



Financial Literacy Integral to Happy Life

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Date of Submission: 02-04-2023

Date of Acceptance: 14-04-2023

THE ABSTRACT

Financial Literacy is crucial for secure and happy life because money is vital for survival so is the money management, hence crops up the need for financial literacy. Financial literacy is knowing about the safety of money and the management of personal finance. Financial knowledge, financial attitude, and financial behavior are all interconnected and have great impact on lives of people and their sound financial future. This article is focused to understand the concept, relevance, benefits, and the level of financial literacy in India. The main aim, here, is to analyze and understand the dire need, and the state of financial literacy in the country. The impact of various parameters like the state of Indian education system, geographical classification, cultural trends, and fads amongst the young population, on the rate of financial literacy has been gauged.

There is a significant understanding of the non-negotiability of financial literacy at an early adulthood but there seems to be a major rigmarole regarding how to achieve it. The young adults of the country generally start their investing/saving journey later in life due to the social normalcy of staying with parents till late 20s, but this trend seems reversing these days. There are some evidences of the educational girders falling short to fulfill the dynamic financial needs of today. Children, young professionals, and women need a special attention as far financial literacy is concerned. The appalling level of financial literacy among the youth, women, and others is a cause of serious concern. Social media/infotainment industry is clearly influencing the masses on this aspect as well. Additionally, it has been seen that a variety of socio-economic and demographic factors, including income, cultural background, geographical location, financial condition, and educational attainment, have an impact on level financial literacy among masses. Additionally, the article also enrapts the important findings of the NCFE Survey and the national strategy to spread

financial literacy far and wide as national agenda.

KEYWORDS: Financial Literacy, Financial awareness, Financial Attitude, Financial Behavior, Financial Planning, Wealth Creation.

THE CONCEPT

Money is the spindle of human civilization! Everything revolves around money given the fact that everyone needs it for a graceful living and takes the money related decisions on a regular basis. At the household level as well as the organizational or institutional level the survival would be at stake in the absence of adequate money or improper management of money. Since ancient times, saving was considered an essential act of earning people so much so that it had always been advised to save before expenditure. Commensurate with an old saying, "Do not save what is left after spending but spend what is left after savings", hence, „saving should be our first compulsory expenditure“. Habitually, though, it is not a preferred behavior of the masses. However, the Governments (both Central and State) and the employers had played a remarkable role in instilling saving habits and managing public funds, to some extent, on behalf of the people. Although, with the changing role of government from a producer to regulator (apparent from disinvestment of various public sector units), the governmental support in money management of the masses has reduced to a large extent, leading to increased personal responsibilities of the people. People are, now, entrusted with the responsibility of managing their personal finance on the assumption that they are capable of a nuanced understanding of the risk-return criteria and time value of money etc. and are expected to choose the optimal option out of the available financial instruments. But the dynamic business environment teeming with variety and complexity of financial products, stipulate Financial Literacy“ (understanding about the basic financial principals as well as the financial products



available in the market). „Financial literacy“ is the ability to understand and manage one’s personal finance, knowing how to save and invest rationally, and enjoy a secure financial future through adequate financial planning, budgeting, and investing optimally.

According to National Centre for Financial Education (NCFE):

Financial Literacy is “a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being.”



Fig 1: Financial Literacy

(Source: Executive Summary: NCFE Financial Literacy and Inclusion Survey 2019)

It gives proficiency in the use of various financial skills, such as saving, budgeting, investing, personal financial management and the basic understanding of financial concepts like risk, return, time value of money, interest rates, compounding etc. Hence, Financial literacy is a lifetime learning process of shaping the relationship of a person with his own money through a rational combination of

- Thoughtful savings,
- Mindful spending,
- Budgeting,
- Investing,
- Management of personal finance,
- Lesser credit card debts,
- Lesser personal bankruptcies.
- Sound Retirement Plans.

The changing flavor of financial market, new age startups and increasing digitalization, virtual vaults, credit cards, and the ever-increasing financial scams have made financial literacy inevitable and the only safeguard against increasing financial vulnerabilities. Financial literacy equips you with various financial tools and techniques that delineate avenues to earn passive money via right investments with appropriate fund appreciation. For instance, SIPs, mutual funds, compounding interest earnings, dividends, ROI, time value of money etc. offer exponential growth of invested funds, but only those would earn who know how to utilize them. According to Albert Einstein famously, “Compound Interest is the 8th wonder of the world. He who understands it, earns it; he who doesn’t, pays it.”

