

## Is Seeking Financial Advice Essential? An Empirical Relationship Between Financial Literacy, Financial Anxiety, and Financial Advice Seeking

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### Abstract

The present study covers three major objectives: to measure the factors measuring financial literacy among residents of the state of Gujarat, to measure the relationship among financial anxiety (FA), financial literacy (FL), and financial advice seeking (FAS), and to construct a model for the relationship among FA, FL, and FAS. Based on a literature review of science-cited journals, a 52-statement structured questionnaire was designed and circulated among respondents with diverse ages, educational backgrounds, and income groups to strengthen diversity. Non-probability convenience sampling yielded 909 responses from 33 districts in Gujarat, India. Collected responses were factorized using exploratory factor analysis followed by Structural Equation Modelling. The analysis concludes that FA is a multidimensional construct. Additionally, FA has a weak but negative relationship with FL and a Strong positive relationship with FAS. The study reflects very weak positive relations between FL and FAS. Therefore, it can be concluded that FL does not resolve the FAS to a large extent, but FA surely compels the person to seek Financial Advice. The study is limited to the Indian context and lacks further investigation into the reasons for the relationship among FL, FA, and FAS.

**Keywords:** Empirical Study, Financial Advice Seeking, Financial Anxiety, Financial Literacy, Structural Equation Modelling

### 1. Introduction

The advancement of financial literacy has become increasingly important due to the complexity of financial products customers face and the rise in personal financial responsibility management (Hastings et al., 2013), and it is more critical than ever (Lachance, 2014). Burchell (2003) has defined financial anxiety as a psycho-social disorder under which people have an uncomfortable and unhealthy mindset regarding connecting with and efficiently administering their personal finances. The ability to read, assess, manage, and communicate about one's own financial circumstances that impact material well-being is known as personal financial literacy, according to Anthes (2004). Additionally, other advice-seeking measurement research found that such studies offer little direction, that factors influencing advice seeking are amenable to change, and that there is scope for improvement (Considine et al. 2002).

The world is changing continuously socially, fundamentally, economically, or financially. India, one of the largest economies in the world, has taken significant measures of liberalization, privatization, and globalization to maintain financial prudence, followed by demonetization and the implementation of GST. Following the International Financial Crisis (USA 2008), several studies found that a significant contributing factor was society's lack of financial literacy. The FL concept has emerged from such studies. Today's financial markets are replete with complex investment products, for which such knowledge is becoming increasingly significant globally, especially in developing countries.

### 2. Review Of Literature

Contemporary evidence shows an underlying, more fundamental issue that has sparked these worries. A lower level of financial literacy leads to more financial mistakes, lower engagement with recommended financial

products, and a lower ability to cope with unexpected economic shocks. One needs enough knowledge and an analytical toolkit to avoid making mistakes (Urmson et al., 2008). Lusardi and Mitchell (2011a, b, c) indicate that such decisions are different from simple ones; investors are required to gather, process, and analyse data on compound interest, risk diversification, and inflation.

Hogarth (2002) found that financial literacy is crucial because educated and informed consumers are better able to make decisions for their families, improve their monetary stability and financial health, support vibrant, vital communities, and promote local economic growth. Beal and Delpachitra (2003) noted that the past decade has seen a rise in the need for financial literacy due to deregulation of financial markets, the ease of obtaining credit, and fierce competition among financial institutions for market share. Gennaoili et al. (2015) identified anxiety as a significant aspect of the advisor-client interaction, implying that advisors who are successful in lowering their clients' anxiety may be able to charge more. No actual empirical data have yet supported this affirmation. By examining the frequency of financial advisor anxiety, the types of customers susceptible to it, and the expected effect on customers' readiness to seek expert financial support, they take this problem head-on.

Except for rural areas, Gujarat has 49 Financial Literacy Centres (FLCs), according to the State Level Bankers' Committee (SLBC) of Gujarat. SLBC Gujarat officials admitted that the financial literacy activity has not been conducted correctly and that, post-demonetization, with the government setting up digital infrastructure in rural areas, banks may face challenges.

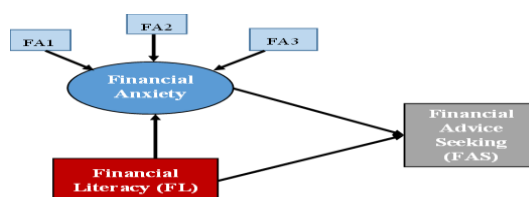
These 49 FLCs are located in all districts, with respective lead banks and Regional Rural Banks (RRBs). Of these 49 FLCs, one is in Ahmedabad, 33 are in semi-urban areas, and 15 are in urban areas, whereas no FLC has been opened in rural areas so far (Business Standard, December 2016).

