EFFECT OF FINANCIAL LITERACY ON MANAGEMENT OF PERSONAL FINANCES AMONG EMPLOYEES OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

I declare that this research project is my original work and to the best of my knowledge it has not been submitted to any other College, University or Institution for academic purpose.

Signed: ________________________ **Date: __________________**

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This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

I dedicate this work to my spouse Wonder, daughter Catherine, son Christian and my parents for the sacrifices they made to enable me complete this project. Their love, care, concern, support, encouragement and enthusiasm inspired me to achieve this goal.

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I take this opportunity to thank God for good health, insight and His Mercies that endures forever.

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LIST OF ABBREVIATIONS

CBK: Central Bank of Kenya

KBA: Kenya Bankers Association

OECD: Organization for Economic Cooperation and Development

SPSS: Statistical Package for Social Sciences

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ABSTRACT

Financial literacy is growing in leaps and bounds in the western world because of the financial intricacies that have increased in the world economy. Africa is not exempted as it is part of the global village. Financial products have increased faster than the knowledge required to acquire these products. The global financial crisis witnessed in 2008/9 testifies to this fact. Fundamentally, lack of financial literacy lured entrants into the mortgages market that in the long run proved costly when interest rates fluctuated to their detriment. The change in the financial scenario put many families in jeopardy and many were declared bankrupt. This research seeks to determine whether financial literacy had any effect on personal financial management practice among employees of commercial banks in Kenya. The population of the study shall comprise all employees perceived to have training in finance matters or gained financial literacy through working experience. These employees are assumed to be financially literate by virtue of their training and nature of work. Purposive sampling was used to select the major banks in Nairobi while simple random sampling technique was used to select 100 respondents from five commercial banks in Nairobi. A self-administered questionnaire was delivered to the respondents and collected after completion. The data was analyzed using the Statistical Packages for social Sciences (SPSS ver 12). The students' t-test was used to examine the data with the objective of determining whether there is a significant relationship between financial literacy and personal financial management practices. The data is presented through tables and charts. The findings shows that most respondents participants had financial literacy acquired through training or work experience and that it affects personal financial management among the commercial banks in Kenya. The researcher also sought to establish effects of gender, age, level of education and specialization on personal financial management. The findings conclude that these factors strongly influenced the personal financial management. This could be due to the age distribution of the respondents who were mostly aged between 20-40 years who are considered youthful with relatively low family related financial engagements. The results indicate that majority of the respondents save less proportion of their salaries. This can be attributed to the high cost of living and individual's financial discipline. In conclusion, the results indicate that financial literacy has a positive influence on personal financial practices. However, despite the sound financial literacy levels of Commercial banks employees in Kenya, not all the respondents are good managers of their personal finances. As per the findings, though majority of the respondents rated their management of personal finances as excellent and good, substantial cases of poor and very poor scores in management of personal finances have been realized. Based on the research findings, the researcher recommends banks to have various financial literacy training programs to their employees so as to match the financial literacy of the employees to their propensity to save and invest. From the research findings, the government is advised to initiate subsidy programs that will lessen the cost of living and cultivate a culture of savings and investment among its citizen. The study further recommends that individuals should develop a comprehensive saving and investment plans backed by prudent expenditure habits and shrewd management of the borrowings used to finance their investments for optimum returns.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The financial systems of the 21st Century have been growing with speed, sophistication and becoming more complex world over. The economic and social environment in which people take financial decisions has also changed drastically, and this change is set to continue with the dynamic and ever changing technology (Mitchell, 2011).

The role played by governments and employers in managing investments on behalf of individuals has shrunk significantly in the recent past as a result of changes in the social support structures across the world. This has increased individuals' responsibility in managing their own finances and securing their financial freedom. In an environment where the range and the complexity of financial products continue to increase, it is imperative that individuals develop nuanced understanding of the world of finance to be able to make choices that are most appropriate to their financial goals and needs. On the other hand, the financial world has become so complex today when compared to the generation before where a simple knowledge of how to maintain a checking and savings account at local banks and financial institutions was more than enough. But now, consumers have to differentiate between a wide range of financial products and services available in the modern financial market (Greenspan, 2005).

Financial problems resulting from poor personal financial management is known to affect individual productivity at the workplace. Garman et al (1996) found that employees in the United States were stressed about their poor financial behaviours that impacted negatively on their job

productivity. Brown et al (1993) found that many employees were suffering from stress as a result of money problems. They observed that money problem behaviors included: over-indebtedness, overspending, unwise use of credit, bad spending decisions, poor money management and inadequate resources to make ends meet. As a result of these employee problems, many companies in the United States adopting financial education at work places aimed at equipping their employees with personal financial management skills (Brown et al, 1993).

1.1.1 Financial Literacy

Financial literacy is defined as ones' knowledge of facts, concepts, principles, and technological tools that are fundamental to being smart about money (Garman & Gappinger, 2008). While several widely used definitions of financial literacy exist, all of them generally imply the ability of individuals to obtain, understand and evaluate information required to make decisions to secure their financial future as best as possible. After analyzing a host of papers on the subject, Huston (2010) proposed that financial literacy must also include application of financial knowledge; the argument being that absent demonstrated ability to apply financial knowledge, an individual cannot be regarded as being financially literate.

After due consideration of different views and the feasibility of using the definition for research, the OECD definition of financial literacy was adopted for the study, which defines it as, a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing (OECD, 2011). The key competencies of financial literacy are: money basics, budgeting, saving and planning, borrowing

and debt literacy, financial products, and recourse and self-help. Money basics relates to the knowledge, skills and understanding required for the most essential day to day calculations. Examples include numeracy and money management skills. Numeracy is the skill which allows people to assess the suitability of expenses for themselves. Numeracy is the foundation of considering which financial products are cost effective. Also numeracy has been found to play an important role in influencing saving and even budgeting.

Higher numeracy has been linked with higher levels of household wealth and good financial decisions while poor numeracy has been linked with unnecessary expenses (Rooij, Lusardi and Alessie, 2007). The need for financial literacy has become increasingly significant with the deregulation of financial markets and the easier access to credit, the ready issue of credit cards, the rapid growth in marketing financial products. According to Mandell (2008), there should be more emphasis on raising up the level of financial literacy as this would help in achieving many objectives such as promoting public knowledge and understanding of the financial system as well as enhancing consumer protection and eliminating financial crime.

According to Ambre (2012) financial literacy starts at home itself where children are educated about how to handle money such as to save and spend wisely. Rezak *et al.* (2007) proposed that most managers and specialists in human resources discipline should be provided with business acumen training. This will help them in making confident and informed recommendations as financial literacy courses are usually linked with business acumen courses. According to Green (2006), training and learning programs on financial literacy improve and make communication of financial information between employers and employees much easier and effective.

1.1.2 Management of Personal Finances

Personal finance refers to as all financial decisions and activities that a person could make and undertake. This could include budgeting household incomes and expenditures, savings, investments, mortgages, insurance and all other decisions that require money. The most important factor of personal finance management is financial planning, which should involve analyzing the financial position and setting of short-term and long-term goals. In Kenya, as well as other countries' case, this might be future retirement fund, children education fund, etc.

According to Kempson (2009), money management skills are influenced by three important factors; financial control, making ends meet and approaches to financial management. Financial control relates to budgeting, keeping records and knowledge of daily living costs and the ability to meet the financial obligations as they fall due. Making ends meet refers to a person's ability to predict times when finances may be low, and to remedy that situation. This also includes assessing the ability to maintain spending and keep up with commitments. Approaches to financial management relates to impulsiveness during spending, using credit instead of cash and general spending patterns that result in using more money than is available. Budgeting and living within means involves keeping track of finances and reducing unnecessary spending while saving and planning means provision for an emergency through savings and insurance held; attitudes to financial planning; saving and planning for retirement; and saving and planning for expected expenses.

It is important to have good skills of personal finance management in order to make correct day-to-day decisions such as what to buy and what not to buy. This would help to save lots of money

in the long run, as unnecessary products would be bought not so frequently. Ability to make these decisions more responsibly would improve the wellbeing of the households. But for all this, there is a need for financial literacy, which would help understand various financial services and make financial decisions. Looking into all the approaches towards personal finance might seem complicated for an individual without financial education, as such people usually do not understand ways of managing (planning, saving, investing and borrowing) money as may be necessary from time to time (Greenspan, 2006).

