FINANCIAL PLANNING BEHAVIOUR AMONG EARNING YOUTHS IN BANGALORE A COMPARATIVE STUDY OF EMPLOYEES OF FINANCIAL SECTOR AND NON-FINANCIAL SECTOR

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Abstract:

This study is an attempt to find the financial planning behaviour among earning youths in Bangalore. The main objective of the study is to find out is there any significant difference in financial planning behaviour between employees of financial sector and non-financial sector. The study tries to find the pattern of expenditure as well as the pattern of investment of employees of financial sector and non-financial sector. Primary data was collected by conducting a survey by distributing questionnaires to working young employees of financial sector and non-financial sector. It was found that the objective of investment for the majority of young employees of financial sector and non-financial sector is to conserve capital and generate income. Most of them have an investment for medium term range. Most of them are doing financial planning by themselves. In the study, it is observed that young employees of financial sector and non-financial sector are planning their financial affairs with long-term goals but they are not doing it in a comprehensive manner. It is concluded that the financial planning behavior of the employees of both sectors does not necessarily depend on their sector of employment.

Key words: *Financial planning, Financial behavior, Investments, Savings, Earnings, Young employees*

Introduction to Financial Planning:

Financial Planning is the process of meeting life goals through the proper management of finances. Financial planning is a process that a person goes through to find out where they are now (financially), determine where they want to be in the future, and what they are going to do to get there. Financial Planning provides direction and meaning to persons financial decisions. It allows understanding of how each financial decision which a person takes affects other areas of their finances. For example, buying a particular investment product might help to pay off mortgage faster or it might delay the retirement significantly. By viewing each financial decision as part of the whole, one can consider its short and long-term effects on their life goals. Person can also adapt more easily to life changes and feel more secure that their goals are on track. In simple, Financial Planning is what a person does with their money. Individuals have been practicing financial planning for centuries. Every individual who received money had to make a decision about the best way to use it. Typically, the decision was either spends it now or save it to spend later. Everyone have to make the same decision every time they receive money.

Factors to be considered while doing Financial Planning are:

- Time Horizon and Goals
- Risk Tolerance
- Liquidity Needs
- Inflation
- Need for Growth or Income

Six step process of Financial Planning:

1. Self assessment
2. Identify financial, personal goals and objectives
3. Identify financial problems or opportunities

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4. Determine recommendations and alternative solutions

5. Implement the appropriate strategies to achieve goals

6. Review and update plan periodically

Constituents of Financial Planning

A good financial plan should include the following things

- Contingency planning
- Savings and Investment planning
- Retirement Planning
- Tax Planning
- Risk Planning

Review of Literature

Crankshaw & Hugh (2006): The research entitled "Personal financial planning: strategies for successful practice management" identified principles of practice management as applied to the personal financial planning process. The purpose of this research was to establish principles that Financial Planners could use to improve service delivery to the individual. In broad terms this is known as practice management and this research attempted to develop a greater understanding of practice management and provide a basis for further research on the subject. To do this in a meaningful way the research had two structured phases. The first phase was a theoretical study that provided the basis for the design of a research instrument. The second phase was an empirical study that was done on the responses received on the research instrument to establish principles of practice management. The research successfully identified four components and twenty principles of practice management, as well as three demographic drivers of income and succeeded in meeting the research objectives.

David S Murphy (2010): The research paper title is "Personal financial planning attitudes: a preliminary study of graduate students". The purpose of this paper is to report on a survey about the personal financial planning attitudes of MBA students in the USA. The study surveyed 206 MBA students about their attitudes to personal financial planning. Participants were asked about their level of knowledge, whether they had prepared components of a financial plan, where they might seek assistance in such a process and the criteria for selecting a financial planner. In addition, participants were asked to indicate their level of confidence in a financial plan's capacity to help them to meet their long-term needs and the likelihood that they would implement such a plan.

The findings indicate that, while most respondents feel both financial planning is important and that they are interested in developing a financial plan, very few feel that they have the necessary skills and knowledge to prepare their own plan. In addition, the participants indicated a strong preference for professional personal financial planning advice. The study also indicates that less than 13 percent have prepared a comprehensive personal financial plan. When asked to identify the one professional from whom they would seek advice, certified financial planners were the preferred resource. While the results are not generalizable to the wider population, the views of this group are important because one might expect that educated individuals would be both more interested in personal financial planning and more capable of preparing their own plans compared with average Americans.