THE COMPONENTS

Financial literacy embraces various financial skills and components that enable an individual to manage his finances efficiently and gain financial advantages. The Fundamental components of financial literacy are:

1) Budgeting

A budget stands on four basic girders of money: spending, saving, investing, and giving away. The main intention behind a budget is to establish a balance between all these four aspects and enjoy your money without sacrificing indispensable financial stability and prosperity. The main philosophy behind a sound budget is to enable the people to manage routine expenses, repay the existing loan along with holding some money for future savings and investments.

2) Investing

Next vital component of financial literacy is „investment“ which enables a person to make sound financial decisions resulting into an added inflow of money. The necessary investments indicators to be understood for making profitable investments are the price range, interest rates, time value of money, portfolio diversification, risk- mitigation strategies, indexing and compounding. The understanding of these concepts ensures good appreciation of money through smart investment plans.

3) Borrowing

Often people need to borrow money to meet certain uncertainties or huge expenses like house purchase, marriage, children education etc. To ensure



adequate borrowing, it is crucial to comprehend the loan structure, interest rates, and payment terms etc. An appropriate financial literacy will help the person to take adequate borrowing decisions with manageable long term financial burden and reduced financial stress.

4) **Taxation**

Taxation is the next critical component of financial literacy. Knowing about the prevailing tax laws and their impact on the net income of a person is crucial for accurate financial decisions. Different sources of money like job, investment, rental, inheritance, or unanticipated, are taxed differently. Financial performance and economic stability of people are ensured with adequate knowledge of earning related tax regime.

5) **Personal Financial Management**

Personal Financial Management, one of the most important components, includes a balanced mix of all the four above mentioned components. Since the prerequisite of financial security is a financial mix composed of higher savings and investments and restrained borrowing and debt.

6) **Financial Risk mitigation:**

The risk mitigation means the way to approach risk when it occurs or to manage the risk by minimising its impact. It may extend unto reducing the probability of the occurrence of risk. Financial risk mitigation is an essential aspect of financial literacy.

7) **Awareness about Identity Theft**

This is an emerging challenge in the arena of financial markets. This happens when someone obtains or forge the social security number, credit card number, or login pin of any online account of an individual. In such situations, it is important to stop that account immediately, otherwise, if he manages to open credit account by using your information, it would be really difficult to handle so it is important to be very cautious about the same.

An appropriate knowledge of the above-mentioned financial components provides good financial awareness, attitude, and behavior to take right financial decisions.

THE NEED

Financial literacy and prudence usher higher standard of living, financial stability, and secure financial future. Financial literacy prepares you for a graceful life. The array of benefits that follow financial literacy are:

1) **Personal Financial Management:**

Financial knowledge ensures efficient management of personal finance with a buffer for a rainy day besides further ballooning of the same through

investment in various profitable investment opportunities.

2) **Evade Blunders:** Financial literacy enhances proficiency in the management of finance and other related financial decisions. The financial decisions so taken give better results devoid of blunders and costly mistakes.

3) **Improved spending behaviour:** Financial literacy is comprised of financial behaviour, attitude, and knowledge. Hence, financially literate people behave rationally and their attitude towards money, savings and spending improves. Hence, they spend rationally after differentiating between needs and lusts besides extricating the herd mentality.

4) **Responsible savings and investment plan:** Financially literate are better equipped to choose optimal financial instrument to put their money to earn for them and create wealth as well as financial freedom for themselves.

5) **Proficient management of money and debt:** Financial prudence gained through financial literacy enhances adequate money management hence inhibits unmanageable debts besides ensuring better achievement of financial goals.

6) **Financial literacy put people at ease to handle financial emergencies:** Financially literate people are more confident to handle the emergencies like losing a job, unexpected medical expenditure, or increased children education expenses etc. Habitually they strategize their savings, expenditure, and financial plans to ensure their financial security along with adequate financial buffer. Hence, they are better equipped to handle financial emergencies.

7) **Reduced financial stress and anxiety:** Financial literacy instil effective saving and budgeting habits, and prompt people to make efficient financial plans in advance. Often, such people experience lesser financial stress and anxiety.

8) **Financial literacy instil confidence:** Knowledge is a power which reassures the financially literate people to take calculated decisions that prove advantageous which boost their confidence to handle the unforeseen and negativity that may come up.