1.1.3 Financial Literacy and Management of Personal Finances

Managing personal finances is a crucial and often difficult issue. Personal debt continues to rise (Bennett, 2006), bankruptcy rates are uncertain due to recent changes in bankruptcy legislation, while the personal savings rate remains in the red at negative 1.5% in June 2006 in developing nations. In The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 requires consumers who file bankruptcy to complete a personal financial management class before the bankruptcy can be discharged, suggesting that more knowledge will help avoid future financial difficulties (White, 2005).

Educators believe that financial education leads to improved financial literacy and financial security for families (Garman, 1999). There has been an increase in interest in how financial education can equip individuals with the skills needed to avoid financial problems and recover from the consequences of extreme debt such as bankruptcy. Researching the effectiveness of financial education programs can guide program development and refinement (Hilgert, Hogarth,

& Beverly, 2003) and help educators find a method for dealing with community needs related to family financial management.

Research on successful financial education methods is scarce (Financial Literacy and Education Commission, 2006), and even though some research suggests that use of sound financial practices can provide families with greater wealth accumulation, it is unclear whether there is a direct relationship between education and improved economic well-being (Braunstein & Welch, 2002). Financial literacy programs are designed with the goal of helping individuals adopt sound financial practices that promote economic health and improved quality of life. It is important to know if that goal is being met. The purpose of the study reported here was to explore one state's experience in helping adults improve their financial management practices through financial education programs.

1.1.4 Employees of Commercial Banks in Kenya

The employees help create an organizational culture. For the Banking industry in Kenya, the banking services offered in different commercial banks is more less the same which makes it difficult to compete on products basis. For the Banks to remain competitive, they need to create an organization culture where customers are always satisfied with the consistent quality services offered. For the commercial banks to offer consistent services, it is important that they recruit, train, develop and retain qualified personnel. Due to the large number of players in the banking industry, there is intense competition which has put the labour market under intense pressure as commercial banks demand for more sophisticated employee skills (Omondi, 2008).

The vision articulated by the KBA journal states, each employee in bank need to learn financial literacy concepts, enabling them to succeed in a complex global environment. The essential concepts and skill sets for financial literacy address the requirements outlined in CBK statute. They also reflect broader, universal skills that cultivate critical thinking and responsible citizenship. They provide us the framework and knowledge to be proactive. When we accept responsibility for our actions because they have consequences for other people as well as for our personal success, we will also understand what it means to solve the problems and face the collective challenges of an increasingly diverse and interconnected world(KBA, 2012).

Employees of Commercial banks become attractive for research in this area as they comprise of over 10000 employees with varied diversity. The diversity is in areas of age, education background, hierarchy in the organization and varied financial literacy levels.

1.2 Research Problem

Today, every country is struggling for economic prosperity and it is especially hard for young people who have never learnt how to budget, plan to achieve financial security or be involved financially enough (Kelly, 2002). In recent times, concern for the levels of financial literacy in society as a whole has grown considerably and is expected to grow even more in the future (Fox *et al.,* 2005).

Lusardi *et al* (2010) investigated financial literacy among the young in USA using data collected through the National Longitudinal Survey of Youth in 2007-08. The research questions they sought answers to related to preparedness of the young to make sound financial decisions, determinants of financial literacy among the young and policy initiatives needed to improve

financial literacy of the young. They found that the level of financial literacy among the young is low, an inference that is consistent with findings across the world that despite concerted efforts to improve financial literacy, it continues to be inadequate among the young. They found that the level of financial literacy was significantly influenced by socio-demographic attributes hence the family financial situation and sophistication.

Several local studies have been done on financial literacy. Doyo (2013) carried out a study on the effect of financial literacy on pension preparedness among members of the informal sector in Kenya; he found that financial literacy had a significant positive relationship on pension preparedness among the participants in the informal sector.

However, no study has been done on the relationship between financial literacy and management of personal finance among employees in banking institutions in Kenya. These employees enjoy reasonable financial literacy courtesy of the positions they hold which expose them to enormous financial knowledge obtained through; internal training and seminars, on the job training and interactions with highly financial literate customers; despite themselves having been drawn from various academic and professional backgrounds. From such a background, these employees have historically been vital in offering financial advisory services that has transformed the livelihood of their customers.

The question that this study sought to answer is whether financial literacy obtained and exhibited by the banking sector employees in serving their customers have actually positively impacted their personal financial management. This study therefore sought to bridge this gap by

undertaking a study on the effect of financial literacy on management of personal finances among the employees of commercial banks in Kenya

1.3 Research Objective

i. To establish the level of financial literacy among employees of commercial banks in Kenya
ii. To evaluate the influence of financial literacy on management of personal finances among employees commercial banks in Kenya

1.4 Value of the Study

The findings of this study will be important not only to employees of commercial banks in Kenya but also other sectors that will use the study findings to identify the critical areas of applying financial literacy in their personal financial management. The employees may formulate strategies for managing their earnings, expenditures and saving or investments and general financial wellbeing of young people while in employment.

The commercial banks employers will also find the findings of this study critical in developing strategies of cultivating a culture of prudent financial management among their employees that would lead to financial freedom hence better motivation to deliver in their roles. The findings will also be important to the researchers as it will add to the wide knowledge in finance especially on personal financial management. The researchers and academicians will evaluate the study with an aim of identifying a gap that needs further research. Both the Kenyan and foreign governments may also use the research findings to formulate policies and programs that are able to promote finance literacy that would lead to better financial management to encourage

both public and private investments. This may be done by promoting saving, debt and credit management as well as financial security such as pension plans and retirement preparedness.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will cover theoretical review, empirical review related to the research objectives, and the conceptual framework.

2. 2 Theoretical Review

2.2.1 Learning Theory

Learning theory evolved most notably with the work of Skinner who determined that once the behaviour is associated with a consequence, whether a reinforcement or punishment, the likelihood of the action continuing changes. Skinner argued that positive reinforcement and punishment are not equal; with the former providing longer lasting results and the latter having negative side effects (Skinner, 1953).

Critics of learning theory question the greater scientific basis of behaviourism over psychosocial or psychoanalysis theory and the ability to explain complex human behaviours by only considering the observable and ignoring the important roles of cognitions and emotions (Breger and McGaugh, 1965). Additionally, because behavioural experiments often take place in the laboratory, critics question learning theory's application to describing behaviour that occurs in a social reality (Bandura, 1977).

Nevertheless, learning theory advanced investigations of human behaviour by focusing attention on the observable, thus emphasizing the importance of testing behavior propositions. It acknowledges the power of prerequisite conditions and the anticipated consequences, whether positive or negative, in influencing people's actions. Thus, in contrast to theories that emphasized the power of early development, learning theory emphasizes the possibility of lifelong learning during which the stimulus for or the consequences of behaviours can be altered (Goldhaber, 2000).

2.2.2 Goal Setting Theory

More recently, expectancy theory has been integrated with goal setting theory (Hollenbeck & Klein, 1987). Goal setting theory is grounded in the belief that conscious goals and intentions drive results. Based on the goal setting theory of motivation, Locke (1986) and Locke and Latham (1990) find that individual goals are likely to determine how well they perform to related tasks. Specifically, clearly defined and more challenging goals yield higher performance than vague, easy or do-your -best goals. To be effective, goal setting theory assumes that individuals must be committed to the goal, must get feedback and must have the ability to perform the task. This means that financial literacy programs should be more effective when they are motivated by perceptions and concerns about financial well-being later in life.

Motivational theory suggests that measures of financial literacy should be related to financial behavior that is in the consumers' best interests. Hilgert, Hogarth and Beverly (2003) formed a *Financial Practices Index* based upon (self-benefiting) behavior in cash flow management, credit management, saving and investment practices. When they compared the results of this index

with scores on financial literacy quiz, they found a positive correlation between financial literacy scores and Financial Practices Index Scores. Their results suggest that financial knowledge is related to financial practices.

2.2.3 The Expectancy Theory of Motivation

Motivation has long been recognized as a key driver of individual behavior. Starting as early as Tolman (1932) and Lewin (1938), expectancy theory ties perception to behavior. Since then, extensive academic research has been focused on developing the understanding of motivation. Further work by Vroom (1964) on the force model and Samuelson (1967) on the utility model provides a theoretical grounding for explaining the motivational influences underlying human behavior as a function of expectancy, instrumentality and valence or utility.

Expectancy relates to the expectation or likelihood that specific actions or states of nature will yield a certain outcome, meaning that performance is based on effort. Instrumentality relates to the relation between performance and reward, meaning that outcome is based on performance. Valence and/or utility relates to the value of importance the individual places on the perceived outcome. Based on these theories, individuals are motivated by things that can successfully lead to valued outcomes (Mandel & Klein, 2007).