The study presents some implications for practice and financial literacy education from a US perspective. A perceived need of respondents is to feel that their financial planner will put their needs first. While some professionals believe this to be the hallmark of "independence," the respondents placed less importance on planner independence. In order to foster client confidence, planners must act in ways that convey clearly the primacy of their

clients' needs.

Ming-Ming Lal & Wei-Khong Tan (2009): This paper examines the attitudes of the Malaysians towards personal financial planning which encompasses money management, insurance planning, investment planning, retirement planning and estate planning. A survey data was obtained from 400 Malaysians by using a set of structured questionnaire. They associated personal financial planning with three measures: attitudes towards personal financial planning, factors influencing various aspects of personal financial planning and frequency of managing for various aspects of personal financial planning. The results show that the job status of a respondent is the primary factor in influencing attitudes towards personal financial planning and the frequency in managing for various aspects of personal financial planning. Demographic characters such as age, race, marital status, gender, and education level are the secondary factors which were concerned.

Manuel Tarazo (2008): This study proposes a state preference-enhanced, Linear Expenditure (LE) system as a framework for household financial planning. Individual (small) investors first identify necessary and discretionary consumption; then, they dedicate fixed income funds to cover expected necessary consumption. The remaining funds are then available for variable income investing.

Tahir, Izah Mohd1, Abu Bakar, Nor Mazlina10 (April 2010): Managerial Competency is considered a key factor in contributing to the survival and performance of earning youths in both financial and non financial organizations. It has been proven that firm performance and managerial competencies are interrelated with financial planning behavior. This study presents the findings of managerial competencies in the Malaysian financial services sector, 48 items under 16 managerial competency dimensions i.e., Leadership, Communication, Customer Concern, Team Building, Team Membership, Results, Personal Drive, Planning, Efficiency, Decision Making, Coaching and Counseling, Managing Change, Stress Management, Crisis Management, Creativity and Innovation, as well as Integrity are used.

The results of this study indicate that the core competencies for managers of financial institutions in Malaysia are Leadership, Team Building, Communication, Results, Efficiency and Coaching and Counseling. The results also indicate that the managers are reckoned to have performed at a level between fair and good with their competencies earning a score between 4 and 5 on the performance scale. Further, the results also show that no competencies are found with substantial score disparity reflecting that bank managers had little pressing need for training in any particular competency.

Statement of the problem

Financial planning is an important factor for individuals from the point of view of growth in life. How a young earner is utilizing his income, his risk tolerance capacity and attitude towards expenditure and savings will decide his behavior towards financial planning. Financial planning behaviour among the employees of financial sector and non-financial sector may differ significantly due to the level of the knowledge of individuals on the financial matters. Thus, a comparative study on financial planning among employees of financial sector and non-financial sector is an attempt to know the financial profile of the individuals and also to know whether the sector to which they belong will have a significant impact on the financial planning.

Objectives of the study

1. To study the financial planning behaviour of employees of financial sector and non financial sector.

2. To find is there any significant differences in financial planning behaviour between employees of financial sector and non-

financial sector.

3. To identify the financial risk taking ability among the respondents.
4. To identify the investment and expenditure patterns of the respondents.

Hypothesis:

Ho- Financial planning behavior is independent of the sector

H1- Financial planning behavior is dependent of the sector

Research methodology

This is an empirical study which attempts to find the financial planning behavior of employees from financial sector and non-financial sector. The study is conducted in Bangalore city.

Sampling method

Stratified sampling technique is used for selection of respondents for the study. The whole population is divided into two strata i.e. financial sector and non-financial sector to check the gap in their financial planning behavior. The data is collected from each strata independently.

Sample unit

Young individuals employed in financial and non-financial sector between the age group of 18-35 years old who are working in Bangalore is the unit of sample.

The young employees who work in credit unions, banks, insurance companies, consumer finance companies, stock brokerages and investment companies are considered under the category of financial sector employees. In non financial sector the employees who are working in business organization other than financial sector and professionals like doctors, lawyers, consultants etc are considered.

Sample size

The total sample size is 150 which include 75 employees from financial sector and 75 employees from non financial sector.

Data collection

- **Primary Data:** Primary data is collected through survey method with the help of structured questionnaire from the respondents. Survey is conducted by meeting each respondent individually at their convenient place and time.

Data collection tool

Structured questionnaire is used for the collection of primary data. The questionnaire contains questions about employee's personal information. Savings, emergency sources of funds, expenditure, retirement plan, tax planning, insurance policy, risk appetite, investment decision, tax benefits and financial planning behaviour.

