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Dr. M. Jegadeeshwaran
Assistant Professor, School of Commerce, Bharathiar, University, Coimbatore, Tamilnadu, India

Mahesh Kumar. T
Ph.D Research Scholar, School of Commerce, Bharathiar University, Coimbatore, Tamilnadu, India

Correspondence:
Dr. M. Jegadeeshwaran
Assistant Professor, School of Commerce, Bharathiar, University, Coimbatore, Tamilnadu, India

A Vision towards Financial Literacy in India

Dr. M. Jegadeeshwaran, Mahesh Kumar. T

Abstract
Financial literacy has assumed greater importance in the recent years, as financial markets have become increasingly complex and there is also an information asymmetry leading to making informed choices more and more difficult for the common person. Financial education can broadly be defined as providing the familiarity with and understanding of financial market products, especially, rewards and risks, in order to make informed choices. Viewed from this standpoint, financial education primarily relates to personal financial education to enable individuals to take effective actions to improve overall wellbeing and avoid distress in matters that are financial. Therefore, the study has made an attempt to review the financial literacy of people.

Keywords: Financial Literacy, Financial Education, Financial Attitude, Financial Capability, Financial Happiness and Financial Stress

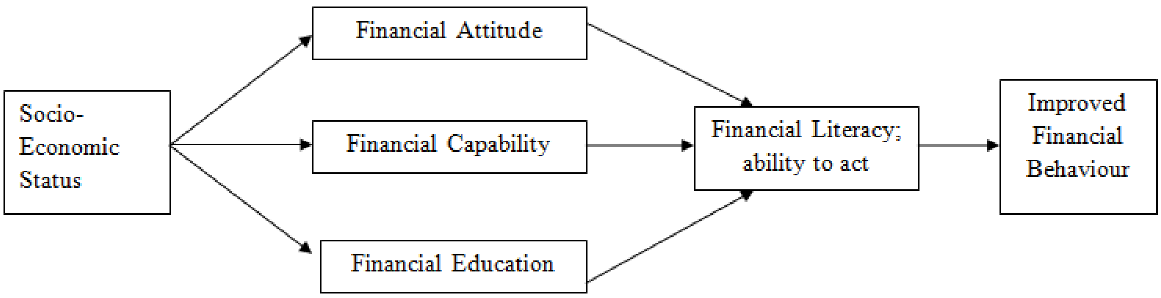
Introduction
Financial literacy is the ability to make informed judgments and to take effective decisions regarding the use and management of money. A financially literate person must be proficient in the core competencies, having financial knowledge, ability, skill and experience supported by positive attitudes towards money. Financial literacy is understood by the link from knowledge to skills, to attitudes, to behaviour. This link is important, because financial knowledge influences attitudes, which then manifests into positive financial behaviour. In order to improve financial literacy, it needs to be measured and tracked using both knowledge and action metrics.
Financial literacy skills enable individuals to navigate the financial world, make informed decisions about their money and minimize their chances of being misled on financial matters. Having financial literacy skills is an essential base for both avoiding and solving financial problems, which in turn, are crucial for living a prosperous, healthy and happy life. Financial problems are often the causes for divorce, suicides, mental illness and a variety of other unhappy experiences.
Financial literacy plays a pivotal role in today's complex financial market. It is an essential component of the empowerment of all categories of people as it gives them an understanding of how to manage finances in the real economy in order to avoid unnecessary hardships, excessive debt and possible financial exclusion. Moreover, it enables people to improve their understanding of the financial opportunities that the formal financial market offers to them.

Saving Literacy
Saving literacy is one of the components financial literacy. Saving literacy indicates the knowledge and willingness of the people to save a portion of their earnings with or without specified needs in formally approved avenues. In this study, a marginalized person is said to have saving literacy if he saves a portion of his earnings in any formal avenues.

Spending Literacy
Spending literacy is one of the components financial literacy. Spending literacy indicates the knowledge and willingness of the people to use money saving devises or subsidized price shops for purchasing consumer durables for their day to day needs. It also means spending within ones means. In this study, a marginalized person is said to have spending literacy if he\she indirectly saves a portion of his earnings by using any of the formal avenues for purchasing consumables.

Borrowing Literacy
Borrowing literacy is one of the components of financial literacy. Borrowing literacy or debt literacy indicates the knowledge and willingness of the people to borrow money from formal sources. In this study, a marginalized person is said to have borrowing literacy if he is using any of the formal avenues for meeting the financial needs.