Financial literacy imparts individuals with the skills and knowledge to help them make key decisions that affect their lives. According to this theory therefore, the impact of financial literacy programs depend on the expectations individuals have on the program and the expected reward of the outcome (Mandel et al, 2007). This means that if individuals perceive financial

literacy to enhance the quality of their decisions, they would be motivated to partake of them and this improves on their long term perceived outcome (financial freedom).

This study will be anchored on the expectancy theory since the targeted respondents exhibit reasonable levels of financial literacy hence would be expected to employ their expertise in the management of their personal finances i.e. expenditure and investment planning resulting into high financial freedom. The high financial freedom would result into a more motivated workforce hence high productivity among employees of Commercial Banks in Kenya and beyond.

2.3 Determinants of Management of Personal Finances among Employees of Commercial Bank

Personal finance is the application of the principles of finance to the monetary decisions of an individual or family unit. It addresses the ways in which individuals or families obtain, budget, save, and spend monetary resources over time, taking into account various financial risks and future life events. Components of personal finance might include savings accounts, credit cards and consumer loans, retirement planning, investments and insurance policies and income tax management. Personal financial management is the process of planning spending, financing, and investing to increase the profit and to optimize the financial situation. In order to achieve the intended goals of a business unit, proper financial plan should specifies the financial goals, describes the spending, financing, investing plans(Madura, 2007).

One of the major factors that influence personal financial management is gender. Based on study by Chen(2002), about surveying financial literacy among college students, the study found that women generally have less knowledge about personal finance topics. Gender differences remain statistically significant after controlling for other factors such as participants' majors, class rank, work experience, and age. However, education and experience can have a significant impact on the financial literacy of both men and women. Women generally have less enthusiasm for, lower confidence in, and less willingness to learn about personal finance topics than men do. Females have often been found to possess less financial knowledge and interests compared to males. Females are intrinsically right brain thinkers which serve them better in nurturing roles as wives, mothers and homemakers rather than financial matters. Despite being responsive to financial education, females were found to possess a lower retirement age and income goals. Females also tend to be risk adverse in financial choices. In comparison to men, women share a larger burden of raising families, start to work later and earn less during their careers, live longer, have inadequate pension or survivors' benefits, and face more challenges in financial management. Risk adverse behaviour of women in their retirement planning will likely result in significantly lower pension wealth than men.

Age can influence personal financial planning management among people. Generally, older individuals are more conservative and risk adverse. The deeper life experiences may encourage the acquisition of skills to secure their financial aspirations in their life. Ansong and Gyensare (2012) conducted a study among 250 University students of Cape Coast reveals that the age and work experience are positively related to financial literacy. Also, mother's education is positively correlated with respondents' financial literacy. But, level of study, work location, father's

education, access to media and the source of education on money has no influence on financial literacy. Ideally, personal finance is a process of management and planning that anticipates or keeps abreast with changes. Although everyone is different, some financial concerns are common to or typical of the different stages of adult life. Analysis of life stages is part of financial planning. At the beginning of your adult life, one is more likely to have no dependents, little if any accumulated wealth, and few assets. (Assets are resources that can be used to create income, decrease expenses, or store wealth as an investment.) As a young adult one is also likely to have comparatively small income needs, especially if one is providing only for yourself. The employment income is probably your primary or sole, source of income. Having no one and almost nothing to protect, your willingness to assume risk is usually high. At this point in your life, one may focus on developing his/her career and increasing income. As career progresses, income increases and so does spending. Lifestyle expectations also increase.

Marital status and dependents, such as children, parents, or siblings, determine whether one is planning only for yourself or for others as well. If you have a spouse or dependents, you have a financial responsibility to someone else, and that includes a responsibility to include them in your financial thinking. You may expect the dependence of a family member to end at some point, as with children or elderly parents, or you may have lifelong responsibilities to and for another person. Partners and dependents affect your financial planning as you seek to provide for them, such as paying for children's education. Parents typically want to protect or improve the quality of life for their children and may choose to limit their own fulfillment to achieve that end. Providing for others increases income needs. Being responsible for others also affects your attitudes toward and tolerance of risk. Typically, both the willingness and ability to assume risk

diminishes with dependents, and a desire for more financial protection grows. People often seek protection for their income or assets even past their own lifetimes to ensure the continued well-being of partners and dependents. An example is a life insurance policy naming a spouse or dependents as beneficiaries.

The level of education is another factor that can influence personal finance management. Study by Marzieh *et al.,* (2013) revealed that education is positively related with financial literacy and financial wellbeing. Level of formal education is a controllable factor that significantly affects the income. More high education tends to get great earning in their life. Less knowledgeable investors are more prone to hold a widely diversified asset portfolio, financial knowledge has also been found to positively reinforce financial satisfaction. Financial literacy improves the exposure and understanding of the risks associated with the complexity of retirement, insurance and investment planning. Thus, higher education levels are expected to be associated with higher financial awareness among people. Financial literacy was examined among wave11 individuals who showed that the financial literacy is lower than one third of the young adult who possess the basic knowledge of interest rates, inflation and risk diversification. Financial literacy was strongly related to socio demographic characteristics and family financial sophistication. Specifically, a college educated male whose parents had stocks and retirement savings was about 45 percentage points more likely to know about risk diversification than a female with less than a high school education whose parents were not wealthy (Lusardi, Mitchell & Curto 2006).

Investments planning also can influence people in their personal financial planning. Investment planning is the part of financial planning that pertains to the allocation of investment assets.

There are a variety of different types of investments available today, which are short-term investments, long-term investments, and as many different investment strategies as there are investors. Obviously, there are differences between short-term and long-term investments. Short-term investments are designed to be made only for a little while, and hopefully show a significant yield, for examples shares, insurance, securities bought and others. Long-term investments are designed to last for years, showing a slow but steady increase so that there is a significant yield at the end of the term for example bonds, gold, long term notes, and others.

2.4 Empirical Review

The empirical results indicate that wealth has a positive effect on households' degree of financial knowledge, even after controlling for socio demographics and removing wealth endogeneity. In recent years, financial literacy has gained the attention of a wide range of major banking companies, government agencies, grass-roots consumer and community interest groups, and other organizations. Interested groups, including policymakers, are concerned that consumers lack a working knowledge of financial concepts and do not have the tools they need to make decisions most advantageous to their economic wellbeing. Such financial literacy deficiencies can affect an individual's or family's day-today 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 result in behaviours that make consumers vulnerable to severe financial crises (Crain, 1992).

A study sponsored by the State of Washington sponsored that surveyed smaller and more limited samples to assess financial literacy among its residents (Moore, 2003) concluded that people know the least about financial instruments. Specifically, most respondents did not know the inverse relationship between bonds prices and interest rates. They were also uninformed about mutual funds, as many did not know what a no-load mutual fund was, or that mutual funds do not pay a guaranteed rate of return. More than one-third did not know that stocks had returned more than bonds over the last forty years, and many did not know about risk diversification. Finally, a large fraction of these respondents did not understand interest rates, which was especially troublesome since a subset of the respondents had applied for loans.

Similar findings are reported by Agnew and Szykman (2005), who devised a financial literacy survey as part of an experiment held at a mid-size public university in the Southeast designed in the spirit of a John Hancock Financial Services Defined Contribution Plan Survey (2002). Their respondents produced similar patterns: college employees, tourists, parents of students, and local construction workers, all knew little about mutual funds and they could not explain even simple differences between stocks, bonds, and money market mutual funds. This research also confirmed conclusions from surveys conducted by the Employee Benefit Research Institute. For example, their survey in 1996 showed that only 55 percent of workers knew that US government bonds provided lower returns over the past 20 years, compared to the US stock market.

In Europe, Miles (2004) showed that United Kingdom borrowers display a weak understanding of mortgages and interest rates. The UK Financial Services Authority also concluded that younger people, those in low social classes, and those with low incomes, were the least

sophisticated financial consumers. Christelis, Jappelli, and Padula (2005) documented that respondents in several European nations scored low on financial numeracy and literacy scales. Other studies have confirmed the positive association between financial knowledge and household financial decision making. Hilgerth, Hogarth, and Beverly (2003) document a positive link between financial knowledge and financial behaviour. Stango and Zinman (2007) show that those who are not able to correctly calculate interest rates out of a stream of payments end up borrowing more and accumulating lower amounts of wealth.