Tools and techniques of data analysis

The primary data is processed, categorized and tabulated according to the requirement of the analysis. The data collected through questionnaires were presented in the form of tables and charts with percentile analysis. Based on the objectives of the study suitable hypothesis are framed. Hypothesis is tested by using Chi square test at 5% level of significance.

Limitations of the study

- Generalization of the topic cannot be made from the samples drawn since the sample size is small.
- The respondents who have responded might not have given correct information. There is chance of biased information from respondents.
- Lack of time is one of the main constraints.

1. Monthly savings

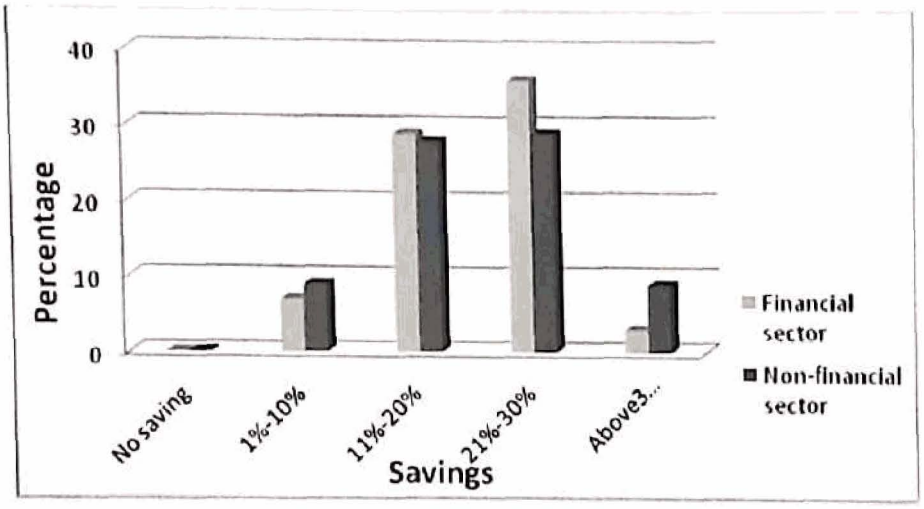
Table 1 - Classification of respondents on the basis of their monthly savings

	Financial sector		Non-financial sector	
Savings	Frequency	Percentage	Frequency	Percentage
No saving	0	0%	0	0%
1%-10%	7	9%	9	12%
11%-20%	29	39%	28	37%
21%-30% 3	6	48%	29	39%
Above30%	3	4%	9	12%
Total	75	100%	75	100%

Source: Primary data

Note: Savings are given in percentage of monthly income of the respondents.

Chart 1 - showing Classification of respondents on the basis of their monthly savings



Analysis:

The above table shows that, out of total respondents of employees of financial sector, zero percent of them do not save, 9 % them save 1%-10%, 39% of them save 11%-20%, 48% them save 21%-30% and 4% them save above 30% of their monthly salary. Whereas in non-financial sector zero percent of them do not save, 12 % of them save 1%-10%, 39% of them save 11%-20%, 37% them save 21%-30% and 13% them save above 30% of their monthly salary.

Inference:

From the above analysis, it can be inferred that, majority of young financial sector employees save between 21-30% of their monthly salary and non-financial sector employees save between 11%-20% of their monthly salary. Respondents' do not save category is nill, which shows that 100% of financial sector and non-financial sector employees save some amount of their monthly salary.