There are several individual studies conducted to define and measure financial literacy (Guidolin and La Jeunesse, 2007; Jariwala and Sharma, 2016; Lusardi and Mitchell, 2007; Mbarire and Ali, 2014) as well as to study financial anxiety (Archuleta et al., 2013; Bandini, 2011; Gennaoili et al., 2015; Shapiro and Burchell, 2012). It has long been of interest to practitioners and academics to study financial advice-seeking (Grable and Joo, 2001; Iannicola and Parker, 2010). However, only a small number of studies examined the connection between financial worry and financial literacy. (Chang et al., 2005; Chatterjee and Zahirovic-Herbert, 2010; Collins, 2012; Hackethal et al., 2011) and only a limited number of studies have focused on financial anxiety and financial advice-seeking (Baker and Hagedorn, 2008; Lim & Sng, 2006; Medina et al., 1996; Roberts & Jones, 2001). Additionally, a popular study by Paul and Harshey (2017) covered all three aspects in detail and, interestingly, highlighted their relationship. However, the study lacks two essential aspects: first, the identification of the multidimensionality of the concept of financial anxiety; and second, the measurement of the structural relationships among financial literacy, financial anxiety, and financial advice-seeking.

Considering the above, the current study aims to establish relationships among Financial Literacy (FL), Financial Anxiety (FA), and to measure their impact on Financial Advice Seeking (FAS) in the Indian Context.

### 3. Research Methodology

Based on the above literature, the present paper covers three primary objectives: to measure the factors measuring FL among Gujarat state residential, to assess the relationship among financial anxiety, financial literacy, and financial advice seeking, and to construct a model for the relationship among financial anxiety, financial literacy, and financial advice seeking. A theoretical model is developed to accommodate the above objective and is presented in Fig. 1.



**Fig. 1: A theoretical model showing the relationship between Financial Advice Seeking, Financial Literacy, and Financial Anxiety**

It is determined to create a survey questionnaire with a set of criteria to establish the construct and measure it. Following Churchill's (1979) paradigm for construct development and measurement, the study conceptualized financial anxiety, financial literacy, and financial advice-seeking. Then it operationalized the construct by developing a seven-point semantic differential measurement scale (1 = Least Agree to 7 = Most Agree) to assess the factors of financial anxiety and to measure the relationships among financial literacy, financial anxiety, and financial advice seeking. The identified factors are reported in the next chapter, which covers data analysis and interpretation.

To improve the organizational and generalization characteristics of the developed scale, data were collected from all districts in Gujarat. The survey questionnaire also included questions on demographic information such as age, gender, family size, number of earning members in the family, years of earning, etc.

The measurement scale instrument (Survey Questionnaire) was designed with 52 criteria based on existing literature and in-depth discussions with six experts — two industrialists and four academicians — from the Financial Services Industry in Gujarat, India. Initially, the questionnaire was pilot-tested with 53 respondents from 12 districts, and refined based on pilot-test feedback. The significant changes were improvements in wording and the semantic meanings of some measurement items (Refer Annexure I for the original survey questionnaire and Annexure II for the modified questionnaire). It was found that the rectified questionnaire was suitable to capture the required construct. Further statistical processes were applied to it. To capture genuine responses, the final draft of the questionnaire was translated into the vernacular language (in the present study, Gujarati) and validated by two language experts. For the survey, a Google Form was used to collect responses, and social media platforms were used to circulate it. After designing the questionnaire and conducting pilot testing, the actual survey is conducted. A survey is conducted using an online questionnaire, distributed via email, Facebook Messenger, news feed pages, Instagram Messenger, and WhatsApp Messenger. The final questionnaire was distributed to all the districts of the state of Gujarat, India. A total of 909 respondents were included and coded for further analysis. To justify the sufficiency of the sample size, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was applied.

#### **4. Data Analysis And Discussion**

The study has three objectives, and the data analysis is presented in an objective-wise manner.

- To Measure the Factors Measuring Financial Anxiety Among Residents of The State of Gujarat

Using the collected 909 data, an exploratory factor analysis was conducted to identify factors of Financial Literacy. To assess the sample adequacy and suitability for an exploratory study, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity yield values of 0.927 and 0.000, respectively. There are 30 statements designed to capture Financial Anxiety. The statements are denoted as FA1 to FA30, and, for the given study, the communalities for each variable are above 0.5, except for FA17. Therefore, there is a need to extract factors from the remaining twenty-nine statements (Refer to Tables 1 and 2).

