY) found that just 3% of the population would be expected to be employed in the unorganised sector, resulting in an estimate of only 51% of monthly costs being covered (in real terms), showing a serious lack of coverage for the pension amount. Also, the persistency rate, which is calculated by looking at how many plans have maintained regular premium payments, has been going down. Insurance has similar difficulties owing to poor persistency rates. Rainfall insurance, for example, has a small market because of concerns about inadequate protection against

rainfall and weather-related dangers; only 65% of those surveyed renewed their insurance policy at least soon after the expiration of their previous one. According to a study on formal rain coverage for a farmer group with informal insurance, based risks had a significant influence on people's desire for formal rainfall insurance. The more away people were from the weather station, the less likely they were to sign up for the service. Farmers without informal insurance were less likely to request formal insurance for every kilometre they were located from the closest rainfall station. Based on these findings, it seems that basis hazard, or the risk that insurance payments won't be made when the family needs them, is a major deterrent to the purchase of index-based rainfall coverage. A comprehensive research on household risk assessment barriers used historical rain gauges to estimate predicted payments for rainfall health coverage plans in the country and found that these payments were consistently lower (as a proportion of actual losses) than in other countries like the US. As a consequence, this created a major barrier to the widespread distribution of these goods. These findings shed light on the shortcomings of the various risk mitigation solutions available to low-income households in India, and on the inadequacy of these products to provide enough protection for customers against the risks they may face in their daily lives.

Priorities for Innovation in Financial Services for Low-Income Households

In spite of the fact that the consolidation of the microfinance framework has been a primary concern for the betterment of living standards among low-income families over the course of consecutive years, uneven access to loans in different regions has caused problems with over-indebtedness. Market imperfections that convert the benefits of utilising cash linked business areas into costs also explain why, despite records' widespread recognition as a key component of many financial tasks and products, their usage has not generally increased. Thirdly, there are serious problems with the coordination and dispersion of monetary labour and things, which fail to meet the needs of low-income families and the last-mile customer and so further exclude them from the influence cash-related structure. Last but not least, the financial industry isn't well regulated, which stymies innovation and enquiry while also damaging customers and producing subpar personal and family outcomes.