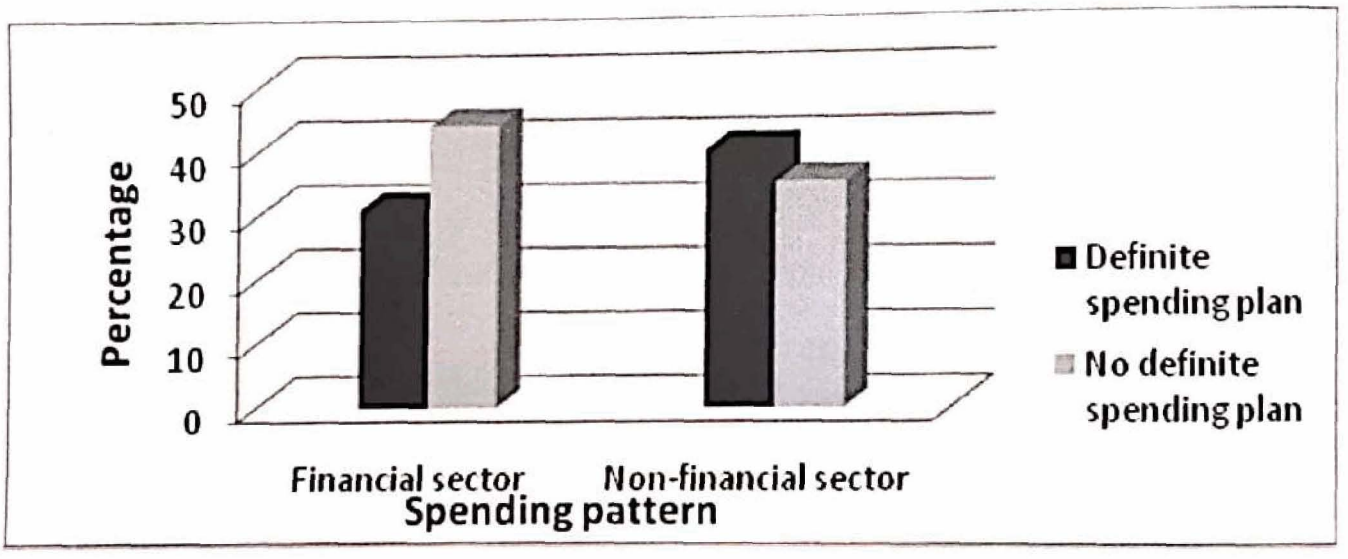
2. Pattern of regular monthly expenses

Table 2: Classification of respondents on the basis of pattern of regular monthly expenses

	Financial sector		Non-financial sector	
Spending pattern	**Frequency**	**Percentage**	**Frequency**	**Percentage**
Definite spending plan	31	42%	40	53%
No definite spending plan	44	58%	35	47%
Total	75	100%	75	100%

Source: Primary data

Chart 2: Classification of respondents on the basis of pattern of regular monthly expenses



Analysis:

The above table shows that, out of total respondents of employees of financial sector 41% of them have a definite spending pattern and 58% of them don't spend in a planned manner. Whereas compared to employees of non-financial sector 53% of them have a definite spending pattern and 47% of them do not spend in a planned manner.

Inference:

From the above analysis, it can be inferred that the majority of young financial sector employees do not spend in planned manner. In terms of percentage the majority of non-financial sector employees have a definite spending pattern, but there is no much difference between spending and non-spending pattern between two sectors.

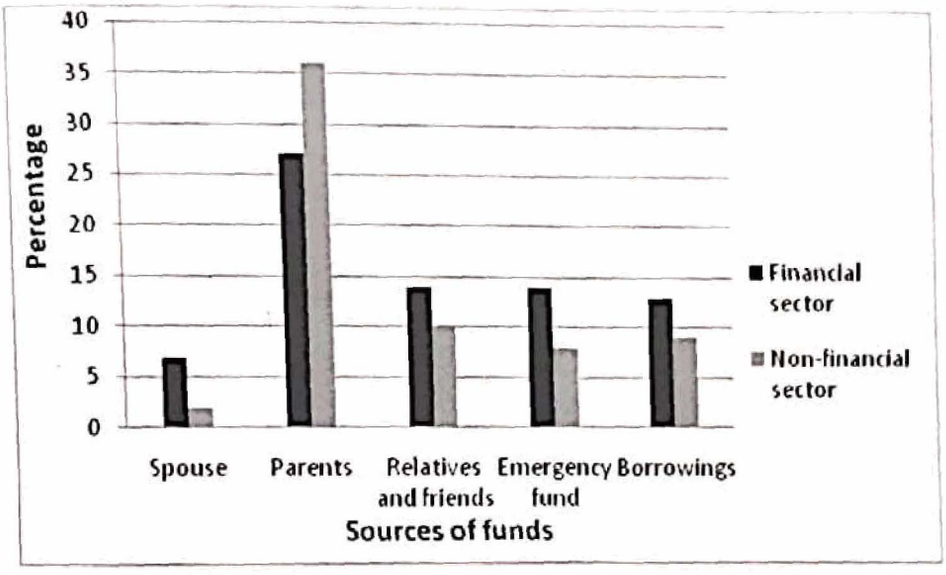
3. Major source of emergency fund

Table 3: Classification of respondents on the basis of major source of emergency fund

	Financial sector		Non-financial sector	
Emergency funds	**Frequency**	**Percentage**	**Frequency**	**Percentage**
Spouse	7	9%	2	3%
Parents	27	36%	36	48%
Relatives and friends	14	19%	10	13%
Created an emergency fund	14	19%	8	11%
Borrowings	13	17%	19	25%
Total	75	100%	75	100%

Source: Primary data

Chart 3 : Classification of respondents on the basis of major source of emergency fund.