9) **Wealth creation:** Lack of financial literacy leads to inappropriate use of money and wrong financial decisions ending unto debt traps or wealth gaps. The adequate saving habits, prudent spending, in-time budgeting bring financial affluence, higher per capita income, better standard of living, sound financial future and wealth creation.

10) **Growth and development of the Nation:** Country needs to improve its infrastructure for which low-cost capital is required. Household savings had been on a downtrend for several years



due to poor financial literacy. Sufficient domestic savings pool is required to boost future infrastructural growth in the country. The financially literate citizen would prefer to save and invest rather than wasteful expenditures and ensure the availability of sufficient household investments to fuel infrastructural growth and development of the nation.

Hence, it is essential to spread financial literacy far and wide in the country. The financial attitude, financial behavior and financial knowledge ingrained at an early age would help the citizens to enjoy a sound financial future along with supporting the growth and development of the nation.

THE RELEVANCE

The world has become a global village, any crisis anywhere, across globe, affects the whole world directly or indirectly. The same becomes exponential in case of financial and economic crisis. The financial literacy is the only way to deal with such crisis and attain one's financial goals which would, otherwise be impossible. This is furthermore important for the youth, regardless of their area of expertise and the field of study, because they have a longer life span ahead. Hence, they can either maximize the returns from proper money management for their lifetime and create wealth or bear the brunt of the mismanagement of purchasing power at their disposal, in the form of poor saving, unsustainable debt burden or personal bankruptcy etc.

In the current financial climate financial literacy is the perfect way to ensure financial stability. Though, increasing number of youngsters look for the quick monetary gains and so they don't consider employment as their only source of income rather explore various alternate sources of income through different investment options. Yet some people do have a „living for the moment“ or „one life only“ attitude, which is detrimental to their financial well-being. Nonetheless, financial education establishes responsible behavior and attitude towards money, and it prompts saving, investing, and timely budgeting habits.

Students can also proceed with their higher education without overburdening their parents or dropping out from their studies with fair money management owing to financial literacy. It acts as strong backbone of the person when he reaches the age of retirement. With the help of proper saving, thoughtful investments in annuity plans etc. one can live a dignified life even after retirement.

Core financial competencies gained through financial literacy, like, time value of money,

interest calculation, ROI computation, risk-return trade-off etc., enables people to assess the profitability of different financial products and instruments in a more appropriate manner. Besides, financial literacy enhances the ability of individuals to strike better deals and negotiations, to handle unexpected financial roadblocks and reduce the chances of financial and economic distress. Often, the incompetence to assess the risk associated with the financial dealings hinders financial prosperity of people. Financial literacy ushers potentiality to evaluate and take calculated risk with a solace that their financial assets would perform as per the expectation and result into financial prosperity and wealth building.

Financial literacy also provides awareness about the Grievance Redressal Mechanisms. The investors who are aware of whom and where to approach in case of a dispute/ grievance, feel secure and confident to take appropriate investment decisions without any fear.

Moreover, achieving financial literacy is furthermore relevant in today's modern society characterized with certain inevitable features, viz student loans, credit card debts, home loan, investments, health insurance, mortgages etc. Financial knowledge prompts people to plan their spendings and investments to avoid unmanageable financial burden without sacrificing on their requisite ease. Hence, in the current times of exponential financial opportunities with build in intricacies, any ignorance about the available choices of financial products or inability to formulate a sound financial and investment plan, would adversely affect individuals' financial outcomes.

THE STATUS

Despite the growing clamor for financial literacy, evidence from around the world presents an alarming and widespread paucity in financial literacy besides indicating a high degree of correlation between financial literacy and financial wellbeing of the household. The studies conducted in India, to assess the level of financial literacy, highlight a poor level of financial literacy among the masses. It also stipulates that financial understanding and training about responsible spending behavior and budgeting are missing among Indian households. People don't want to come out of their comfort zone of irrational spending behavior and often fall prey to status quo, bandwagon effect or herd mentality etc. Preconceived notions of the people stifle financial literacy and refrain them from exploring new ideas and opportunities, more so when such ideas or opportunities relate to money.