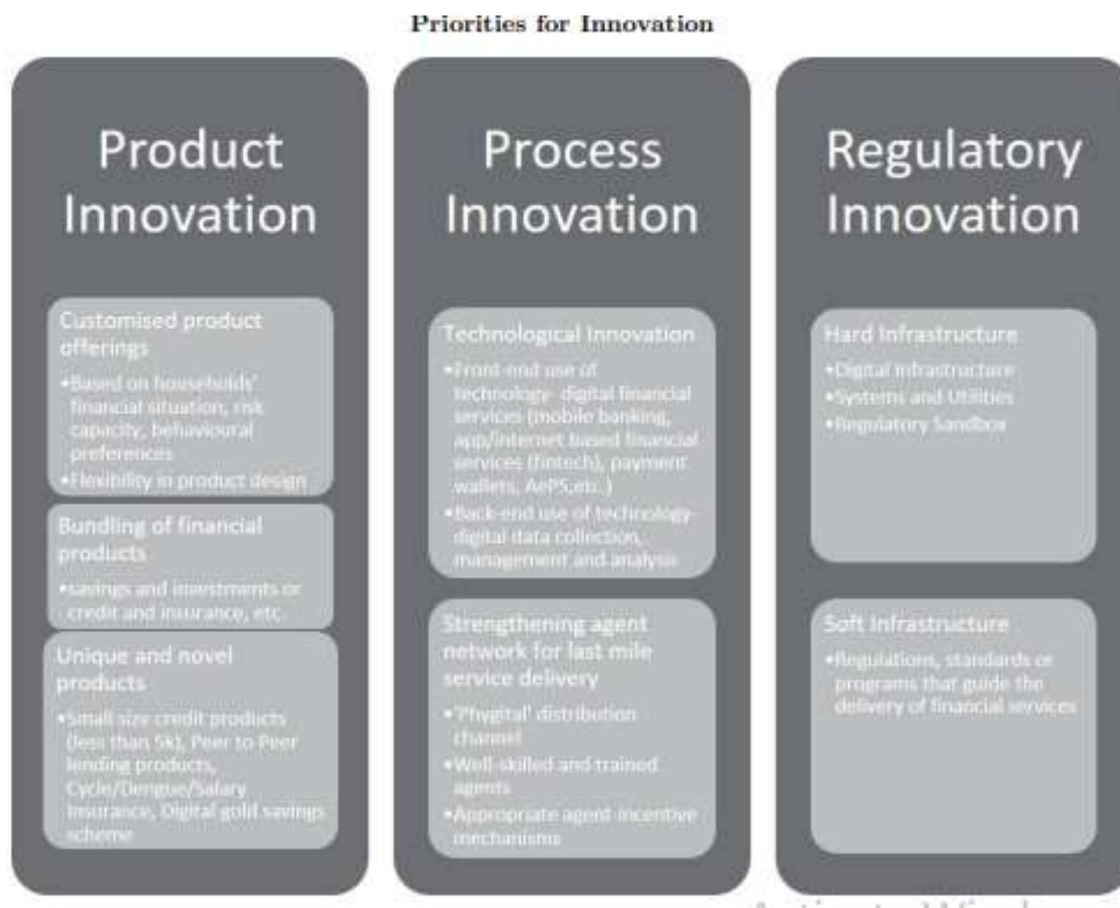

Figure 1.1 Priorities for Innovation in Financial Services for Low-Income Households

Financial literacy

Since it's been shown to have a direct impact on economic growth, poverty alleviation, financial inclusion, stock market participation, and individual financial well-being, the concept of "financial literacy" has recently risen to prominence. Modern theories in behavioural finance relax the rules of traditional finance. These theories start with the premise that traders are not entirely rational and that psychological and social factors play a role in their choices. The prospect theory, behavioural portfolio theory, behavioural asset pricing hypothesis, and the inefficient markets hypothesis are all examples of behavioural finance theories that provide a more realistic framework for academic discussion and idea development. The incorporation of these ideas brought to light several critical behavioural variables (i.e., psychological and social) that influence an individual's investing behaviour. Many studies have shown that investors' financial knowledge, level of comfort with taking on risk, and other socio-demographic characteristics all play a role in their decision-making.

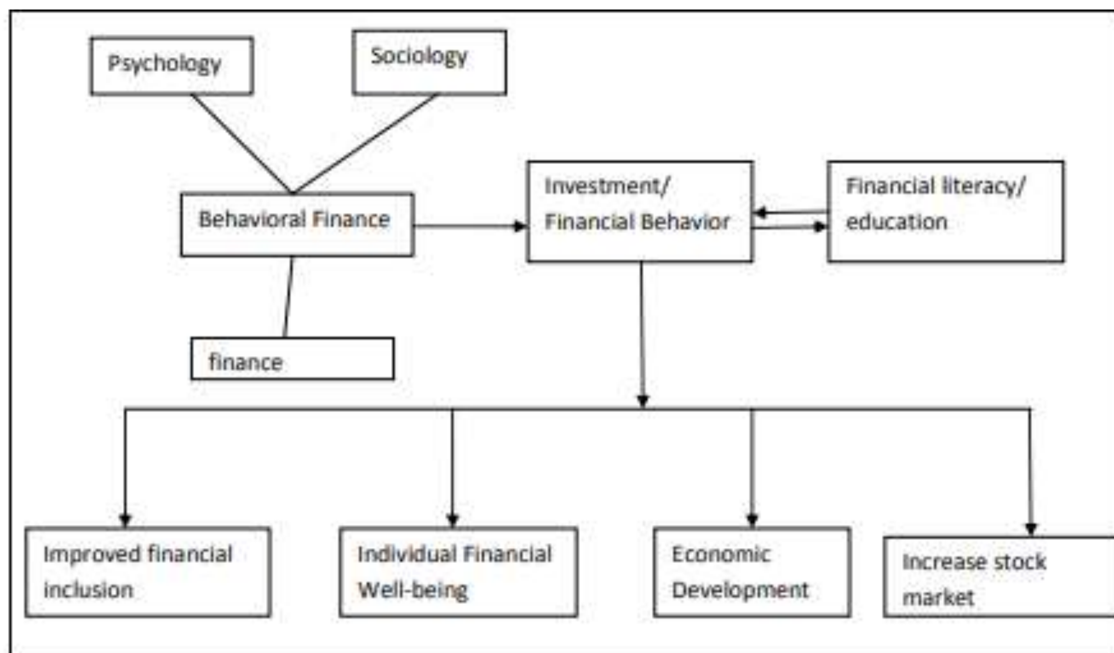

Figure 1.2 Linkage between Financial Literacy, Stock market participation, Financial Well-being and Economic Development

