Mauritius Research Council

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MRC Unsolicited Research Grant Scheme:

Financial Literacy: Evidence from Mauritius

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EXECUTIVE SUMMARY

Purpose:
- to determine the level of financial literacy in Mauritius;
- to analyse the score of themes such as savings, borrowings, etc and finally;
- to depict any relationship between the level of financial literacy and age, gender, education, income level and region and
- to formulate policies to curb any deficiency in the financial education of Mauritians at large.

Design/methodology/approach:

A comprehensive questionnaire was designed to cover major aspects of personal finance. It includes financial literacy on general knowledge, borrowing, debit card/credit card/ATM card, insurance, investments and savings. The survey participants were asked to answer 43 questions including 36 multiple-choice questions of their knowledge on personal finance and seven questions on demographic data. Different question formats were used to gather responses in each topic, including responses to hypothetical scenarios and multiple-choice questions about financial knowledge.

The population of this study is defined as randomly selected people aged 20 and over across Mauritius. The targeted population was divided into subgroups on the basis of age, income, gender, location of residence and education level. The statistics for the subgroups were obtained from the Central Statistical Office of Mauritius. The sample size used in this study was 800.

Findings:

The results of the survey showed that, overall, Mauritians had a medium financial knowledge about the debit/credit card theme but relatively low levels of knowledge regarding savings (Mean score percentage=54.36%), borrowings (Mean score percentage=49.70%) suggesting a need to learn the basics. On the other hand, respondents were found to be financially illiterate in investment (Mean score percentage=33.56%) and insurance issues (Mean score percentage=29.76%).
Furthermore, it was found that some segments were more financially literate than others. To this end, the analysis of variance further confirmed that gender, age group, education, marital status, level of income, occupation and the respondent’s parent occupation significantly affected overall financial literacy \( [p\text{-value} < .05] \). Yet, more in-depth analysis revealed only a significant, but negative and fairly weak association (-0.10) between gender and financial literacy. Similarly, the results also revealed a significant negatively weak correlation (-0.11) between an individual’s age and his financial acumen at 1% significance level which goes against the findings of Agarwal et al (2007) who found that the sophistication of financial choices peaks at about age 53. This may be attributed to the fact that older Mauritian individuals did not have access to free education during their early years.

In addition, a rather strong positive correlation coefficient (0.45) was noted between education and the financial acumen of an individual, such that the more education a person has, the higher his financial literacy level.

**Practical implications:**

**For the individual**

While reported financial literacy deficiencies can affect an individual’s or family’s day-to-day money management and ability to save for long-term goals such as buying a home, seeking higher education, or financing retirement, ineffective money management can also lead to decisions that may make consumers vulnerable to severe financial crises. Moreover, the costly consequences of financial illiteracy make individuals worry about their finances such that their productivity in workplaces is affected. When individuals cannot manage their finances, it becomes a problem for the society.

**For the Financial sector and the economy as a whole**

From a broader perspective, market operations and competitive forces are compromised when consumers do not have the skills to manage their finances effectively. Indeed, informed participants help create a more competitive and a more efficient market. As knowledgeable consumers demand products that meet their short- and long-term financial needs, providers compete to create products which best respond to those demands. Moreover, a low level of financial literacy may adversely impact on the economic growth of the country.