Further, the children, generally, adopt similar financial attitude and behavior as their parents, without looking for better options and possibilities. According to Bengaluru-based Financial Expert and Trainer, Namrata Arora, “In India, we know about conservative products, because our parents, friend and family introduced us to them, so the new generation lands up with the same. Awareness about mutual funds or equity is missing”. Moreover, the Indian parents, often, do not talk to their children about the expenses, debt, or other financial issues in their family discussions. The yearly average time devoted to such discussions in an average Indian family, as reported by „Visa 2012 Global Financial Barometer”, is only “10 days per year as against the global average of 19 days per year”. The main reason, as narrated, for excluding finances from family discussion, is lack of understanding and awareness of the people about the importance of diligent financial management in their lives (accepted by almost 43% women and almost 20% men of the respondents).

Further, the educational system and infrastructure, as regards financial literacy is considered, is yet to be fully developed. In a large and diverse socio-economic country like India, the responsibility for ensuring education for all is shared by both the Government Institutions as well as private institutions. But the quality of education of public and private schools is utterly different equating the cost for the same, hence everyone can’t afford to go to the institution of one’s choice. Further, the professional guidance, though required, was beyond the reach of an average Indian due to the associated high expense. There was a time when Indian youngsters used to take financial guidance

mostly from popular novels such as „Rich Dad, Poor Dad”. However, despite the excellent concepts, the text was unrelatable to the Indian reader, and the counsel was impractical. Further, one can’t ignore the fascinating world of social media influence in spreading financial awareness and knowledge to the masses. These days a majority of the youth follow the social media influencers (YouTube, Instagram etc.) for gaining knowledge on various important aspects of life, financial literacy is no exception! A huge community of influencers routinely discuss wealth creation, personal finance and investment strategy etc. They use social media to share their wealth-building experiences, voice their views, and offer advice. They’ve steadily increased their clout lately. An overwhelming interest amongst the youth for complex topics like crypto-currency, margin trading and IPOs of new-age startups etc. presents the vulnerability of this section. The social media pull is fueling this interest and playing somewhat favorable role. However, the youth is essentially at a life-changing stage of their lives and are easily lured by easy and fast ways to make money, which makes adequate financial literacy further indispensable.

THE FINDINGS: NCFE SURVEY

The survey, conducted by National Centre for Financial Education (NCFE) in 2019, aimed to calculate the rate of financial literacy among the all-India respondents of the survey as per the guidelines of OECD. Accordingly, a person is considered financially literate if he/she has a combined score of at least 15 out of 22 (with at-least 3 in financial attitude, 6 in financial behavior and 6 in financial knowledge).

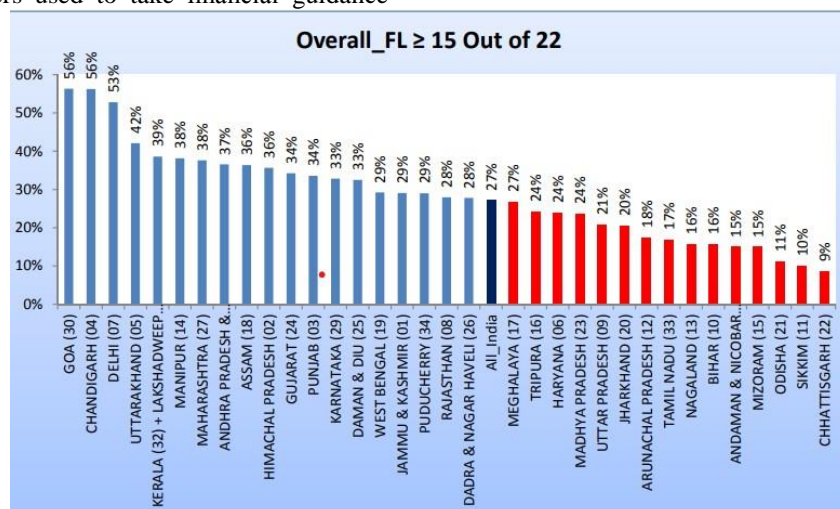


Fig 2: State wise Level of Financial Literacy
(Source: Executive Summary: NCFE Financial Literacy and Inclusion Survey 2019)



The survey indicated the paucity as well as the dire need to gain financial literacy:

- 1) Overall Financial Literacy in India - 27%.
- 2) States with financial literacy above 50% - Goa, Chandigarh, and Delhi.
- 3) States with lowest financial literacy: Odisha (11%), Sikkim (10%), and Chhattisgarh (9%).