Investment Literacy
Investment literacy is one of the components of financial literacy. It indicates the knowledge and willingness of the people to invest money in formal sources. In this study, a marginalized person is said to have investment literacy if he is using any of the formal avenues for investing his hard earned money to meet future needs.



Financial Attitude
Financial literacy should be distinguished from financial attitude. Financial attitude measures certain behaviors that are preference based. But financial literacy measures financial knowledge, skills in managing money. Attitude of a person towards money will have an impact on his/her overall financial literacy.

Financial Capability
Financial capability is understood as being a set of financial knowledge, skill, and behaviour among individuals. Financial knowledge and understanding is the ability to make sense of and manipulate money in its different forms, uses, and functions, including the ability to deal with everyday financial matters and make the right choices for one's own needs. Financial skills and competence is the ability to apply knowledge and understanding across a range of contexts including both predictable and unexpected situations and also including the ability to manage and resolve any financial problems or opportunities.

Financial Education
Financial Education is a broader concept than financial literacy. Financial education is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial wellbeing. Financial education is imparted formally by education providers initiated by Central and State Governments, Commercial Banks, Non-Banking financial institutions, Non-Governmental Organizations, Self Help Groups etc. Financial education is a concept that promotes financial literacy. Financial literacy should be the end product of financial education.

Importance of Financial Literacy
i. Financial literacy is considered an important adjunct for promoting financial inclusion and ultimately, financial stability. Both developed and developing countries, therefore, these are focusing on programs for financial literacy.

ii. In the context of 'financial inclusion', the scope of financial literacy is relatively broader and it acquires greater significance since it could be an important factor in the very access of excluded groups to formal financial system. The process of educating the excluded group may invariably involve addressing deep entrenched behavioral and psychological factors that could be major barriers in inclusion strategy.

iii. In countries with diverse social and economic profile like India, financial literacy is particularly relevant for people who are resource-poor and who operate at the margin and are vulnerable to persistent downward financial pressures. With no established banking relationship, the un-banked poor are pushed towards expensive alternatives. The challenges of household cash management under difficult circumstances with few resources to fall back on could be accentuated by the lack of skills or knowledge to make well informed financial decisions.

v. Financial literacy can help poor people prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt.
vi. To have personal financial planning, a person should be financially literate to know the importance of preparing household budgets, cash-flow management and asset allocation to meet financial goals.

Best Practices in Financial Education and Awareness
The journey to obtain independence and achieve financial success is usually prioritized by having good educational experiences, a sound résumé and a career with a nice salary. The reality is that even with all these, financial disaster may not be kept at bay if good financial habits are not developed. The road to financial freedom requires practice and discipline. Shipley (2013) suggests the following few simple steps to aid you on this journey:

(a) Start saving for the future now: To retire at age 65, one must consider how money will be available to live for the following 30+ years. It is critical to start putting money away now to prepare for the future. The power of compounding was deemed the 8th wonder of the world by Albert Einstein and timing is the key to maximizing its power. The difference in totals at retirement can be solely due to when savings started. Even if someone can only invest a small amount of money, it is worth it in the long-run. Website calculators should be utilized to plug in numbers for projection.

(b) Get into the Budgeting habit: Budgeting is all about getting into a habit. It is as simple as monitoring how much is made and how much is spent. Running out of money is never fun, but it happens all too often. Keeping track of spending can be a very eye opening experience and small changes to spending habits can make a big difference. Monitoring spending on a monthly basis and changing the budget as life changes based on surpluses or deficits will allow one to take control of personal finances and free up some extra money to start saving for the future.

(c) Avoid credit cards and debt accumulation: Although credit cards are not inherently bad as everybody needs to take on some debt to build a credit history, the key is to not pay unnecessary interest and fees to credit card companies. One should only pay for things that one can afford to pay back by the month's end on a credit card. This is because the power of compounding works against the debtor when it comes to credit cards. If one cannot pay bill off completely by month end, research should be done to find low interest credit cards. Cards that offer rewards, no annual fee and low interest rates should be looked into. A poor credit rating can impact not only a person's ability to get an apartment, a car or house loan but also ability to get a job.

(d) Bank smart

Bank smarting involves the consideration of tips such as:

(i) Using banks' ATM machines instead of withdrawing in the banking halls and attracting fee charges

(ii) Making sure you know what minimums your bank has on your account. Some require a minimum balance or they will charge you a fee if you go under.

(iii) Using the online bill pay function if it is available. It helps personal monitoring of expenses and allows you to set up automatic payments for fixed bills so you do not forget to pay them.