While the term "financial literacy" has been making headlines since the mid-1990s, the movement behind it is much newer. defines financial education as the knowledge necessary to weigh the benefits and drawbacks of various financial market products in order to make a sound decision about one's own financial future. In a narrower sense, it refers to the process of acquiring the knowledge and skills necessary to manage one's personal finances in a way that maximises one's well-being and protects against stress caused by money worries. Multiple perspectives on financial education have been explored by researchers and development organisations. Financial literacy is defined as the process by which consumers and investors of accounting gain the information, instruction, and/or unbiased advice they need to become more aware of market hazards and opportunities, make educated decisions, know where to seek help, and take other effective steps to improve their financial situation.

REFERENCES:-

1. *Addoum, J. M. (2017). Household portfolio choice and retirement. Review of Economics and Statistics, 99(5), 870–883. https://doi.org/10.1162/REST_a_00643*
2. *Agarwal, N., Ravi, H., & Sharma, M. (2021). Analysing Trends in the Financial Portfolio of Indian*

Households. Dvara Research. https://www.dvara.com/research/wp-content/uploads/2021/05/Analysing-Trends-in-the-Financial-Portfolio-of-Indian-Households.pdf19

3. *Agarwalla, S. K., Barua, S., Jacob, J., & Varma, J. R. (2012). A Survey of Financial Literacy among Students , Young Employees and the Retired in India. Indian Institute of Management Ahmedabad, June, 1–9. http://www.iimahd.ernet.in/fls/fls12/Executive_Summary.pdf*
4. *Agereng, A. N. F. (2020). HETEROGENEITY AND PERSISTENCE IN RETURNS TO WEALTH O VER TIME AND ACROSS COUNTRIES , the wealth distribution appears to be extremely right skewed : a small fraction of the population owns a large share of the economy ' s wealth . Aggarwal, M. (2019). Financial literacy and investment decisions. Finance India, 33(4), 981–1000.*
5. *Aims, M. S., & Chen, M. A. (2016). HOUSEHOLD ECONOMIC Submitted by : Education.*
6. *Ameriks, J., Zeldes, S. P., Dickson, J., Holden, S., Metrick, A., Starr-Mccluer, M., Sinai, T., & Warshawsky, M. (2004). How Do Household Portfolio Shares Vary With Age? We are grateful to. TIAA-CREF Working Paper, 112(2), 6–12. http://bear.cba.ufl.edu/karceski/fin6930/lecture notes/Ameriks_Zeldes.pdf%0Ahttp://bear.cba.ufl.edu/karceski/fin6930/lecture%0Anotes/Ameriks_Zeldes.pdf*
7. *Amromin, G. (2003). Household portfolio choices in taxable and tax-deferred accounts: Another puzzle? European Finance Review, 7(3), 547–582. https://doi.org/10.1023/b:eufi.0000022154.18119.07*
8. *Andersson, B. (2001). Portfolio allocation over the life cycle: Evidence from Swedish household data. http://qvar.nek.uu.se/Pdf/2001wp4.pdf*
9. *Arrondel, L., Bartiloro, L., Fessler, P., Lindner, P., Mathä, T. Y., Rampazzi, C., Savignac, F., Schmidt, T., Schürz, M., Vermeulen, P., Nationalbank, O., Lindner, P., France, B. De, & Schmidt, T. (2014). WO R K I N G PA P E R S E R I E S HOW DO HOUSEHOLDS ALLOCATE THEIR ASSETS ? STYLISED FACTS FROM THE EUROSYSTEM HOUSEHOLD FINANCE AND CONSUMPTION SURVEY HF.*
10. *Askar, M. W., & Quattara, B. (2020). Financial Literacy and Poverty Reduction: the Case of Indonesia. Ikonomika, 2(1), 201–212.*