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# FINANCIAL LITERACY AND ITS IMPORTANCE IN EMPOWERING INDIVIDUALS FOR LONG-TERM FINANCIAL SUCCESS

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## **ABSTRACT**

*Alterations in the economic and financial sectors have resulted in an increase in the amount of money that is available to the general populace. Because there are a great number of financial intermediaries that provide a diverse selection of new credit and investment products, it is essential for the general public concerned with investing to be aware of the ratings that are assigned to each product and provider in order to make an informed choice. In the meanwhile, it is essential to educate those who are not currently a member of the formal financial system about the functions that banks provide and the reasons why they should create partnerships with them. The development of financial literacy is an essential component in the process of promoting financial inclusion and, by extension, stability. Those individuals who are now excluded from the official financial system would be better able to make use of these services if they were educated about the benefits and entry points into the formal financial system. Individuals who are economically involved may also benefit from it if it directs them to the most advantageous products and services that are currently available on the market.*

**Keywords :** *Financial success , Financial Literacy*

## **INTRODUCTION**

When someone is financially literate, they possess the knowledge and skill set that is required to construct and sustain a financially comfortable life for themselves. A person who is financially literate is one who is able to evaluate their present financial situation, see areas in which they may improve, and, over the course of time, make financially responsible decisions by cultivating good habits such as saving money, creating a budget, and planning. When individuals have a good understanding of finances, they are able to effectively manage their own money, establish and adhere to a budget, and save money for the future. People who are self-sufficient, which is made possible by financial literacy, are more likely to attain financial stability. This will make it easier for them to realise their goals. It is also important to have a working grasp of money-time value, effective investing practices, debt management, compound interest, and financial planning in order to be considered financially literate. It is possible for individuals to make poor choices that are detrimental to their financial condition when they are not aware of what they are doing with their available funds.

For an individual to improve their financial literacy, it is necessary to acquire the following skills: the ability to create a budget; the ability to keep track of spending; the ability to pay off debt; the ability to plan for retirement in a prudent manner. In addition to these measures, you might also consider seeking advice from a financial guidance professional. Knowing the ins and outs of money, knowing how to create and achieve financial goals, and understanding how to cope with both internal and external financial hurdles are all components of a solid education in personal finance. The term Financial Literacy is used to describe the "combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being." (2012) Messy and Atkinson's research It is unacceptable for any individual to be at a disadvantage monetarily due to their gender, colour, social class, or any other social distinction.

When we speak about financial literacy, we are referring to the ability to handle one's own finances, to make intelligent investments, and to understand when and how to lend money to other people. A more exact definition of the capacity to manage one's financial resources in an efficient and prudent manner is the set of skills and knowledge that is being discussed here. Financial literacy and financial inclusion are both issues that are of equal importance. In contrast to Financial Inclusion, which functions as a supply-side mechanism by providing consumers with what they seek, Financial Literacy develops understanding of what individuals may demand from the financial market and services. As a result of the fact that it enables the typical person to appreciate the value and need of our products and services, financial literacy raises the demand for them, which in turn speeds up the process of financial inclusion.

To be financially literate is to be familiar with all aspects of money, including spending, saving, and investing, and to be able to make the most of all the tools and resources that are at your disposal. The ability to make smart financial decisions that enable us to enjoy healthy returns on our assets is what we mean when we talk about financial literacy. These choices are backed by correct information and the application of strong financial skills. There is no area of our day-to-day lives that does not need money, whether it be for the payment of bills, the purchase of meals, or the purchase of our most beloved garments. The importance of setting money away and putting it to work cannot be overstated. If we have a solid understanding of personal finance, we are able to realise our goals and improve our standard of life with that knowledge. In addition, having a good understanding of finances equips us with the ability to steer clear of financial fraud and debt, which in turn enables us to better prepare ourselves for the future.

To assist individuals in becoming financially literate is the objective of the field of financial education. Financial education is characterised as "the process by which financial consumers or investors improve their understanding of financial products, concepts and risks and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being."