Campbell (2006) has highlighted how household mortgage decisions, particularly the refinancing of fixed-rate mortgages, should be understood in the larger context of investment mistakes and their relation to consumers' financial knowledge. His findings are confirmed by Bucks and Pence (2008), who examine whether homeowners know the value of their home equity and the terms of their home mortgages. They show that many borrowers underestimate the amount by which their interest rates can change and that low-income, low-educated households are least knowledgeable about the details of their mortgages especially those with adjustable rate mortgages. Further evidence of biases is provided by Stango and Zinman (2006) who well document the systematic tendency of people to underestimate the interest rate associated with a stream of loan payments. The consequences of this bias are important: those who underestimate the annual percentage rate (APR) on a loan are more likely to borrow and less likely to save.

Locally, study done by Olima (2013) on the effects of financial literacy on personal financial management on Kenya Revenue Authority employees in Nairobi and concluded that on the aspects of financial literacy, the respondents were 'to a great extent' literate and aware that they

affect personal financial management. However, on the issue of retirement plans, estate planning and credit and other liabilities most respondents were 'to a less extent' literate and consider them less important. He concluded that that surely the participants were 'to a great extent' aware that financial literacy indeed affects personal financial management among the Kenya Revenue Authority employees.

Kinoti (2012) conducted a study on financial management literacy and application among university students in Nakuru town as a contingency against unemployment in Kenya. Furthermore, this study has examined saving literacy among university students. In addition, the study has also evaluated the investment literacy and practices among university students. Finally, the study also examined the attitude of university students towards financial management. The study concludes that despite the greater saving potentials among university students, the level of savings literacy and practice among university students was generally moderate compared to observed high levels of expenditure literacy and practice among university students. This implies that there was a mismatch between the saving and expenditure literacy and practices among university students. The study also concluded that despite the respondents' efforts to invest in various investment options, a significant proportion still lacked information knowledge on critical aspects such as the rate of returns on various investments and rate of fluctuations on various investments/assets.

Kempson et al.(2008) carried out a study on Measuring and improving financial capability to know more about current levels of financial capability in Kenya, to understand the potential approaches that could be taken to measure financial capability in a less developed nation where

the vast majority of the population does not use formal banking services and to explore levels of financial inclusion in Kenya. It relied on the ways in which financial capability has been measured in various countries, and to review evidence from Kenya and elsewhere on the most appropriate objectives of financial education and consider how financial capability education could be prioritized in Kenya to ensure the largest gains.

2.5 Summary of Literature Review

Financial literacy surveys in many developed nations show that consumers are poorly informed about financial products and practices. This is troubling, in that financial illiteracy may stunt peoples' ability to save and invest for retirement, undermining their well-being in old age. It is also concerning that these deficiencies are concentrated among particular population subgroups - those with low income and low education, minorities, and women -where being financially illiterate may render them most vulnerable to economic hardship.

No studies definitively provides an evaluation of the costs of financial education programs and, without that information, it is not possible to estimate a return on financial education programs. Moreover, as previous studies show, few employees ever attend education programs and of those who attend, many do not modify behaviour, at least in the short run. While these are drawbacks, financial education programs cannot be dismissed. Information and financial knowledge can affect many financial decisions, not simply saving for retirement. Moreover, that knowledge may be put to use over long periods of time and should be evaluated in the long run rather than just in the few months or years after a program is offered. For example, according to Bernheim, Garrett

and Maki (2001), those who were exposed to financial education programs while in high school were more likely to save later in life.

Another finding that emerges from both the literature on saving and studies on financial literacy is that there are specific segments of the population, those with low education and low income that save in very different ways than other, more educated and affluent households. It may be important to target these groups and devise programs that are better tailored to their needs and barriers to saving. There is evidence that existing targeted programs have had some success in increasing saving among the poor (Schreiner and Sherraden, 2007).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology that was followed in completing the study. Specifically the following subsections have been included: research design, target population, data collection and data analysis.

3.2 Research Design

The study was done through descriptive survey approach in order to determine the level of financial literacy among bank employees and how it influences their personal financial management. According to Ngechu (2004), descriptive studies are more formalized and typically structured with clearly stated hypotheses or investigative questions. It serves a variety of research objective such as descriptions of phenomenon or characteristics associated with a subject population, estimates of proportions of a population that have these characteristics and discovery of associations among different variables.

3.3 Target Population

Mugenda & Mugenda (2003) define a study population as consisting of the total collections of elements about which the study wants to make some inferences. The target population of this study consisted of all employees in commercial banks in Kenya. According to Kenya Bankers Association, 2013 there are approximately 12600 employees in all the 44 commercial banks in Kenya.

3.4 Sampling Technique and Sample Size

As proposed by Roscoe (1975), a sample size of 30 to 500 is appropriate for most researches. Due to the logistical challenges and budget constraints, purposive sampling was used to select Nairobi County for this research as it is closest. By the virtue of the county being the capital city of the Republic of Kenya, almost all commercial banks have their headquarters in Nairobi. Additionally, the county has high concentration of branch networks of most Commercial Banks hence highest number and easy of accessibility of the targeted respondents. Random sampling will be used to select 100 respondents from 5 of the major banks and drawn from various departments i.e. Sales, Treasury, Credit, Trade Finance and ICT.

3.5 Data Collection Procedure

The study used primary data since it provided relevant and current data in the subject of study. A questionnaire was used to collect the data. It contained both open and close ended questions. Due to the busy nature of the respondents in the targeted sample, the questionnaires were filled through drop and pick later method. The questionnaires consisted of two parts: Part one addressing profile of the respondents and the banks, and Part two focusing on personal financial management. Secondary data was collected through literature review and from other documents such as strategic plans, HR policy and other related journals.

3.5.1 Reliability of Research Instruments

Reliability of a research instrument enhances its ability to measure consistently what is intended. Reliability will be increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The researcher selected a pilot

group of 5 individuals from the target population to test the reliability of the research instruments. In order to test the reliability of the instruments, internal consistency techniques was applied using Cronbach's Alpha. Coefficient of 0.6 - 0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability (Mugenda, 2008). The pilot data will not be included in the actual study.

3.5.2 Validity of Research Instruments

Validity indicates the degree to which an instrument measures what it is supposed to measure (Kothari, 2004). The questionnaires are structured to ensure that it remains focused, accurate and consistent in the course of the study. The validity of the research instruments was established by seeking opinions of experts in the field of study especially my supervisors. In addition, the validity of the instrument was enhanced through pilot testing on 5 respondents who will not be included in the final study.

3.6 Data Analysis

At the end of the data collection process questionnaires were checked thoroughly for completeness. Only duly filled instruments by the respondents have been used. The quantitative data was analyzed through descriptive statistics which comprise of frequency tables, mean and standard deviation. Qualitative data was analyzed using content analysis techniques and coded for entering into Statistical Packages for Social Scientists.

The data was presented using tables for ease of comparison and understanding. The study also involve the use of multiple regression analysis to establish the relationship between financial

literacy and personal financial management. The following regression model was used Where:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$. Where

Y= The dependent variable representing the financial management score calculated as the index of items in personal financial management practice scale among the sample size

X_1 = Gender

X_2 = Age

X_3= Level of education

X_4= Savings plan index

X_5= Investment plan index

β_0= The regression coefficient/constant/Y-intercept, β_1, β_2, β_3, β_4 and β_5 are the slopes of the regression equation.

e = Error term

Content analysis was also done to establish the effect of overall score of employee financial literacy on employee financial wellbeing. Significance of beta values at 5% was be interpreted using the t-test of significance. In addition, the model was tested for significance using the F statistic. R^2 was interpreted for the variance it explains in the model. The result of the analysis was presented using tables in order to give a clear picture of the research findings at a glance.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results are presented on the level of financial literacy and its effects of on management of personal finances employees of Commercial Banks in Kenya.

4.2 Response Rate

Out of the hundred (100) questionnaires sent to the target population, eighty (80) usable responses were collected representing an 80% response rate implying 20% of the questionnaires were not returned at all. Despite this, the target population was fairly represented considering that key personnel who are relevant to the study were reached. The results are shown in table below.

Table 4.1 Response rate

Instrument	Frequency	Percentage
Response rate	80	80
Non response rate	20	20
Total	**100**	**100.0**

4.3 Data Reliability

Reliability test was conducted on the key dependent and independent variables; financial literacy factors and management of personal finances. As shown in table 4.2, Cronbach's Alpha values of the study variables reveal that the reliability coefficient of the study variables is 0.793 which

exceeds the minimum acceptable level of 0.60 hence the reliability of the research tool is at moderately good level.