Analysis:

The above table shows that, out of total respondents of employees of financial sector, 9% of them will depend on spouse, 36% of them depend on parents, 19% of them depend on relatives and parents, 19% of them have created an emergency fund and 17% on borrowings.

Whereas in case of employees of non-financial sector, 3% of them will depend on spouse, 48% of them depend on parents, 13% of them depend on relatives and parents, 11% of them have created an emergency fund and 25% on borrowings.

Inference:

From the above analysis, it can be inferred that the majority of young financial sector and non-financial sector employees have considered their parents as a major source emergency funds. Most of them have not created any emergency fund or they don't have a plan to face emergency requirement of money.

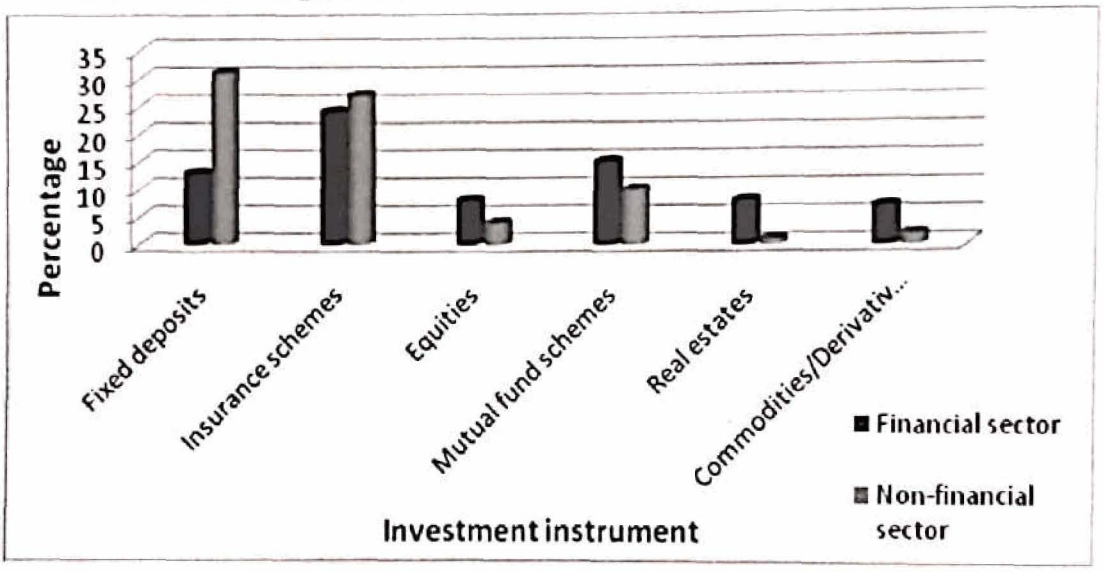
4. Investment pattern

Table 4: Classification of respondents on the basis of their investment pattern

	Financial sector		Non-financial sector	
Investment pattern	**Frequency**	**Percentage**	**Frequency**	**Percentage**
Fixed deposits	13	17%	31	41%
Insurance schemes	24	32%	27	37%
Equities	8	11%	4	5%
Mutual fund schemes	15	20%	10	13%
Real estates	8	11%	1	1%
Commodities/Derivatives	7	9%	2	3%
Total	75	100%	75	100%

Source: Primary data

Chart 4: Classification of respondents on the basis of investment their pattern



Analysis:

The above table shows that, out of total respondents of employees of financial sector, 17% of them invested in fixed deposits, 32% of them invested in insurance schemes, 11% of them invested in equities, 20% of them invested in mutual fund schemes, 11% of them invested in real estates and 9% of them invested in commodities/Derivatives.

Whereas in case of non-financial sector, 41% of them invested in fixed deposits, 37% of them invested in insurance schemes, 5% of them invested in equities, 13% of them invested in mutual fund schemes, 1% of them invested in real estates and 3% of them invested in commodities/Derivatives.

Inference:

From the above chart it can be inferred that the majority of young financial sector employees have invested in insurance schemes and non-financial sector employees have invested in fixed deposit schemes.

