



Financial Literacy and Financial Resilience

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ABSTRACT

Without understanding the basic concepts of finance, people do not have enough ability to make decisions about financial management. People should be financially literate and make informed financial choices about saving, investing, borrowing and other things. Overall, financial literacy is important on many levels. In the highly complex world of finance, there is an ever-increasing need for fundamental financial knowledge. Based on the statistical analysis of linear regression between resilience and financial literacy, it was determined that financial resilience is able to predict financial literacy of people; So that 64.7% of financial literacy is explained by financial resilience.

Keywords: Financial Literacy, Financial Resilience, Iranian Financial.

INTRODUCTION

Without understanding the basic concepts of finance, people are not capable enough to make decisions about financial management ([Behrman, Mitchell, Soo, & Bravo, 2012](#); [Blue & Grootenboer, 2019](#); [Lusardi & Mitchell, 2014](#)). People should be financially literate and make informed financial choices about saving, investing, borrowing and other things ([Klapper & Lusardi, 2020](#)). Overall, financial literacy is important on many levels. In the complex financial world, there is an increasing need for fundamental financial knowledge ([Ghalmegh, Yaghoobnezhad, & Fallah Shams, 2019](#)). For example, with the pressure of governments in many countries to increase access to financial services, the number of people who have bank accounts and access to credit services is increasing rapidly.

People with high financial skills do better career planning and retirement savings. In addition, people with greater understanding of financial concepts are more likely to participate in financial markets and invest in stocks ([Hastings & Mitchell, 2020](#); [Hastings, Mitchell, & Chyn, 2011](#)). Greater financial literacy can increase financial resilience and reduce risks such as excessive borrowing and indebtedness ([Hasler, Lusardi, & Oggero, 2018](#); [Kass-Hanna, Lyons, & Liu, 2022](#); [Lusardi, Hasler, & Yakoboski, 2021](#)). For example, low ability in financial calculations - an important element in financial literacy - is strongly associated with Mudarabah loans. In addition, adults with higher "debt literacy" (ie, greater understanding of debt concepts and the ability to make calculations about future debt payments) are more likely to pay their loan

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installments in full and are more likely to They do not have reasonable debts ([Lusardi & Tufano, 2015](#)).

The consequences of financial ignorance and illiteracy are irreparable. Consumers who fail to understand the concept of compound interest pay higher fees, take on more debt, and incur higher interest rates on loans. They also end up borrowing more and saving less ([Gautam, Rastogi, & Rawal, 2022](#); [Kaiser, Lusardi, Menkhoff, & Urban, 2022](#); [Lusardi, 2019](#)). Financial literacy may have a significant impact on the health and efficiency of financial systems. On the other hand, consumers with higher financial literacy may have greater ability to make investment and product decisions, which in turn may encourage financial institutions to provide new and innovative products and services. Also, financially literate consumers are expected to be more aware of risk return trade-offs. And they may have more courage to ask questions and scrutinize the financial products and institutions they do business with. In response to consumer demand, financial service providers are expected to increase their service standards and manage investment risk and contribute to greater efficiency in the financial services market ([Eslami Bidgoli & Karimkhani, 2016](#); [Faulkner, 2022](#); [Seldal & Nyhus, 2022](#)).

Financial literacy is necessary and necessary for economic prosperity and the future of the country, it is important to be able to clearly relate it to financial behavior, success and financial stability. It is important to determine which indicators are decisive on the components of financial literacy.

Several studies have shown that personal financial skills and knowledge are mainly acquired through experience, but no research to date has attempted to determine which types of financial experiences and characteristics have the greatest impact on financial literacy or Individuals have personal competence. In this regard, this research can be focused on collecting extensive details of financial experience and characteristics, which may be important influencing variables in modeling financial literacy among people in society.

In this research, it is emphasized that compound interest is the basic knowledge for saving decisions and receiving loans, and financial literacy is a basis for financial resilience and flexibility in people.

METHODOLOGY

The target society was all Iranian citizens who were evaluated. To select research samples and evaluate indicators, multi-stage stratified sampling method was used to implement the best evaluation and data processing in this regard. For this purpose, people were distributed based on gender, marital status, age, and employment status, and their financial literacy and financial resilience were evaluated. People were involved in the research with their consent, and after explaining the ethical principles, they were assured that the ethical principles of the research would be followed. The statistical sample was estimated to be 3840 people. Since there is always a possibility of error in the data collected from the sample, face-to-face and non-face-to-face interviews (via social networks) were conducted with 4000 Iranian citizens, and finally 3840 samples were analyzed.

The field method is used to collect information. In this regard, considering the conditions of the Corona epidemic, it was tried to collect the required information in an absent manner and through the Internet and the capacity of virtual networks or telephone calls.

The required information was used through a demographic questionnaire (including gender, marital status, age and employment status) and a global financial literacy questionnaire. This questionnaire consists of 5 questions with correct answers; So that if the correct answer is chosen, the score is 1, otherwise the score is zero. The ratio of savings to income has been used in this research to evaluate financial resilience. This ratio was extracted based on the research of

Belayeth Hussain et al. (2019). In this model, a person's financial resilience includes a person's ability to face a crisis based on the amount of his savings in relation to his monthly income.