Table 4.2: Reliability Statistics

Cronbach's Alpha	Cronbach Alpha based on Standardized Items	Number of Items
0.793	0.793	80

4.4 Descriptive Statistics

4.4.1 Name of Organization

The findings indicate that majority (50%) of the respondents are employees of Co-operative Bank of Kenya, 30% were working for Commercial Bank of Africa, 10% with Kenya Commercial Bank, 10% were for Diamond Trust Bank and 2% of the respondent worked with Investment & Mortgage Bank. The results are as shown in table 2.3

Table 4.3: Name of Organization

Organization	Frequency	Percent
Co-op	40	50
I &M	2	2
CBA	24	30
KCB	8	10
DTB	6	8
Total	**80**	**100**

4.4.2 Gender of the Respondents

From the analysis, majority (55.5%) of the respondents were male while female represented 44.5% of the respondents who participated in the study as shown in Table 4.4 below.

Table 4.4 Gender of Respondents

Gender	Frequency	Percent
Male	44	55.5
Female	36	44.4d
Total	**80**	**100**

4.4.3 Age of the Respondents

Majority (57.4%) of the respondents indicated they were between 20 to 30years of age, 35.1% were between 31 to 40 years, 5.5% between 41 to 51 years while only 1.9% of the respondents were above 50 years of age. This implies that majority of the banks' employees are young adults as shown in table 4.5

Table 4.5: Age of the Respondents

Age (yrs)	Frequency	Percent
20- 30	46	57.4
31- 40	28	35.1
41 -50	4	5.5
Above 50 yrs	2	1.85
Total	**80**	**100**

Mean	30.25
Median	25
Standard Deviation	7.1112
Minimum	25
Maximum	55
Count	**80**

The mean age of the 80 respondents is 30.25 while median is 25. Age has a standard deviation of 7.1112 with the minimum age being 25 years while maximum age is 55 years

4.4.4 . Level of Education

From the result, majority (46.2%) of the respondents had undergraduate degree, 42.5% had post graduate level of education, 9% had college level of education and 1.9% of the respondents had secondary level of education. This implies that most of the respondent were literate and this form a good foundation for financial literacy as shown in the table 4.6

Table 4.6: Level of Education

Level of Education	Frequency	Percent
Secondary	2	1.9
Tertiary college	7	9.3
University	37	46.2
Post graduate	34	42.5
Total	**80**	**100**

4.4.5 Area of Specialization

Most (75.9%) of the respondents had training of financial nature while 24.1% had training from non-financial disciplines. This implies that majority of the respondents have sound financial training hence better financial literacy. This is illustrated in table 4.7

Table 4.7 Area of Specialization

Area of specialization	Frequency	Percent
Financial	61	75.9
Non-financial	19	24.1
Total	**80**	**100**

4.4.6 Non-financial Training

The findings reveal that of those with non-financial training, majority (36.8%) were trained in Information and Communication Technology (ICT), 26.3% of the respondents were trained in educational related studies, 21.05% were trained in public relations while 15.8% had legal related training.

Table 4.8: Non-financial training

Area of specialization	Frequency	Percent
Education	5	26.3
Legal	3	15.8
Public relations	4	21.1
ICT	7	36.8
Total	**80**	**100**

4.4.7 Number of Years Worked

From the findings, majority (33.3%) have been with their respective employers for between 6 to 10 yrs, 31.5% had between 1 to 5 yrs, 18.5% had between 11 to 15 yrs, 5.6% had worked for above 20 yrs and 3.7% had below 1 yr . This implies that most of the respondents who participated in the study have been with their employers for a relatively long time(7.825 mean score) hence are experienced in their respective areas. Such experience is an indication of their

elaborate understanding of their roles hence is better placed to offer valuable advisory services to their clients.

Table 4.9 Work Experience

Work Experience	frequency	Percent
Below 1 yr	6	7.4
1 to 5 yrs	25	31.5
6 to 10 yrs	27	33.3
11 to 15 yrs	15	18.5
16 to 20 yrs	3	3.7
Above 20 yrs	4	5.6
Total	**80**	**100**

Mean	7.8
Median	8
Standard Deviation	5.2381
Minimum	1
Maximum	20
Count	**80**

On average, the employees have worked for a period of 7.8 years with a median of 8 years, standard deviation of 5.2381 with the minimum years of experience being 1 year while maximum is at 20 years.

4.4.8 Department of Work

Majority (37.03%) were in other departments, 29.6% of the respondents in sales department, 18.5% in credit department, 13% in treasury while 1.9% of the respondents were in Information and Communication Technology department. The result as shown in the table 4.10

Table 4.10: Department of Work

Department	Frequency	Percent
Sales	24	29.6
Credit	15	18.5
Treasury	10	13
ICT	2	1.9
Others	30	37.03
Total	**80**	**100**

4.4.9 Level in the Organization's Hierarchy

Majority (49.1%) of the respondents who were involved in the study were in middle level management, 28.3% were in supervisory and 15.1% clerical officers while only 7.5% are senior managers.

Table 4.11: Level in the Organization's Hierarchy

	Frequency	**Percent**
Senior management	6	7.5
Middle management	39	49.1
Supervisory	23	28.3
Clerical	12	15.1
Total	**80**	**100**

4.4.10 Monthly Salary of the Respondents

From the results, majority (30.8%) of the respondents reported a monthly salary of between Kenya shillings 100 and 150 thousands, 26.9% reported between 50 and 100 thousands, 15.4% reported a salary of 250 to 300 thousands, 11.5% reported between 200 to 250 thousands while 7.7% reported 150 to 200 thousands and above 300 thousands respectively. The findings are shown in the table 4.12

Table 4.12: Monthly Salary of the Respondents

Salary	Frequency	Percent
50000- 100000	22	26.9
100001 – 150000	25	30.8
150001 – 200000	6	7.7
200001 – 250000	9	11.5
250001 – 300000	12	15.4
Above 300000	6	7.7
Total	**80**	**100**

Mean	163750
Standard Error	9327.676
Median	125000
Standard Deviation	83429.27
Minimum	75000
Maximum	325000
Count	**80**

From the table below, the mean salary is Kes 163,750 with a standard error of 9327, median is e Kes 125,000 while standard deviation is Kes 83,429.27 with minimum salary of Kes 75,000

4.5 Management of Personal Finances

4.5.1 Savings Plan

Majority (77.8%) of the respondents said they had a saving plan that could sustain their recurrent expenditures in case of loss of employment while 22.2% reported lack of such a plan. This is illustrated in the figure 4.1

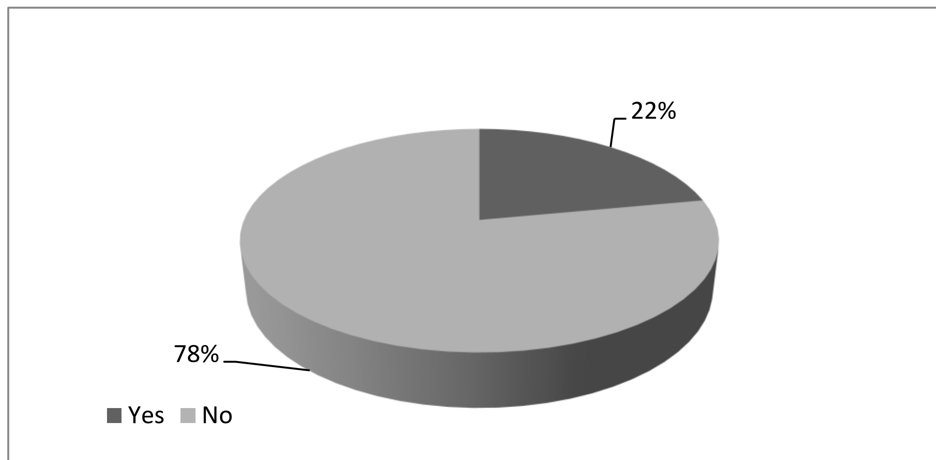

Figure 4.1: Saving plan

4.5.2 Proportion of Saving

Majority (44.4%) of the respondents reported that they save below 10% of their salary every month, 42.6% of the respondents reported saving between 11 to 20 percent of their salary every month, 7.4% save between 21 to 30 percent and 5.6% save between 31 to 40 percent of their salaries every months. There was no one who save above 40 percent of the salary. This indicates that majority save a small proportion of their salaries as represented by the mean score of 12.25. This is illustrated in the table 4.13

Table 4.13: Proportion of Saving

Proportion of saving	Frequency	Percent
0 to 10	36	44.4
11 to 20	34	42.6
21 to 30	6	7.4
31 to 40	4	5.6
Above 40	0	0
Total	80	100

Mean	12.25
Standard Error	0.9066
Median	15
Standard Deviation	8.1092
Minimum	5
Maximum	35
Count	**80**

On average, employees in commercial banks save 12.25% of their salaries with a median of 15% at 8.1092 standard deviation. Maximum proportion is at 35% while minimum proportion of savings is 5%.