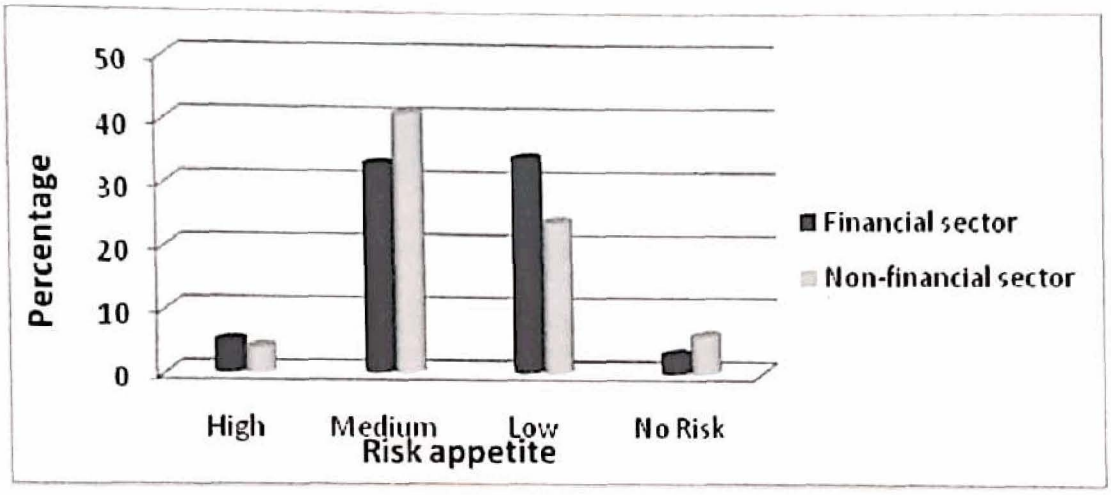
5. Level of risk appetite

Table 5: Classification of respondents on the basis of level of risk appetite

	Financial sector		Non-financial sector	
Risk appetite	Frequency	Percentage	Frequency	Percentage
High	5	7%	4	5%
Medium	33	44%	41	55%
Low	34	45%	24	32%
No Risk	3	4%	6	8%
Total	75	100%	75	100%

Source : Primary data

Chart 5: Classification of respondents on the basis of level of risk appetite



Analysis:

The above table shows that, out of total respondents of employees of financial sector, 7% of them have high risk appetite, 44% of them have medium risk appetite, 45% of them have low risk appetite and 4% of them have no risk.

Whereas in case of employees of non-financial sector, 5% of them have high risk appetite, 55% of them have medium risk appetite, 32% of them have low risk appetite and 8% of them have no risk.

Inference:

From the above analysis, it can be inferred that the majority of young financial sector employees prefer low risk investment instruments and non-financial sector employees prefer medium risk investment instruments. It clearly indicates that the young employees of both the sector are not high risk takers and going for safe investment options.

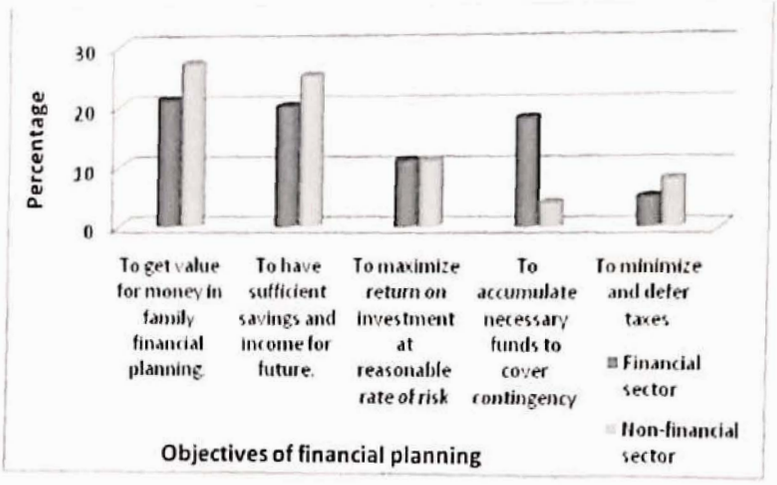
6. Objective of financial planning

Table 6: Classification of respondents on the basis of their objectives of financial planning

	Financial sector		Non-financial sector	
Objectives of financial planning	Frequency	Percentage	Frequency	Percentage
To get value for money in family financial planning	21	28%	27	36%
To have sufficient savings and income for future	20	27%	25	33%
To maximize return on investment at reasonable rate of risk	11	15%	11	15%
To accumulate necessary funds to cover contingency	18	24%	4	5%
To minimize and defer taxes	5	6%	8	11%
Total	75	100%	75	100%

Source: Primary data

Chart 6: Classification of respondents on the basis of their objective of financial planning



Analysis:

The above table shows that, out of total respondents of the employees of financial sector, the objective of financial planning, 28% of them is to get value for money in family financial planning, for 27% of them is to have sufficient savings and income for future, for 15% of them to maximize return on investment at reasonable rate of risk, for 24% of them is to accumulate necessary funds to cover contingency and 6% of them to minimize and defer taxes.