In the study, after running a Factor Analysis on 909 responses, six components (factors) emerged: Money Uneasiness, Financial Planning, Materialistic Impression, Nervous Behaviour, Complaining Nature, and Exaggerated Spending.

**Table 1: Communalities – Part I**

| <b>Statements</b>                                            | <b>Extraction</b> |
|--------------------------------------------------------------|-------------------|
| I use money to influence people to do things for me (FA 1)   | 0.621             |
| I admit I purchase things to impress others (FA 2)           | 0.723             |
| I own nice things in order to impress others (FA 3)          | 0.664             |
| I behave as if money were the ultimate success symbol (FA 4) | 0.632             |
| I sometimes boast about how much money I have (FA 5)         | 0.697             |

|                                                                                                |       |
|------------------------------------------------------------------------------------------------|-------|
| I spend money to make myself feel better (FA 6)                                                | 0.569 |
| I do financial planning for the future (FA 7)                                                  | 0.745 |
| I put money aside on a regular basis for the future (FA 8)                                     | 0.740 |
| I save now to prepare for my old age (FA 9)                                                    | 0.669 |
| I keep track of my money (FA 10)                                                               | 0.704 |
| I follow a careful financial budget (FA 11)                                                    | 0.665 |
| I argue or complain about the costs of things I buy (FA 12)                                    | 0.638 |
| It bothers me when I discover I could have bought something for less (FA 13)                   | 0.654 |
| After buying, I wonder if I could have paid less elsewhere (FA 14)                             | 0.626 |
| I automatically say I can't afford it, whether I can or not (FA 15)                            | 0.601 |
| When I buy, I complain about the price I paid (FA 16)                                          | 0.654 |
| It's hard for me to pass up a bargain (FA 17)                                                  | 0.491 |
| I am bothered when I have to pass up a sale (FA 18)                                            | 0.662 |
| I get nervous when I don't have enough money (FA 19)                                           | 0.693 |
| I show worrisome behavior when it comes to money (FA 20)                                       | 0.679 |
| I feel anxious about my financial situation (FA 21)                                            | 0.662 |
| I have difficulty sleeping because of my financial situation (FA 22)                           | 0.712 |
| I have difficulty concentrating on my school/or work because of my financial situation (FA 23) | 0.736 |
| I am irritable because of my financial situation (FA 24)                                       | 0.738 |
| I have difficulty controlling worrying about my financial situation (FA 25)                    | 0.734 |
| My muscles feel tense because of worries about my financial situation (FA 26)                  | 0.740 |
| I feel fatigued because I worry about my financial situation (FA 27)                           | 0.730 |
| I make myself aware of the total amount of money I owe (FA 28)                                 | 0.701 |
| I spend more money than I earn (FA 29)                                                         | 0.665 |
| I have difficulty paying bills because of not enough income (FA 30)                            | 0.632 |

**Table 2: Communalities – Part II**

| Statements                                                   | Extraction |
|--------------------------------------------------------------|------------|
| I use money to influence people to do things for me (FA 1)   | 0.636      |
| I admit I purchase things to impress others (FA 2)           | 0.726      |
| I own nice things in order to impress others (FA 3)          | 0.668      |
| I behave as if money were the ultimate success symbol (FA 4) | 0.632      |
| I sometimes boast about how much money I have (FA 5)         | 0.698      |
| I spend money to make myself feel better (FA 6)              | 0.577      |