4.5.3 Investment Plan

On the availability of personal investment plan, majority (70.4%) of the respondents agreed that they have a plan other than the mandatory employer pension scheme, 29.6% of the respondents reported having no investment plan hence fully reliant on the employer's pension proposition. This is illustrated in the figure 4.2

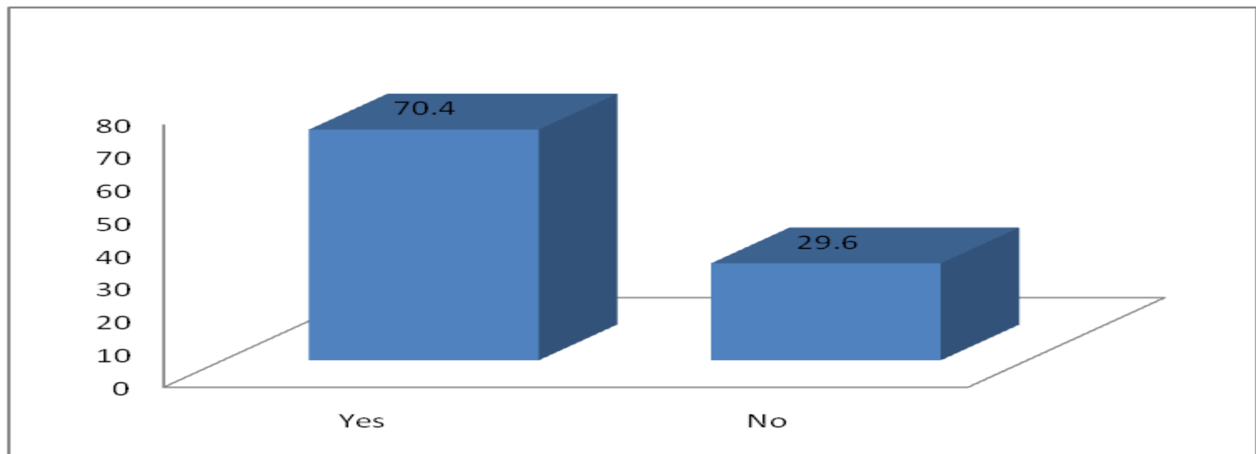

Figure 4.2: Investment plan

4. 5.4 Level of Investment

Most of the respondents (48.1%) cited a moderate extent of investment, 25.9% of the respondents cited high extent of investment, 20.4% of the respondents reported a low extent of investment and 5.6% of the respondents reported very high extent of investment.

Table 4.14: **Level of investment**

Level of investment	Frequency	Percent
Very high extent	4	5.6
high extent	21	25.9
Moderate extent	39	48.1
Low extent	16	20.4
Total	**80**	**100**

4.5.5 Level of Satisfaction

Of the respondents, 42.6% were not satisfied with their level of investment, 33.3% were fairly satisfied, 22.2% were satisfied and 1.9% were very satisfied. This are indicated in the table 4.15

Table 4.15: Level of satisfaction

Satisfaction with level of investment	Frequency	Percent
Very satisfied	2	1.9
Satisfied	18	22.2
Fairly satisfied	27	33.3
Not satisfied	34	42.6
Total	**80**	**100**

4.5.6 Personal Investment

On statement on personal investment plan, majority (45%) of the respondents stated that their investment were financed by loans, 39% of the respondents said high cost of living influenced their investment decision when still in employment, 34% of the respondents said ICT has greatly influenced their investment plans. As illustrated in the table 4. 16 below

Table 4.16: Personal investment

	Percent	Mean	Std. deviation
ICT has greatly influenced my investment plans	34	3.450	1.04
My investment is financed by loans	45	4.501	0.12
High cost of living made me think of investment when still in employment	39	4.222	0.45

4.5.7 Propensity to Invest

Most (58%) of the respondents were of the opinion that they are members of Saccos that offer the sufficient investment plan. 36% of the respondents said that they always look to invest, 40% of the respondents were not sure whether their employer has an internal investment plan for staff, likewise 30% disagreed that they invest out of each income one receive.

Table 4.17: Propensity to Invest

	Percent	Mean	Std deviation
I invest out of each income I receive	30	2.10	0.09
I am the kind of person who always looks to invest	36	3.14	0.15
I am a member of a Sacco that provides adequate investment plan.	58	4.10	1.16
The bank has an internal Investment plan for staff	40	2.95	1.2

4. 5.8 Personal Financial Management Rating

The findings indicated that majority (38.9%) of the respondents rated their management of personal finances as good, 35.2% were rated as excellent, 9.3% rated themselves as fair and poor respectively, 7.4% of the respondents rated themselves as very poor.

Table 4.18: Personal financial management

Rating	Frequency	Percent
Excellent	28	35.2
Good	31	38.9
Fair	7	9.3
Poor	7	9.3
Very poor	6	7.4
Total	**80**	**100**

4.6. Inferential Statistics

4.6.1 Correlation Analysis of variables

The study used inferential statistics in trying to reach conclusions that extend beyond the immediate data alone. Inferential statistics was used to infer from the sample data what the population might think or to make judgments of the probability that an observed difference between groups is a dependable one or one that might have happened by chance in this study. Correlation analysis was used to find the relationship between two or more sets of variables. It also tells the direction as well as how much relationship exist between these variables. In this study we used Pearson's coefficient of correlation which is one of the most popular methods to measure the relationship between variables. The value of the correlation lies between "-1" to "+1". The positive value of correlation shows relationship; only the direction that differ.

Table 4.19: Correlation of Variables

Variable Title	Personal finance management	Gender	Age	Education	Saving plan	Investment plan
Personal finance management	1.00					
Gender	0.500	1.00				
Age	0.717	0.67	1.00			
Education	0.770 *	0.78	0.425	1.00		
Saving plan	0.614	0.69	0.32	.113	1.00	
Investment plan	0.56	0.78	0.85	0.78	0.58	1.00

**. Correlation is significant at the 0.05 level (2-tailed); Source (Field data, 2014)*

From table 4.17 gives the relationship between different sets of variables. The first variable gender in relation to the personal financial management and has the correlation coefficient of "-0.50" which shows a moderate relationship between the two variables. Similarly, age and amount of personal financial management has a strong positive correlation of 0.717 was observed which explains that the older a person, the better his/her personal financial management. Education levels also have a strong relationship with the personal financial management with the value of 0.770. Likewise saving plan and investment plan had a significant relationship with personal financial management.

Further, a multiple regression analysis was conducted to test the effect of financial literacy on management of personal finance among commercial banks employees. The researcher used Microsoft excel (2010) to enter and compute the multiple regression data.

4.6.2 Regression Model Summary

Table 4.20 Regression Model

Regression Statistics	
Multiple R	0.729341
R Square	0.531944
Adjusted R Square	0.425566
Standard Error	0.927711
Observations	80

Multiple R is the correlation coefficient which shows the relationship between the study variables. The findings show that there was a fairly strong positive relationship between the study variables as shown by multiple R at 0.729. R square (R^2) is a coefficient of determination

or explanatory power which indicates that 53.19% of overall personal finance management is explained by gender, age, level of education, specialization, salary, personal saving plan, proportion of saving and personal investment plan hence the model represents a good fit and therefore cannot be ignored. However, 46.81% is unexplained by these factors thus.

Table 4.21 Analysis of Variance

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	12	43.00046	3.703243	5.00059	0.0078310173
Residual	68	37.8359	1.149829		
Total	80	80.8363			

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.00783 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance is less than 5%. The calculated statistical F is greater than the critical value (1.964 <5.001) an indication that gender, age, level of education, specialization, salary, personal saving plan, proportion of saving and personal investment plan were significantly influencing overall personal finance management among bank employees. The significance value was less than 0.05, an indication that the model was statistically significant.