In case of employees of non-financial sector, 36% of them is to get value for money in family financial planning, for 33% of them is to have sufficient savings and income for future, for 15% of them to maximize return on investment at reasonable rate of risk, for 5% of them is to accumulate necessary funds to cover contingency and 11% of them to minimize and defer taxes.

Inference:

From the above analysis, it can be inferred that the objective of financial planning for the majority of young financial sector and non-financial sector employees is to get value for money in family financial planning and next is to have sufficient savings and income for future.

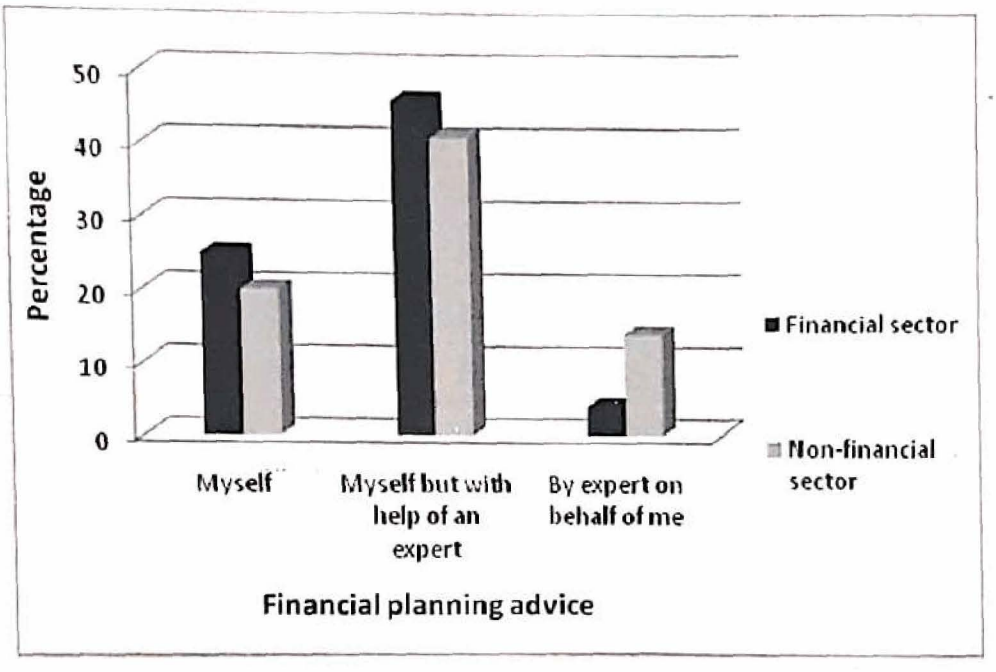
7. Financial planning

Table 7: Classification of respondents on the basis of who will do the financial planning

	Financial sector		Non-financial sector	
Financial planning	**Frequency**	**Percentage**	**Frequency**	**Percentage**
Myself	25	33%	20	27%
Myself but with help of an expert	46	62%	41	55%
By expert on behalf of me	4	5%	14	18%
Total	75	100%	75	100%

Source: Primary data

Chart 7: Classification of respondents on the basis of who will do the financial planning for respondents



Analysis:

The above table shows that, out of total respondents of employees of financial sector, 33% of them make their financial planning by themselves, 62% of them make their financial planning by themselves but with help of an expert and 5% of them said that financial planning are made on behalf of them.

Whereas in case non-financial sector, 27% of them make their financial planning by themselves, 55% of them make their financial planning by themselves but with help of an expert and 18% of them said that financial planning are made on behalf of them.

Inference:

From the above analysis, it can be inferred that the majority of young financial sector and non-financial sector employees make their financial planning by themselves but with the help of an expert.

8. Testing of Hypothesis

Hypothesis:

Ho- Financial planning behavior is independent of the sector
H1- Financial planning behavior is dependent of the sector

Contingency table

	Financial sector	Non-financial sector	Row total
Planned	47	40	87
Unplanned	28	35	63
Column total	75	75	150

Sl no	O	E	O – E	(O-E)2	$\frac{(O-E)^2}{E}$
1	47	43	4	16	0.37209302
2	28	32	-4	16	0.5
3	40	43	-3	9	0.20930233
4	35	32	3	9	0.28125
				$\sum \frac{(O-E)^2}{E}$	1.36264535

Degree of freedom = (r-1) (c-1) = (2-1)(2-1) = 1

The calculated χ^2 = 1.36264535. The table value of χ^2 at 5% level of significance and the degrees of freedom 1 = 3.841. Thus, $\chi^2_{cal} < \chi^2_{tab}$, i.e. 1.36<3.841. Since, the calculated χ^2 value is less than the Table value; Ho is accepted and H1 is rejected.