|                                                                                                |       |
|------------------------------------------------------------------------------------------------|-------|
| I do financial planning for the future (FA 7)                                                  | 0.747 |
| I put money aside on a regular basis for the future (FA 8)                                     | 0.741 |
| I save now to prepare for my old age (FA 9)                                                    | 0.668 |
| I keep track of my money (FA 10)                                                               | 0.706 |
| I follow a careful financial budget (FA 11)                                                    | 0.670 |
| I argue or complain about the costs of things I buy (FA 12)                                    | 0.637 |
| It bothers me when I discover I could have bought something for less (FA 13)                   | 0.655 |
| After buying, I wonder if I could have paid less elsewhere (FA 14)                             | 0.640 |
| I automatically say I can't afford it, whether I can or not (FA 15)                            | 0.617 |
| When I buy, I complain about the price I paid (FA 16)                                          | 0.673 |
| I am bothered when I have to pass up a sale (FA 18)                                            | 0.655 |
| I get nervous when I don't have enough money (FA 19)                                           | 0.701 |
| I show worrisome behavior when it comes to money (FA 20)                                       | 0.682 |
| I feel anxious about my financial situation (FA 21)                                            | 0.663 |
| I have difficulty sleeping because of my financial situation (FA 22)                           | 0.711 |
| I have difficulty concentrating on my school/or work because of my financial situation (FA 23) | 0.736 |
| I am irritable because of my financial situation (FA 24)                                       | 0.742 |
| I have difficulty controlling worrying about my financial situation (FA 25)                    | 0.739 |
| My muscles feel tense because of worries about my financial situation (FA 26)                  | 0.74  |
| I feel fatigued because I worry about my financial situation (FA 27)                           | 0.731 |
| I make myself aware of the total amount of money I owe (FA 28)                                 | 0.694 |
| I spend more money than I earn (FA 29)                                                         | 0.675 |
| I have difficulty paying bills because of not enough income (FA 30)                            | 0.640 |

Table 3 presents the reliability coefficients and Cronbach's alpha values, which range from 0.914 to 0.630; even the lowest value indicates good reliability for the newly developed scale measuring Financial Anxiety (FA).

**Table 3: Factor Naming, Variance Explained, and Reliability Measures**

| Factor Name              | Symbol of Components | Variance Explained | Total Variance Explained | Eigen Value | Cronbach's Alpha |
|--------------------------|----------------------|--------------------|--------------------------|-------------|------------------|
| Money Uneasiness (FAF 1) | FA22                 | 0.693              | 30.994                   | 8.988       | 0.914            |
|                          | FA23                 | 0.780              |                          |             |                  |
|                          | FA24                 | 0.802              |                          |             |                  |
|                          | FA25                 | 0.789              |                          |             |                  |
|                          | FA26                 | 0.736              |                          |             |                  |

|                                        |      |       |               |              |              |
|----------------------------------------|------|-------|---------------|--------------|--------------|
|                                        | FA27 | 0.645 |               |              |              |
| Materialistic<br>Impression (FAF<br>2) | FA1  | 0.735 | <b>14.098</b> | <b>4.088</b> | <b>0.865</b> |
|                                        | FA2  | 0.814 |               |              |              |
|                                        | FA3  | 0.772 |               |              |              |
|                                        | FA4  | 0.743 |               |              |              |
|                                        | FA5  | 0.748 |               |              |              |
|                                        | FA6  | 0.564 |               |              |              |
| Financial<br>Planning (FAF<br>3)       | FA7  | 0.811 | <b>7.972</b>  | <b>2.312</b> | <b>0.877</b> |
|                                        | FA8  | 0.829 |               |              |              |
|                                        | FA9  | 0.785 |               |              |              |
|                                        | FA10 | 0.803 |               |              |              |
|                                        | FA11 | 0.724 |               |              |              |
| Nervous Behavior<br>(FAF 4)            | FA18 | 0.684 | <b>6.611</b>  | <b>1.917</b> | <b>0.833</b> |
|                                        | FA19 | 0.773 |               |              |              |
|                                        | FA20 | 0.711 |               |              |              |
|                                        | FA21 | 0.583 |               |              |              |
| Complaining<br>Nature (FAF<br>5)       | FA12 | 0.656 | <b>4.960</b>  | <b>1.439</b> | <b>0.805</b> |
|                                        | FA13 | 0.730 |               |              |              |
|                                        | FA14 | 0.758 |               |              |              |
|                                        | FA15 | 0.704 |               |              |              |
|                                        | FA16 | 0.572 |               |              |              |
| Exaggerated<br>Spending (FAF<br>6)     | FA28 | 0.664 | <b>3.643</b>  | <b>1.056</b> | <b>0.630</b> |
|                                        | FA29 | 0.615 |               |              |              |
|                                        | FA30 | 0.528 |               |              |              |

- To measure the relationship between financial anxiety and to construct a model for the relationship among financial anxiety, financial literacy, and financial advice seeking.

This section of the paper aims to measure the relationship among Financial Anxiety, Financial Literacy, and Financial Advice Seeking and to construct a model of these relationships. A step-by-step procedure is prescribed by Hair et al. (2012) and is narrated as follows.

*Stage I - Definition of Constructs:* In the present study, the researcher has defined three central concepts: Financial Literacy (FL), Financial Anxiety (FA), and Financial Advice Seeking (FAS). Additionally, Financial Anxiety is constructed through six factors defined above. To operationalize and measure each of the above constructs, an average value is used for further calculations.