Table 4.22: Financial Literacy and Management of Personal Finance

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.46377	0.536615	4.59131	3.4E-05	1.38362	3.543917	1.38362	3.54392
Gender	-0.19286	0.342868	-0.5625	0.57652	-0.883	0.497301	-0.883	0.4973
Age	0.12141	0.281652	0.43108	0.66843	-0.4455	0.68835	-0.4455	0.68835
Educ.	0.2469	0.226255	1.09124	0.28085	-0.2085	0.702328	-0.2085	0.70233
Saving Plan	0.29252	0.128266	-2.2805	0.02726	-0.5507	-0.03433	-0.5507	-0.0343
Personal investment plan	0.66136	0.341499	-1.9366	0.05895	-1.3488	0.026039	-1.3488	0.02604

From the data in the above table the established regression equation is;

$Y_0 = 0.4637\text{-}0.1929X_1+0.1214X_2+ 0.2469\ X_3+ 0.2925X_4 + 0.6614X_{5\ +}\ e$

According to the regression equation established, taking all factors constant personal financial management will be 0.4637. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in the gender will lead to a 0.1929 decrease in personal financial management among commercial banks employees; a unit increase in age will lead to a 0.1214 increase in personal financial management; a unit increase in education level and specialization will lead to a 0.2469, a unit increase in savings will lead to a 0.2925 increase in personal financial management while a unit increase in investment will lead to a 0.6614 increase in personal financial management.

From the resulting regression equation; gender had a negative influence on financial management. Age, level of education, savings and investment plans all has a positive impact on management of personal finances among commercial banks employees.

4.7 Discussion of Research Findings

The findings showed less disparity on gender of the respondents as there was almost equal number of male as female hence deducing that there exists gender balance in the workforce employed by the commercial banks in Kenya. This is important in finding the effect of financial literacy on personal financial management as each gender may portray different characteristics on personal financial management. Therefore a well-balanced representation was important for objectiveness of the study.

Majority of the respondents were young with age range between 20-40 years. This is the age bracket considered youthful in Kenya and is the most active age of one's career. In addition, it is age range when majority form families hence might not be having a lot of financial obligation associated with families. The effects of the age distribution of the respondent can be seen on the responses to certain aspects of financial aspects like the investment and saving planning which showed that the respondents had to 'a low extent' level of investment.

The findings show that majority of respondents have high level education training as illustrated by the number of university and post graduate degrees reported and this was complemented by the biasness in financial training among a number of the respondents, this can be interpreted that the respondents were able to execute the roles assigned to them effectively and efficiently and make prudent financial decisions. This is important for this study as the respondents' level of education eliminates the bias of uneducated respondents. The findings are in agreement with Hogarth and Hilgert (2002) and Hilgert, Hogarth and Beverly (2003) found that consumers who are financially knowledgeable are more likely to behave in financially responsible ways. They

argued that the more knowledgeable one is the better his financial behavior. According to Eagly and Chaiken, knowledge moderates the correspondence between attitudes and behaviour. This means that knowledge affects the direction and strength of the relationship between attitudes and behaviours (Baron & Kenny, 1986)

The study show that respondents had high level of work experience as majority had over six years of work experience in their department, majority were either in sales or credit departments. These two departments are majorly involved with direct contact with the business customers and this can be deduced to mean that respondents were involved in advising the customers on financial matters hence sound financial literacy.

On the aspect of saving `planning, the study findings indicate that most respondents indicated having a saving plan that would meet their recurrent expenditures for two months in case of unexpected job loss. The research findings also indicated that most participants had ‘to a less extent’ developed a personal saving plan as reported by less than 10 percent of their monthly salaries. This would be attributed to high cost of leaving and to an extent an individual’s propensity to save.

On the aspects of investment plan, majority of the respondents agreed having a personal investment plan other than the mandatory employer pension scheme. The research findings indicate that most participants were ‘to a relatively less extent’ on financial management practices relating to personal investment planning as reported by ‘low and moderate extent’

responses. Generally, majority of the participants were not satisfied with their level of investment considering their high level of financial literacy.

The correlation results indicates that demographic characteristics has a significant relationship with personal financial management, that age, gender, education levels and work experience is also positively correlated with saving planning and investment plans and consequently the overall personal financial literacy index. The regression model summary shows a goodness of fit as indicated by the coefficient of determination (R^2) with a value of 0.5319. This implies that the independent variables age, gender, education and financial literacy index explain 53.19 percent of the variations of the personal financial management.

This findings correlate with Kinoti (2012) who conducted a study on financial management literacy and application among university students in Nakuru town as a contingency against unemployment in Kenya. The study concludes that despite the greater saving potentials among university students, the level of savings literacy and practice among university students was generally moderate compared to observed high levels of expenditure literacy and practice among university students. This implies that there was a mismatch between the saving and expenditure literacy and practices among university students.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary and conclusion of the study and offers recommendations to not only to employees of commercial banks in Kenya and their employers but also to other stakeholders e.g. the government.

5.2 Summary of the Findings

The objectives of the study were to establish the level of financial literacy and determine the effect of financial literacy on personal financial management among commercial banks in Kenya. Descriptive research design was adopted for this study. The target population of this study consisted of all employees in commercial banks head office in Nairobi. Random sampling was used to select 100 respondents from 5 banks; the respondents were drawn from various departments. The study used primary data collected from semi-structured questionnaires. Analysis was done based on descriptive statistics. Multiple regression analysis was conducted to establish the relationship between financial literacy and personal financial management using the variables.

From the study findings, on demographic characteristics of the respondents there were slightly more male respondents than were female respondents. Majority of the respondents were aged between 20 and 40years. On the level of education, majority of the respondents had university

and post graduate level of education with biasness in financial education. Most respondents had below ten years of work experience in the banking sector

On the level of financial literacy and its effects on personal financial management the findings revealed that most participants were financially literate either from their university training on finance related discipline or working experience in the banking industry.

5.3 Conclusion

One of the objectives of the study was to determine the financial literacy of the respondents. The findings shows that most participants had financial literacy acquired through training or work experience and that it affects personal financial management among employees of commercial banks in Kenya.

The researcher also sought to establish effects of gender, age, level of education, savings and investment plan index on personal financial management. The findings conclude that these factors strongly influenced the personal financial management. This could be due to the age distribution of the respondents who were mostly aged between 20 and 40 years who are still considered as youthful hence are yet to settle in life hence have relatively low or no family commitments. The study findings further sought to establish whether saving and investment plans affects personal financial management. The results conclude that majority of the respondents save less proportion of their salaries. This can be attributed to the high cost of living hence their investments are financed through loans. This affects the actual money management

due to the prevailing economic environment hence an impact to savings and financial stability or independence.

On overall personal financial management, findings indicated that while majority (74.1%) of the respondents rated their management of personal finances as excellent/good, 25.9% were rated as fair/poor/very poor. This is attributed to hard economic times and poor financial discipline among these banker's regardless of their perceived sound financial literacy. This is a relatively high proportion hence needs an attention since poor financial management adversely affects wellbeing and by extension productivity at work place.

5.4 Recommendations to Policy & Practice

Based on the research findings, the research recommend banks and possibly other players in the financial sector to have various financial literacy training programs for their employees aimed at closing any knowledge gaps. The training should be complemented by promotion of a savings and investment culture among their employees. Such initiative would ensure that the financial sector work-force have the requisite skills for shrewd management of personal finances which would enhance their welfare hence more productivity at places of work.

From the study findings, most respondents attribute their low savings/investment rate on the high cost of leaving. This is a macro-economic factor that affects all sectors of the economy hence the government should develop initiatives that would not only ensure training on financial literacy to its citizens but also seek to subsidize the high cost of leaving to create room for savings and

investment. Such initiative would ensure sustained economic growth by creation of employment resulting from the investments.

Based on the finding of this study 25.9% of commercial bank employees have been scored as fair/poor/very poor managers of their personal finances. This is a significant number hence should be of great concern to employees of this industry. The employees should strive to up their financial literacy skills by attending financial workshop seminars/training, reading financial journals or otherwise. This would equip the employees with necessary skills in formulating their personal financial plans that is premised on a sustainable expenditure, saving and investment plans aimed at long-term financial freedom.

5.5 Limitation of the Study

5.5.1 Budget Constraint.

In doing the research, the researcher incurred significant costs in travelling, typing and printing which required the researcher to make provisions for the same from scarce financial resources. This is because without financial abilities, it would have been difficult for the researcher to do and complete the research efficiently and effectively.

5.5.2 Information Constraints

In order to do the research, information is the most important element to be included. Without sufficient information, it would have been hard for the researcher to complete the research. This is because availability of information helped the researcher in obtaining findings and finally come out with the solutions for the problems. There was a challenge whenever the respondents

lacked time to fill the questionnaires and some gave inaccurate responses with less attention to the questions asked. Besides that, there is scarce information on management of personal finances in secondary data banks hence insufficient literature for review.