Acquiring financial literacy may make it easier to achieve a state of financial well-being. Financial well-being is described as "a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future and is able to make choices that allow them to lead a fulfilling life." It has been said by the Consumer Financial Protection Bureau (2015) that the phrase "financial literacy" comprises a broad

variety of ideas and behaviours, ranging from the most fundamental, such as keeping track of spending, to the most sophisticated, such as paying taxes, acquiring property, and so on. Building up one's knowledge of finances requires both time and effort. Those that are interested in finishing the process are required to put in persistent effort, each and every day, and whenever they have the opportunity to do so. One might begin with simple measures if they are determined to accomplish the task. The capacity to be financially literate should be included into our lives from a young age. This is an absolute need. Most children are introduced to the concept of "piggy banks" as their first introduction to the concept of saving money. Children should be taught to be financially literate at an early age so that they can navigate the complex and demanding world with confidence. This is because the world is becoming more complex and demanding.

It is not always simple to make decisions about one's financial situation. Comparing many options for savings or loans that come with varying interest rates and term arrangements may be a very time-consuming and frustrating process if you are not financially knowledgeable. It is possible that even someone who is financially knowledgeable may need the use of calculators or spreadsheets in order to make decisions that are completely informed. When confronted with these options, however, a great number of families do not have access to the required knowledge and often get little help. It is possible that customers may not get meaningful feedback on the value of the financial product that they have purchased, which further complicates the typical learning process. This is in contrast to choices on the purchase of a particular automobile or the acquisition of a restaurant. As a result, financial literacy is increasingly being seen as a potential component that contributes to the well-being of families in both developed and developing nations. Financial literacy may be described as the ability to comprehend and handle one's own financial matters.

In the long term, having a solid understanding of finances ensures that one will be financially secure.

- Understanding the principles of money management, saving, and investing from a young age may provide a firm foundation for long-term sensible financial management. This can be accomplished by understanding these concepts at a young age. When children begin to teach themselves about personal finance and the fundamentals of money management at an early age, they have access to a plethora of opportunities that are based on the real world. Additionally, by learning how to create a budget, save money on a regular basis, and spend money sensibly, kids may have a good start in life.
- Involving and engaging children in fundamental activities associated with financial literacy from a young age may also assist in the development of essential skills such as self-discipline, planning, analysis, evaluation, decision making, and critical thinking.

**As per RBI guidelines, the Bank has set up Financial Literacy Centres (FLCs) are**

- In order to make it simpler for individuals to have access to financial services, it is necessary to ensure that they possess the two essentials, which are literacy and easy access.
- To educate a diverse range of audiences, including but not limited to women, students in high school and college, the poor in both rural and urban regions, those serving in the military, and senior citizens, on the fundamental concepts of banking and the central bank.
- The goal is to assist average people in making effective use of financial services.

### **Three Key Components of Financial Literacy**

Some financial accomplishments that were previously unheard of, such as investing in cryptocurrencies or making an immediate payment using an online payment system, are now considered to be commonplace in many parts of the country. A strong foundation in financial literacy is required in order to successfully complete these more difficult efforts. If users do not possess the information necessary to make responsible financial decisions while utilising these high-tech transactions, they may put themselves at risk of becoming a victim of fraud or of accruing debt while using these transactions. It is recommended that you educate yourself on the following three components of financial literacy.

#### **An Up-to-Date Budget**

There is a common misunderstanding that the phrase "budget" is synonymous with "diet," despite the fact that, at its most basic level, it merely refers to a strategy for money distribution.<sup>1</sup> By having a clear view of where your money is going (and needs to go), you may prevent inadvertent purchases and make progress towards your savings goals. This is one technique to accomplish both of these accomplishments.

Putting up a budget does not have to be challenging or need a great deal of mathematical work; in fact, there are a number of budgeting tools that can be found online that might be of aid. The degree of detail that your budget has should be reflective of your own style; some individuals want to make things simple by limiting themselves to a few major categories, while others want to go out and get every single item. For example, although some individuals may choose to include "pet food" in their food budget, others may want to put aside a certain amount of money specifically for the purpose of providing food for their pets. After you have set a budget, you have the ability to modify it to accommodate your fluctuating income and routines of spending. If you do this, you may avoid the phenomenon known as "lifestyle creep," which occurs when your spending finally catches up to your income, even if you do not want to increase your total expenditures.