*Stage II - Develop and specify the Measurement Model:* For the given study, the measurement relationship is established among FA & FL, FA & FAS, and FAS & FL. Also, the correlation is measured for each pair of constructs. Additionally, the error term is attached to each measured variable. The present measurement model

comprises 26 parameters: 6 factors of Financial Anxiety, 10 statements of Financial Literacy, and 10 statements of Financial Advice Seeking.

*Stage III - Designing a study to produce Empirical results:* This stage assessed the sample adequacy for running the model. The sample-to-parameter ratio should be at least 10 to run the model and generate results, and 15 for superior results (Hair et al., 2013). The present study analysed 26 parameters across 909 samples. The sample-to-parameter ratio is 34.96 in the present study, yielding appropriate empirical results.

*Stage IV - Assessing Measurement model validity:* Establishing appropriate measurement model goodness-of-fit levels and providing concrete evidence of construct validity are the two requirements that determine the validity of a measurement model. The capacity of a given model to replicate the observed covariance matrix among the indicator items—that is, the similarity between the observed and estimated covariance matrices—is known as goodness-of-fit (GOF). Since the initial GOF measure was developed, researchers have sought to enhance and develop new measures that more accurately reflect the model's ability to represent the data. This gives the researcher access to a variety of GOF metrics. Although each GOF measure is distinct, they can be broadly divided into three categories: parsimony fit measures, absolute measures, and incremental measures.

*Stage V - Specify Structure Model:* For the present study, based on the hypothesis, the relationship between the Z score of FL and FA, the Z score of FL and the Z score of FAS, and FA and the Z score of FAS is structured and assessed with the view to optimising the structural relationship. The model is run three times.

*Stage VI - Accessing the Structural Model Validity:* For each of the models, a discussion on three aspects to understand the model and its limitation to justify the following model was carried out; One includes model fitness indices, second incorporates modification indices (in case if the model fitness indices are not within the benchmark limits) and the third represents the value of composite reliability and its significance. There are three leading validity indices for the structural model: comparative fit indices, absolute fit indices, and parsimony fit indices. The following section of the report presents the target and threshold values for each fit index, along with the empirical value. The study aims to identify a valid model by iteratively modifying it until all values fall within the threshold range.

*Assessment of Model I:* To begin with Model I, it is clear from Table 4 that the modification index value between the Z score of Financial Anxiety Factor 1 and Factor 2 is highest and beyond the threshold limit, and therefore, a better model can be expected by removing the said relationship. The study runs assessment model II to improve the model's fit. **Table 4: Modification indices measures for model I**

| Variables       | Modification Index Value<br>(Regression based) |
|-----------------|------------------------------------------------|
| Z_FAF2 → Z_FAS  | 17.001                                         |
| Z_FL → Z_FAF6   | 12.433                                         |
| Z_FAF5 → Z_FAF6 | 12.857                                         |
| Z_FAF6 → Z_FAF5 | 9.532                                          |
| Z_FAF2 → Z_FAF5 | 75.079                                         |
| Z_FAF2 → Z_FAF4 | 7.937                                          |
| Z_FAF2 → Z_FAF3 | 9.019                                          |
| Z_FL → Z_FAF2   | 110.868                                        |
| Z_FAS → Z_FAF2  | 15.519                                         |
| Z_FAF5 → Z_FAF2 | 49.613                                         |
| Z_FAF3 → Z_FAF2 | 5.791                                          |

| Variables       | Modification Index Value<br>(Regression based) |
|-----------------|------------------------------------------------|
| Z_FAF1 → Z_FAF2 | 32.469                                         |
| Z_FL → Z_FAF1   | 40.738                                         |
| Z_FAF6 → Z_FAF1 | 6.346                                          |
| Z_FAF2 → Z_FAF1 | 117.625                                        |

*Assessment of Model II:* To continue with Model II, it is clear from Table 5 that the modification index value between the Z score of Financial Anxiety Factor 2 and the Z score of Financial Literacy is highest and beyond the threshold limit, and therefore, a better model can be expected by removing the said relationship. The study runs assessment model III to improve the model's fit.