5.5.3 Timing Constraints

The research work demanded a lot of time resource which was not available as the researcher is an employee who is always engaged at work-place between business hours. Balancing between meeting the research time-frames and employment was quite a challenge. In addition, the research was carried out in 3 months only hence the researcher did not have enough time to make a proper research comparison. In order to complete this research on time, one needed to sacrifice much time to make sure the results for this research are useful and accurate.

5.5.4 Cooperation Constraints

The research objectives needed data on personal financial management which most people consider private and confidential. Because this study used primary data, the researcher needed to give the questionnaire to the respondent. It became a challenge as some of the respondents were unwilling to participate in the study or took so long to return the questionnaires due to time constraint on their part.

5.6 Suggestions for Further Research

This study focused on the effect of financial literacy on personal financial management on commercial bank employees in Kenya. It is therefore recommended that similar researches should be replicated in other organizations so as to establish whether there is consistency on effect of financial literacy on personal financial management among respondents in the various organizations.

The findings of this study were limited in the contextual scope due to the sample size, time and resource constraints, therefore further surveys should be carried out to generate more representative analysis.

There is need to carry out a study on individuals in informal employment *(Juakali sector)* to examine their behaviour with the same variables. The sector is considered as having less training on financial education hence the findings of such a study would inform governments investment in training aimed at equipping them with savings and investment skills.

With adequate time and financial resources more refined research tools should be designed and a further research conducted to eliminate any residual biasness resulting from this research a more precise evaluation of the effects of financial literacy on management of personal finances. The study should not only be carried on the entire financial sector employees but should target employees of all sectors of the economy aimed at giving a clear picture of individuals' management of personal finances. The results therein should aid policy makers and practitioners in formulating appropriate strategies to bridge any financial literacy gaps.

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APPENDICES

Appendix I: Cover Letter

Samwel Obago
University of Nairobi
School of Business
Nairobi

Dear Respondent,

I am carrying out a research on the effect of financial literacy on finance management of commercial banks' employees in Kenya. This is in partial fulfillment of the requirement for the award of the degree in Masters of Science in Finance (Msc Finance) degree program at the University of Nairobi.

This is an academic research and the result will not be used for any other purpose. Confidentiality is strictly emphasized hence my appeal for you to kindly spare a short moment to complete the attached questionnaire.

Thank you in advance,

Yours sincerely,

Samwel Obago
Postgraduate Student

Appendix 2: Questionnaire

Instructions: Please answer questions by putting a tick [√] in the appropriate box or by writing in the space provided.

Part A: Demographic and Operational Characteristics

Tick as appropriate

1. What is your Name? (optional) ……………………………………………………………..
2. What is your employer's name? …………………………………………………………….
3. What is your Department of work? …………………………………………………………
4. What is your Gender? Male [ ] Female [ ]
5. How old are you? 20-30 yrs [ ] 31-40yrs [ ] 40-50yrs [ ] Above 50 yrs [ ]
6. What is your level of education? Secondary level [ ] College level [ ] University level [ ] Post graduate level [ ]
7. What is your area of specialization? Financial [ ] Non-financial [ ]
   If non-financial, kindly specify your area of training ……………………………………
8. What is your work experience in the industry? Below 1yr [ ] 1-5yrs [ ] 6-10yrs [ ]
   11-15yrs [ ] 16-20yrs [ ] Above 20yrs [ ]
9. Which department do you work for? Sales [ ] Credit [ ] Treasury [ ]
   Trade Finance [ ] ICT [ ]
10. What level is your role ranked in your organization? Senior Management [ ]
    Middle Management [ ] Supervisory [ ] Clerical [ ]

Part B: Management of Personal Finances

1. What is your salary range (Kes)?

   Between 50,000- 100,000 [ ] 100,001- 150,000 [ ] 150,001- 200,000 [ ] 200,001-250,000 [ ] 250,001- 300,000 [ ] Above 300,000 [ ]
2. Do you have a savings plan that could sustain your recurrent expenditures in case of unexpected loss of employment income? Yes [ ] No [ ]

If yes,

a) For how long can your savings sustain your substance?

0-3 months [ ] 4-6 months [ ] 7-12 months [ ] Over 1 yr [ ]

b) What proportion of your earnings do you save?

0 – 10% [ ] 10 – 20% [ ] 20-30% [ ] 30-40% [ ] Above 40% [ ]

If no,

Why and how do you plan to handle such an eventuality? ………………………………..

…………………………………………………………………………………………

……………………………………………………………………………………….

3. Other than your employer's group pension plan, do you have a well outlined personal investment plan? Yes [ ] No [ ]

If yes,

a) How do you score your current level of investment?

Very high extent [ ] High extent [ ] Moderate extent [ ] Low extent [ ]

b) How satisfied are you with your present rate of investment.

Very satisfied [ ] Satisfied [ ] Fairly satisfied [ ] Not satisfied [ ]

4. How do you rate the following statements regarding personal investment? Please tick on the appropriate box.

	Very high extent (5)	High extent (4)	Moderate (3)	Low extent (2)	Not sure (1)
My investment is financed by loans					
ICT has greatly influenced my investment plans					
High cost of living made me think of investment when still in employment					

5. Indicate your agreement with the following statements.

	Strongly disagree(1)	Disagree (2)	Not sure(3)	Agree (4)	Strongly agree(5)
I invest out of each income I receive					
I am the kind of person who always looks to invest					
I am a member of a Sacco that provides adequate investment plan.					
The bank has an internal Investment plan for staff					

Any further comment ………………………………………………………………………......

………………………………………………………………………………………………..

………………………………………………………………………………………………..

END

Thanks for your time.

Appendix 3: Tabulation of responses from the respondents

Respo.	Gender	Age	Educ.	Saving plan	Investment plan
1	1	0	3	0	0
2	1	0	2	0	0
3	1	0	3	0	0
4	0	0	2	0	0
5	0	0	3	0	0
6	0	1	3	0	0
7	0	1	2	0	0
8	0	0	3	0	0
9	1	1	2	0	0
10	1	0	2	0	0
11	0	0	2	0	0
12	0	0	2	0	0
13	1	0	2	0	0
14	0	1	3	0	0
15	0	1	3	0	0
16	0	0	3	0	0
17	0	0	3	0	0
18	1	1	2	0	0
19	0	0	3	0	0
20	0	2	3	0	0
21	0	1	2	0	0
22	1	0	0	0	0
23	1	0	2	0	0
24	0	0	2	0	0
25	0	0	2	0	0
26	0	1	2	0	0
27	0	1	2	0	0
28	1	0	3	0	0
29	0	0	3	0	0
30	1	1	1	0	0
31	0	0	1	0	0
32	1	1	3	0	0
33	1	0	3	0	0
34	0	1	2	0	0
35	0	0	2	0	0
36	1	0	2	0	0
37	1	0	3	0	0

38	0	2	1	0	0
39	0	0	1	0	1
40	0	0	2	0	1
41	1	0	2	0	1
42	1	1	3	0	1
43	1	0	3	1	1
44	0	1	3	1	1
45	0	0	2	1	1
46	1	3	1	0	0
47	0	1	2	0	0
48	0	0	2	1	1
49	1	2	3	1	1
50	0	1	3	0	0
51	1	0	2	1	0
52	1	1	3	1	1
53	1	1	2	1	1
54	1	1	3	1	1
55	0	1	2	0	0
56	1	0	3	0	0
57	0	0	3	0	0
58	1	1	1	0	0
59	0	0	1	0	0
60	1	1	3	0	0
61	1	0	3	0	0
62	0	1	2	0	0
63	0	0	2	0	0
64	1	0	2	0	0
65	1	0	3	0	0
66	0	2	1	0	0
67	0	0	1	0	1
68	0	0	2	0	1
69	1	0	2	0	0
70	1	1	3	0	0
71	1	0	3	1	0
72	0	1	3	1	0
73	0	0	2	0	1
74	1	3	1	0	1
75	0	1	2	1	0
76	0	0	2	1	1
77	0	0	2	0	0

78	1	0	3	0	0
79	0	0	1	0	1
80	0	0	2	0	1

Key

X_1 = Gender, represented by 0 for male and 1 for female

X_2= Age represented by 0 for 20-30yrs, 1 for 31 – 40 yrs, 2 for 41-50 yrs and 3 for above 50 yrs

X_3= Education level which is represented by 0 for secondary level, 1 for college level, 2 for university level and 3 for post graduate level.

X_4= Saving plan which is represented by 0 for Yes and 1 for No

X_5= Investment plan which is represented by 0 for Yes and 1 for No