#### **Dedicated Savings (and Saving to Spend)**

When it comes to building up your savings, one of the most straightforward approaches is to deposit a portion of your salary into a savings account. On the other hand, it is simple to give up hope when you are forced to take money from your accounts due to unforeseen expenses. As a result of this, it is prudent to separate your funds into two distinct accounts: one for unexpected expenses, and another for normal expenditures.

One kind of long-term savings is a 401(k) or an individual retirement account (IRA), while a more generalised savings plan may be used for things like setting aside money for a down payment on a house or paying for the educational expenditures of your children. It is possible to set away funds for expenditures that are considered to be routine yet infrequent, such as automobile insurance, fuel for your heating during the winter, new tyres, or an unexpected medical need. You may be able to shift your perspective when confronted with unexpected expenditures if you organise your resources in this fashion. Instead of being dismayed that your savings are decreasing, you might be glad that you have these emergency funds on hand in order to avoid paying interest on that item.

## Benefits of Financial Literacy

For the purpose of achieving financial literacy, it is vital to have a solid understanding of personal finance principles such as savings, insurance, real estate, paying for school, developing a budget, saving for retirement, and filing taxes.

Answers to questions about transactions, such as the need, accessibility, and asset/liability status of an item, ought to be easily accessible from anybody who has a solid understanding of financial affairs.

This area provides insight into how a person thinks about and deals with money in their day-to-day life by revealing how they manage money. Financial literacy may be measured by an individual's capacity to handle their own personal finances. When a person is constructing a financial plan, it is possible that they will have a better understanding of their income, expenditures, and responsibilities to others with the aid of this information. In addition, the subject has an effect on proprietors of small businesses, who are an essential component in the process of supporting economic growth and stability.

Every single person, regardless of their age or socioeconomic standing, is prone to developing financial analphabetism. As a consequence of their lack of financial literacy, a significant number of customers are susceptible to being taken advantage of by predatory lending, subprime mortgages, fraud, and high interest rates. This may lead to unfavourable loan conditions, bankruptcy, or foreclosure.

## Emerging Role of Financial literacy

Someone who is financially literate is able to accumulate money, keep track of it, and use it in a prudent manner for the benefit of themselves, their loved ones, and their business. Following the realisation of the significance of this subject matter, a number of countries, both wealthy and impoverished, have initiated financial education or literacy programmes for their populations. The following paper is an attachment to the "Recommendations on Principles and Good Practices for Financial Education and Awareness" document that was created by the OECD:

1. Initially, it is essential that all parties concerned, including governments, make a concerted effort to guarantee that the instruction about finances is impartial, equal, and well coordinated.
2. The education of persons in financial matters should start in school in order to educate people at the earliest feasible opportunities.
3. As a component of good governance, the promotion of accountability and responsibility among financial institutions need to involve the provision of financial education.
4. There should be a distinct divide between the provision of financial education and the provision of commercial advice, and workers of financial institutions should be compelled to adhere to particular standards of conduct throughout their employment.
5. It is essential for financial institutions to make certain that customers are able to understand and grasp the content they are presented with, especially when it is related to long-term commitments or services that may have significant repercussions for their finances. It is also recommended that they ban the use of difficult paperwork and the use of small print.

6. Because they are essential aspects of life planning, basic savings, debt, insurance, and pensions have to be the focus areas of projects that are aimed at educating people about finances.
7. The programmes should be adapted to the specific requirements and objectives of each person, with a primary focus on improving the individual's financial capabilities.
8. Those who are planning to retire in the near future should be made aware of the fact that they should assess whether or not their current public and private pension plans are enough.
9. In order to raise awareness of high-risk financial consumer issues, such as fraud, it is important to promote national campaigns, websites that are specifically targeted, free information services, and warning systems.