The state-wise rate of financial literacy is not satisfactory. Only three states have above 50% rate of financial literacy and much lesser in rest of the states. Nonetheless, lack of education is the prime cause of widespread poverty, higher crime rate, lack of rational thinking and poor rate of literacy, and further the rate of financial literacy among the masses. A lot needs to be done at national level to fill the gap in financial literacy to keep pace with the fast changing economic and

business environment. Smart stakeholders, technological advances, digitalization, electronic trading, etc. have made financial markets more volatile and swifter. Moreover, the new generation will confront more sophisticated financial instruments, wherein financial literacy would be the only salvation. Hence it is crucial to take up financial literacy more rigorously.

The rate of literacy is further alarming among the young students (26%) of the nation and the housewives (16%), though it is slightly better at 36% for retired people, as is clear from Fig 3. However, the financial literacy rate of women (21%) comprising half of the population, is much lesser than men (29%), because many people still don't believe in educating their girls. Hence, a lot needs to be done to spread financial literacy far and wide, across all categories of Indian population.

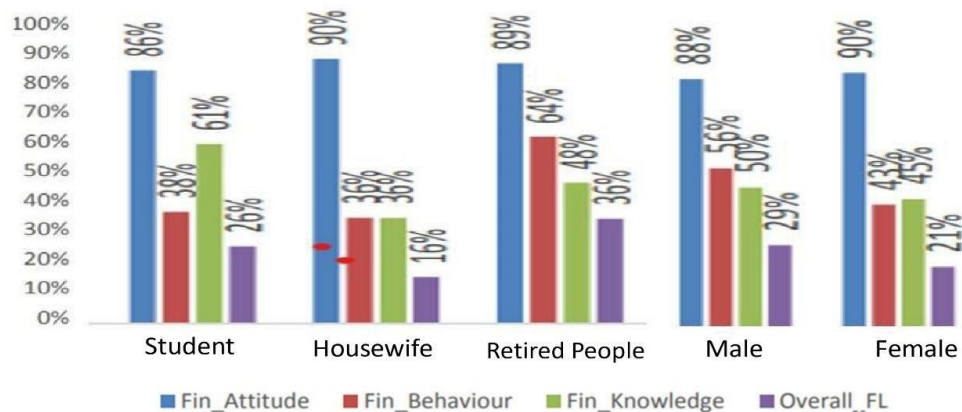


Fig 3: Financial Literacy by Category

According to Shri GP Garg, executive director, Securities and Exchange Board of India (Sebi), (Feb 2023), "In a country like India we have close to 80% literacy, but when it comes to financial literacy, we are not that lucky. Last year, National Centre for Financial Education did a survey which says that only 27% of Indians are financially literate. It means that we have a long distance to travel and that puts a lot of responsibility on all the institutions including exchanges and SEBI that how best we take the message of financial literacy across the country".

Thus, in current times of cutting-edge competition coupled with the scarcity of resources, the rate of literacy decides the standard of living of the people as well as the level of growth and

development of a country. Only, those would survive, who know how to maximize their returns by understanding the financial market and channelize their income in the best investment options. Moreover, with the Govt efforts to digitalize all financial dealings to bring more uniformity and transparency in financial transactions, financial literacy has become all the more important!

THE STRATEGY

In order to spread financial awareness, develop financial attitude and behavior among masses, „Financial Literacy Programs“ have been launched at various levels, in our country simultaneously by the Government agencies,



Financial regulatory bodies, educational institutions, NGOs and SHGs. Government has established Financial Literacy and Credit Counseling Centers in 2009 to promote saving habits among the masses, spread awareness about the available financial products and credit schemes. Frequent workshops, seminars and conferences are also being organized by these agencies, from time to time, to raise the understanding of people about the basic principles of finance, savings, and investments, help them manage their borrowings and guide them to take appropriate financial decisions consistent with their financial goals.