Mean and standard deviation were used for data analysis in the descriptive part and Pearson's correlation coefficient and regression analysis were used in the inferential part.

RESULTS

First, the demographic distribution of people is presented, and in Table 1, information related to financial literacy and financial resilience is reported.

Table 1. Demographic information in the research sample

Variables	Frequency	Percent	
Gender	Female	1900	49.48
	Male	1940	50.52
Marital status	Single	1720	44.8
	Married	2120	55.2
Age	Under 40 years	1860	48.44
	Over 40 years old	1980	51.56
Employment status	Unemployed	1530	39.84
	Employed	2310	60.16

The statistical evaluation of financial literacy in the research sample showed that the average financial literacy was equal to 2.3; So that the minimum financial literacy was zero and the maximum score of financial literacy was 4. In the assessment of financial resilience, it was also found that the average financial resilience was equal to 4.8, and in the meantime, some samples had zero resilience and in fact no savings to face the crisis. They did not have financial problems and the highest resilience score was 7.9, which means that the highest resilience is related to people who have savings 7.9 times more than their monthly income. This information is shown in Table 2.

Table 2. Descriptive information on financial literacy and resilience in the research sample

Variables	Min.	Max.	Mean	Std. Deviation
Financial Literacy	0	4	2.3	1.24
Financial Resilience	0	9.7	4.8	3.3

The main research hypothesis was evaluated through linear regression test, and each of the sub-hypotheses was evaluated through cross-tab and chi-square tests using a consensus table. In each of the hypotheses, according to the specified models, the test was carried out, and the results of each of the hypotheses are reported below.

Main hypothesis: There is a significant relationship between financial literacy and financial resilience.

Table 3. The results of the regression model analysis of the effect of financial resilience on financial literacy

Generalities of the main hypothesis regression model			
R			0.647
F			17.609
P			0.001
Durbin Watson			1.598
Details of the main hypothesis regression model			
Variable	Coefficients	t	P
Financial Resilience	0.804	6.234	0.001

The results in the main hypothesis of the research indicated that in the model of the relationship between financial literacy and financial resilience, the effect of financial resilience on financial literacy was equal to 64.7%. In fact, financial resilience explains 64.7% of financial

literacy. This effect is significant considering that the value of F is equal to 17/609. In other words, the more resilient people are, the more financially literate they will be.

Sub-hypotheses: There is a significant relationship between gender, marital status, age and employment status with financial literacy.

To evaluate the nominal variables (Gender, Marital status, Age and Employment status) with financial literacy (ordinal variable), cross-tab and chi-square methods were performed using a consensus table, the results of which are presented in Table 4 and 5.

Table 4. Chi-square test results for the relationship between demographic characteristics and financial literacy in the research sample

Variable	Statistics	Value	p
Gender	Pearson Ch-square	21.822	0.001
	Odd Ratio	21.982	0.001
Marital status	Pearson Ch-square	23.712	0.001
	Odd Ratio	24.483	0.001
Age	Pearson Ch-square	46.917	0.001
	Odd Ratio	52.498	0.001
Employment status	Pearson Ch-square	33.192	0.001
	Odd Ratio	37.727	0.001

The results of the chi-square test showed that there is a significant relationship between gender, marital status, age and Employment status with financial literacy of the research sample at the level of 99% (p=0.001). These results indicate that predictor variables are effective on people's financial literacy and the research hypothesis is confirmed.

Table 5. The results of the cross-tab test for the relationship between demographic characteristics and financial literacy in the research sample

Variables		0	1	2	3	4
Gender	Female	840	260	570	230	0
	Male	490	310	780	250	110
Marital status	Single	620	370	380	320	30
	Married	710	200	970	160	80
Age	Under 40 years	510	130	820	290	110
	Over 40 years old	820	440	530	190	0
Employment status	Unemployed	920	210	190	200	10
	Employed	410	360	1160	280	100

Based on the distribution of financial literacy scores among people according to their gender, marital status, age and employment status, the results indicated that men, married people, people over 40 years old and employed have relatively higher financial literacy.

CONCLUSION

Financial resilience refers to a set of financial skills, which, according to the results obtained in this research, is directly related to people's financial literacy. Considering that households are important consumers of products, depositors of funds and investors in financial markets, changes in the behavior of households due to high debt burden can have a significant impact on financial markets and the economy. As with the non-financial companies' sector, high levels of borrowing increase the vulnerability of households to economic and financial market shocks and may impair their repayment capacity. Although participation in financial markets as credit users may increase the financial ability of individuals, insufficient knowledge about the combination of risk and interest can lead to market instability.

On the other hand, the complexity of new tools and types of investments has made financial literacy a valuable and important issue; So that governments are increasing the financial participation of society by increasing access to bank accounts and other financial services. Research shows that financial literacy can help create positive development results. But if people lack the knowledge to effectively use financial skills, these opportunities can instead lead to negative consequences such as high debt. This is especially true for women, singles and the unemployed who all suffer from low financial literacy and can be the target of government programs to expand financial literacy.

Financial education in the workplace can be a way to improve financial literacy among the adult population. This seems to be an inevitable necessity as on-the-job training, because people who have financial order will have a higher work concentration.

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