(iv) Being aware of the implications of over drafting your checking account. Contact your bank to learn how you can protect yourself from overdraft fees

(v) No leaving too much money in a checking account that does not earn interest. Even if the interest rate you earn is small, you might as well take advantage of earning money on your money by moving it into an interest earning savings account

(vi) Shopping around to different banks to find the best interest rates. It is good to consider credit unions and neighborhood banks as well as the big ones.

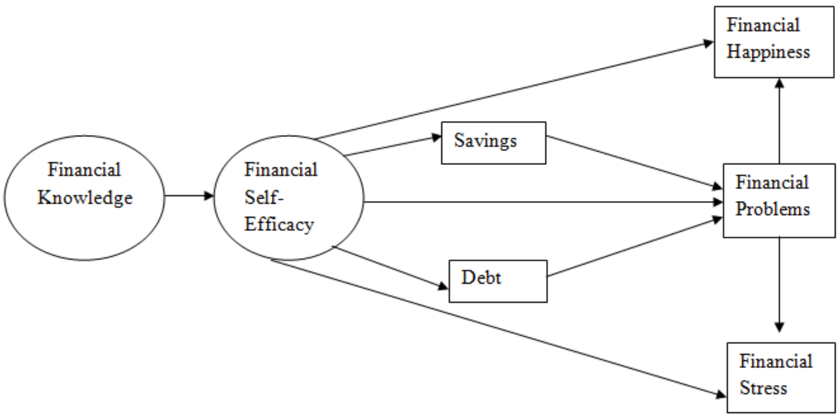
(e) Have an emergency fund: It is important to be prepared for the "just in case" aspects of life. Creating a savings account that accrues for an unexpected expense such as car repair, home repair, or a needed medical expense for you, your child or pet, is recommended. This account may also be needed if one is faced with being laid off, which is unfortunately more common in today's economy. Instead of racking up credit card bills, it is important to have money set aside to cover your living expenses – having an amount that is enough to hold one over for at least 3 months is recommended but ideal is an amount that is enough savings to last for 12 months. To help accomplish this goal, one can set up an automatic transfer from the checking account to the savings account. Often out of sight puts the money out of mind until it is really needed.

(f) Learn about investing: Even if investing and reading are not one's passion, it will be wise to take time to learn the basics. It is critical to have a foundational understanding of managing a portfolio of assets. These are helpful in managing a retirement investment account, managing the turbulent economy, and staying away from potential scams and fraudulent transactions.

(g) Set goals: Setting clear, written goals for the future and making plans to accomplish them are essential. Taking the time to write down one's goals and aspirations will really pay off.

(h) Take advantage of free money: **invest in a company-matched pension scheme**: Some organizations offer a matching option when investing for employee retirement e.g. where the employee contributes 5 per cent of his income for retirement and his company also contributes 5 per cent., this is essentially a 5 per cent raise.

(i) Love our work: Psychologists have found out that people who describe themselves as happy (in their jobs) typically have better performance evaluations and earn higher incomes than those who said they were unhappy. Not enjoying your profession leads to additional stress, poor eating habits and health issues (all which will also cost you more money!). In addition, you will likely spend more time at work than at home; so you might as well do something that interests you and fits your skills.



Challenges of Financial Literacy Education Initiatives

Prevailing challenges facing sustainable financial literacy education efforts across nations of the world have included the rapid pace of innovation and growing sophistication of financial markets; the virtual explosion of financial products (like credit cards) being offered to a vast and growing number of new consumers, the increasing transfer of risks, such as longevity and investment to households in the pension field in particular consumers' worrying low awareness and understanding of financial concepts and over estimation of their knowledge and skills relative to financial products and issues. Lastly, when financial education is not efficient and aims only at enhancing financial awareness without also supporting the development of more responsible financial habits and behaviors, there lies a future challenge. Over the past few years, some observers have pointed to the limits of financial education and the relatively uncertain outcomes of related programs as Organization for Economic Co-operation and Development (OECD 2005).

Conclusion

After the detailed study of financial literacy in India, it concludes that the greater financial literacy can be an important component to efforts to increase saving rates and lending to the poorest and most vulnerable consumers**.** Lower Financial literacy is linked to lower household savings, as well as higher reported over-indebtedness. Furthermore, financial illiteracy appears to be particularly severe for key demographic groups: women; less educated; low income; ethnic minorities; and older respondents. Financial literacy substantially increases the demand for banking services, but only among those with low initial levels of financial literacy and low levels of education. Financial literacy appears to also be linked to economic and social development. Recently most of the developing countries launched various programs to effective financial education and definitely, it would be helpful for sound financial and economic stability in the organization.

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