Furthermore, efforts are underway to escalate financial literacy through fabricating it into the school curriculum. Though, various financial concepts like interest rates, compounding, market mechanism etc. are already being taught at school level, but it's important to correlate them with the real-life situations and examples. For example, compound interest may be taught by relating the problems with the live example of calculating and comparing interests for two different bank customers, one who has opened a cumulative deposit account vis-à-vis another who has opened a simple fixed deposit account. The curriculum at the undergraduate level has also been restructured to this cause. Subjects like „Personal Finance“, „Finance for Everyone“, „Finance for Non-Finance Executives“, „Investing in Stock Markets“, etc. in different formats namely VAC, SEC, and GE are introduced to spread financial education among young students and inculcate sound financial habits at the right time. However, sometimes students studying finance and other related subjects also fail to make a sound financial decision. Therefore, Financial literacy and money management needs to be taken up more seriously and financial knowledge, must be imparted to masses from an early age and at grass root levels to make it worthwhile for the people as well as for the nation.

a) THE NATIONAL STRATEGY FOR FINANCIAL EDUCATION 2020-25

India is a fast-growing economy with a large population and an agenda of inclusive growth. Therefore, it is necessary to develop a stable financial system as well as formulate a national strategy for the country. So that all the stakeholders, viz. the central and state governments, financial regulators and institutions, educational institutions and others, involved in spreading financial literacy, work in sync with the national strategy and not at cross purposes. The

formulation and implementation of National Strategy for Financial Education will be beneficial for the citizens and for the nation as well.

The National Strategy for Financial Education (NSFE): 2020-2025, prepared by the National Centre for Financial Education (NCFE) in consultation with all the Financial Regulators (RBI, SEBI, PFRDA and IRDAI), DFS and concerned Ministries of Govt. and other stakeholders, under the aegis of the Technical Group on Financial Inclusion and Financial Literacy (TGFIFL), has recommended a ‘5 C’ approach for the dissemination of financial education in the country:

The approach of the strategy includes:

- i. Relevant **Content** development in the curriculum in schools, colleges, and training establishments,
- ii. Working towards Building the **Capacity** of intermediaries involved in providing financial services and streamlining their actions,
- iii. Promoting **Community-led** approaches for spreading financial literacy
- iv. Disseminate financial literacy through innovative **Communication** strategy and channels, like mass media channels etc.
- v. Boosting **Collaboration** among various stakeholders.

The intention and sincere efforts of the of the policy makers along with the elaborate and extensive national strategy to spread financial literacy, taken up collectively by all the stakeholders will definitely bring the desired results in the times to come.

CONCLUSION

There is clear change in the way people look at financial literacy now a days. Youth understand that saving and investing is crucial to wealth accumulation and are not afraid to try out different modes. A growing percentage of students, women, and professionals, are now recognizing the need for and the importance of financial literacy, hence are taking onus of their financial future. Government, many institutions, and specialists have teamed up to float financial literacy and awareness courses including well-researched and objective content relevant to Indian user. However, paucity of financial literacy at student level causes a complete lack of confidence in young professionals, making them vulnerable to fraud and poor financial judgments. Popular advice gained from the media or social media is frequently



skewed or inaccurate. The economy needs to have a more problem-solving approach for the state of financial literacy in the country. An artistic medium to demystify complex subject helps catching the youth's attention before a serious take on themes such as savings, investments, and other topics. The youth is the future of the country and their soundness in making financial decisions is the fulcrum of growth. At an individual level, the probability of a family leading a financially comfortable life depends on the decision taken by the bread-earners at nascent stage of their careers. As young adults aspiring to become financially independent, it is paramount important for them to have adequate knowledge to take informed financial decisions to ensure the best use of the purchasing power at their disposal. Hence, there is a proven need to strengthen financial literacy initiatives rigorously at the national level in India. According to Rehana D'Souza, VP & Head of Business Development, NSE, "Financial literacy and management is a significant gap left in our education generally". She emphasized the need to broaden up the financial understanding of the people. Further, in order to inculcate saving habits among the masses as well as to spread awareness about the financial products and the credit schemes, GOI, has launched Financial Literacy and Credit Counseling Centers. RBI is also actively working on the agenda of achieving higher financial literacy. Not only this but various Educational Institutions, NSE, SEBI, NGOs and SHGs are also engaged in providing the financial literacy to the people through online and offline classes, short term programs, workshops, seminars etc. Additionally, the innovations & initiatives at student level are also gaining momentum with the introduction of New Education policy.

Financial literacy is the imperative to potent human capital formation. Financial literacy will help to raise the standard of living, eradicate poverty, besides ensuring infrastructural development and overall growth of the country. Hence, financially smart India would be understanding financial products, credit schemes, managing debt, negotiating excellent financial deals to ensure accumulation of wealth, sound financial future and financial freedom for themselves along with the growth and development of the nation.

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