**Table 5: Modification indices measures for model II**

| Variables       | Modification Index Value<br>(Regression based) |
|-----------------|------------------------------------------------|
| Z_FAF5 → Z_FAF6 | 15.527                                         |
| Z_FAF2 → Z_FAF6 | 9.948                                          |
| Z_FAF6 → Z_FAF5 | 12.867                                         |
| Z_FAF2 → Z_FAF5 | 33.327                                         |
| Z_FL → Z_FAF2   | 83.324                                         |
| Z_FAF5 → Z_FAF2 | 21.330                                         |
| Z_FL → Z_FAF1   | 8.179                                          |

*Assessment of Model III:* All modification indices are within control limits, indicating that no further modifications are needed to improve the model's fitness. Model III is considered the final model, and the regression weights, composite reliability, and model fitness are presented in Tables 6 and 7.

**Table 6: Estimates and Composite reliability for model III**

| Variables    | Estimate | Composite Reliability | p-value |
|--------------|----------|-----------------------|---------|
| Z_FL → FA    | -0.164   | -4.741                | 0.000   |
| FA → Z_FAS   | 0.590    | 17.597                | 0.000   |
| Z_FL → Z_FAS | 0.076    | 2.829                 | 0.005   |
| FA → Z_FAF1  | 1.000    |                       |         |
| FA → Z_FAF2  | 0.427    | 9.075                 | 0.000   |
| FA → Z_FAF3  | 0.656    | 17.110                | 0.000   |
| FA → Z_FAF4  | 0.875    | 22.121                | 0.000   |
| FA → Z_FAF5  | 0.652    | 17.619                | 0.000   |



| Variables                 | Estimate | Composite Reliability | p-value |
|---------------------------|----------|-----------------------|---------|
| FA $\rightarrow$ Z_FAF6   | 0.728    | 19.634                | 0.000   |
| Z_FL $\rightarrow$ Z_FAF2 | 0.353    | 10.299                | 0.000   |

Table 7: Model fit indices for Model II

| Indices                                         | Value   |
|-------------------------------------------------|---------|
| Chi Square                                      | 136.380 |
| Chi Square <sub>(Min)</sub> / Degree of Freedom | 8.049   |
| p-Value                                         | 0.000   |
| Comparative Fit Index (CFI)                     | 0.942   |
| Goodness of Fit Index (GFI)                     | 0.964   |
| Adjusted Goodness of Fit Index (AGFI)           | 0.925   |
| Normed Fit Index (NFI)                          | 0.935   |
| Root Mean Square Error of Approximation (RMSEA) | 0.088   |

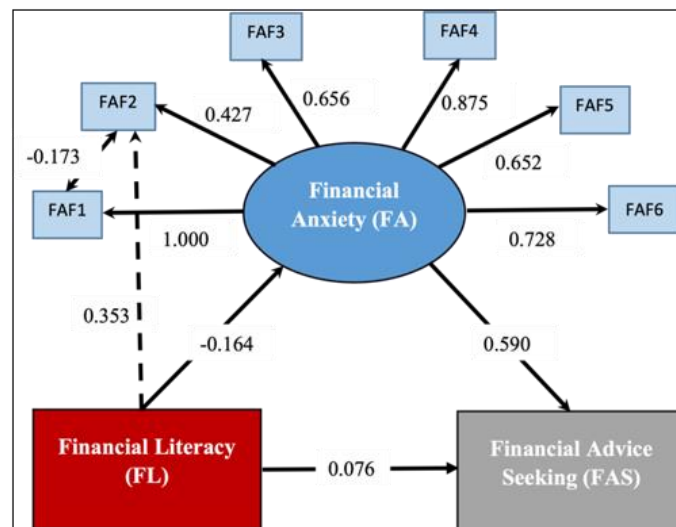


Fig. 2: Empirical model with regression weight

## 5. Conclusion

From the above, it is concluded that Financial Anxiety is a multidimensional construct comprising six dimensions: Money Uneasiness, Financial Planning, Materialistic Impression, Nervous Behaviour, Complaining Nature, and Exaggerated Spending. Additionally, Financial Anxiety has a weak but negative relationship with Financial Literacy and a Strong positive relationship with Financial Advice Seeking. The study reflects very weak positive relations between Financial Literacy and Financial Advice Seeking. Hence, it can be concluded that FL does not resolve the FLS to a large extent, but Financial Anxiety surely encourages the person to seek Financial Advice.

## 6. Limitations And Future Scope

The study is limited to the Indian context and lacks further investigation into the relationship among Financial Literacy, Financial Anxiety, and Financial Advice Seeking. Future research can extend this by identifying the

reasons for the relationship. An additional investigation can examine the impact of profession, source, and income amount on this relationship.

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