Inference:

The Testing of the hypothesis has reflected that the financial planning behavior of the employees is independent of the sector they belong. This implies that the employees have a general tendency to plan and their planning behavior is not dependent on the sector in which they work. This is mostly because of their income levels and also due to their personal spending habits.

Summary of Findings:

- Majority of the young employees of financial sector and non-financial sector are saving in the range of 21%-30% of their income. 54% of the young employees of financial sector and 45% of non-financial sector are saving some amount of their monthly salary but most of them are not following any time frame for saving. They are saving something every month.

- Most of the young employees of financial and non-financial sector have definite spending pattern. Their percentage of spending on different categories like food, rent, clothes, transportation and entertainment is reasonable. Majority of them are making their purchases by using both cash and credit card in financial and non-financial sector employees. Majority of them have an expense which is well within their income.

- Majority of them have bank fixed deposit for meeting contingencies like loss of job etc. Most of them are taking insurance policies just to save their income tax. Majority of the respondents in both the sectors have term plan insurance policy.

- Majority of the young employees of financial and non-financial sector require a pension amount which is equal to their salary at the time of retirement. Majority of the employees have a pension fund in financial sector and majority of the employees in non-financial sector has not though off for retirement corpus.

- Majority of the young employees of financial sector are doing tax planning beginning the year and majority of them took the help of an expert in non-financial sector are doing their tax planning. Majority of them are able to fully utilize the income tax benefits.

- The objective of investment for the majority of the young financial and non-financial sector employees is to conserve capital and generate income. Majority of the employees are investing in fixed deposits in both the sectors. Most of them are investing for medium term. They are taking their investment decision on yearly basis. Majority of them are going for safe investment proposition.

- The main objective of financial planning for most of the young financial and non-financial sector employees is to have sufficient savings and income for future but most of them are not getting enough time for managing their financial planning affairs. Majority of the employees of both the sector are agreed on the fact that they are satisfied along with the help of an expert for their financial planning decision.

- Most of the young employees of financial and non-financial sectors are not taking the financial planning very seriously. But somehow they are able to manage their financial planning effectively to some extent.

- Testing of the hypothesis has reflected that the financial planning behavior of the employees is independent of the sector they belong. This implies that the employees have a general tendency to save and their

planning behavior is not dependent on the sector in which they work.

Suggestions:

- Young employees of financial sector and non-financial sectors can save more and invest more; it's only possible during this stage of life, where responsibilities are less. For this they need to plan their financials systematically.
- Equity and equity related instruments can occupy a greater portion of the investment portfolio.
- Need for liquidity is less but still keeping in mind the era of pink slip, young financial sector and non-financial sectors employees should keep more money for contingencies.
- It can be suggested that young financial sector and non-financial sectors employees can follow a time frame for saving.
- Understanding the importance of savings and benefits of compound growth is important for them.
- Young financial sector and non-financial sectors employees can go for expert's advice for financial planning.

Conclusion:

The study about the financial planning behavior of the employees of the financial and non-financial sector reveals that the saving patterns are independent of the sector. However, the behavior does vary within the employees to some extent due to various other external factors, not necessarily due to their sector of employment. The study observed that the young employees of financial sector have slightly higher rates of savings than the non-financial sector. This could be due to their living habits as they are in their young age and do not have considerable liabilities.

The study also suggests that the differences in the financial planning behavior are not considerable among the employees of the two sectors as they both face the same set of external and macro-economic variables. In terms of the risk taking ability of the employees of both financial and non-financial sector, the study has found out that the risk appetite among the employees of the non-financial sector is medium and that of the financial sector ranges between medium and low.

Meeting and interviewing a sizable number of young employees belonging to financial and non-financial sectors having different set of incomes, experience in the industry and so on, it's observed that most of them do not have a systematic savings from their income and majority of them save as fixed deposit. But one good thing is that majority of respondents save some portion of their income every month and most of their expenses are well within the income. Also majority of them have created emergency fund and they have a contingency plan also.

Thus, the study concludes that the financial planning behavior of the employees of financial and non-financial sector is not dependent on the sector of their employment but is affected by various external factors which result in a slight difference in their saving and investment patterns.

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