### **Present Financial Literacy situation in India**

In the aftermath of the global economic crisis, there has been an increase in the importance of expanding one's knowledge of financial matters. There were hundreds of thousands of regular individuals who were experiencing serious financial problems, and numerous countries fell into default on their responsibilities to pay their debts. A significant number of individuals in India had a difficult financial situation as a consequence of taking out loans or making unwise decisions during the boom. Therefore, having a solid understanding of finances is now an absolute must! As a result, the government is now in the process of establishing the "Financial Stability and Development Council (FSDC)" in order to address issues pertaining to financial literacy and inclusion. There are a few organisations in India that are committed to elevating the level of financial literacy in the country. These are the items that are listed:

1. To begin, the Reserve Bank of India (RBI) is actively participating in many projects that aim to enhance the level of financial literacy among Indians. Comics on banking and money may be downloaded for free from the Reserve Bank of India's website, which can be found at [www.rbi.org.in/Financial Education](http://www.rbi.org.in/Financial%20Education). One of the areas in which the Reserve Bank of India (RBI) is working to increase awareness is financial literacy. This is a component of the RBI's wider endeavour to promote financial inclusion. The Reserve Bank of India has issued an instruction to both public and commercial organisations to strongly seek financial inclusion. This is despite the fact that financial education has not gotten the same amount of concentration as other areas. To achieve its objective of fostering financial literacy and education throughout the whole of the nation, the Reserve Bank of India (RBI) has a significant distance to go before it can achieve its aim.
2. The Securities and Exchange Board of India (SEBI) serves as a registration point for a number of investor organisations that are focused on the stock markets. The National Institute of Securities Markets (NISM) of the Securities and Exchange Board of India (SEBI) is responsible for initiating investor awareness activities.
3. The Investor Education and Protection Fund (IEPF) is a project that is managed by the Ministry of Corporate Affairs (MCA) with the purpose of educating the general public on subjects pertaining to investing and finance. On the other hand, the areas in which MCA really thrives are investor awareness camps and other initiatives geared towards working adults.
4. ICAI, ICSI, and ICWAI are three organisations that get financing from the Ministry of Corporate Affairs (MCA) and other government organisations in order to promote financial literacy and investor awareness

via their own activities. When it comes to raising knowledge of investments, these groups focus on the middle class and their own communities of members rather than public awareness initiatives.

5. Stock exchanges such as the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE), and the Multi Commodity Exchange (MCX) often organise investor awareness events and provide financial literacy propaganda and articles. It is not the purpose of these organisations to develop financial literacy; rather, they want to increase the number of individuals who participate in the stock market.

### **Research Opportunities in Financial literacy**

In order to live a life that is prosperous, healthy, and full of joy, it is essential to have a solid understanding of finances in order to avoid and deal with any financial issues that may arise. As a consequence of this, there has been a recent surge in the number of studies that investigate financial literacy. These studies are conducted with the intention of designing and evaluating initiatives that aim to improve the levels of financial literacy among certain populations who have been shown to be financially illiterate. In addition, the vast number of people who are not financially literate poses a threat to the economic well-being of individuals as well as the country as a whole. As a result, there is a need for research to be conducted in order to establish trustworthy criteria for the ongoing evaluation of financial literacy. It is expected that the need for research on financial literacy will continue to be driven by the demands of saving, borrowing, investing, retirement, healthcare, and insurance, in addition to the constantly shifting technology environment.

### **OBJECTIVES**

1. to have an understanding of the need of putting money aside for the future
2. To get as much information as possible on financial literacy

### **CONCLUSION**

If we want to guarantee that our nation's economy will continue to be healthy over the long term, there must be a direct connection between having knowledge of finances and acting responsibly via those finances. The study that has been done on financial literacy up to this point has not been able to do that. An additional area of research focuses on determining which aspects of financial literacy are most crucial for ensuring one's financial stability throughout the next years. Despite the fact that several research have shown that the majority of individuals learn about personal finance via the process of making errors, there have been no studies that have attempted to discover which personal characteristics and experiences are the most significant in determining how well-versed an individual is in personal finance. The research that has been done on the topic of financial literacy among the general population has also emphasised on the need of gathering specific information about the monetary experiences and characteristics of individuals.

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