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FINANCIAL LITERACY FOR ALL - COMPONENTS AND CONTRIBUTORS

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ABSTRACT

Financial literacy is knowledge and understanding of financial concepts and risks, as well as the skills and attitudes to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life. It is the mix of one's knowledge, skill and attitude towards financial matters. It is utmost needed to make informed financial decisions. Financial literacy goes beyond the provision of financial information and advice. Rapid growth in Indian economy over the last decade and expansion of financial markets through liberalization, privatization and globalization have given a way to abundance of financial products in banking, investment and loan products. Low level of financial literacy prevents individuals from making right choices regarding financial decisions. To achieve the objectives, individual must invest his/her savings in right investment alternatives.

KEYWORDS: Financial Literacy, Financial Knowledge, Financial Attitude, PISA, Financial Education

FINANCIAL LITERACY

The Organization for Economic Co-operation and Development (OECD) in its Recommendation on Principles and Good Practices for Financial Education and Awareness, defined financial education as - the process by which individuals improve their understanding of financial products and concepts; 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 and protection‖ (OECD 2005).

The financial literacy definition created in the context of PISA (Programme for International Student Assessment) 2012 is considered to be still relevant and appropriate, and only a minor change is suggested with respect to previous versions of the framework. In practice, the words "motivation and confidence" have been replaced with "attitudes" as a way of taking into account that a broad set of attitudes is related to cognitive aspects of financial literacy and is important for financial behaviour.

The revised definition is as follows: "Financial literacy is knowledge and understanding of financial concepts and risks, as well as the skills and attitudes to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of

individuals and society, and to enable participation in economic life." This definition, like other PISA domain definitions, has two parts. The first part refers to the kind of thinking and behaviour that characterises the domain. The second part refers to the purposes for developing the particular literacy.

The definition has been further elaborated as follows:

Financial literacy… Literacy is viewed as an expanding set of knowledge, skills and strategies, which individuals build on from a young age and throughout life, rather than as a fixed quantity, a line to be crossed, with illiteracy on one side and literacy on the other. Literacy involves more than the reproduction of accumulated knowledge and it involves a mobilisation of cognitive and practical skills, and other resources such as attitudes, motivation and values.

…**is knowledge and understanding of financial concepts and risks**… Financial literacy is thus dependent on some knowledge and understanding of fundamental elements of the financial world, including key financial concepts as well as the purpose and basic features of financial products. An understanding of concepts such as interest, inflation, and value for money are important for their financial well-being. Knowledge and understanding of risks that may threaten their financial well-being, including those arising from new types of digital and traditional financial services is also important. At the same time, financially literate students would have an understanding of the purpose of products such as insurance policies and pensions that are intended to mitigate certain risks.

…**as well as the skills**… these skills include basic skills in mathematical literacy such as the ability to calculate a percentage, undertake basic mathematical operations or convert from one currency to another, and language skills such as the capacity to read and interpret advertising and basic contractual texts.

…**and attitudes**…the motivation to seek information and advice in order to engage in financial activities, the confidence to approach various types of financial providers and to engage in financial decisions, the ability to focus on the long-term, and the ability to exercise self-control and manage other emotional and psychological factors that influence financial decision making. These attributes are considered as a goal of financial education, as well as being instrumental in building financial knowledge and skills.

…**to apply such knowledge and understanding in order to make effective decisions**…PISA focuses on the ability to activate and apply knowledge and understanding in real-life situations rather than the reproduction of knowledge. The term "effective decisions" refers to informed and responsible decisions that satisfy a given need.

…**across a range of financial contexts**… that relate to young people's present daily life and experience, but also to steps they are likely to take in the near future as adults. For example, young people may currently make relatively simple decisions such as how they will use their pocket money or which mobile phone contract they will choose; but they may soon be faced with major decisions about education and work options with long-term financial consequences.

…**to improve the financial well-being of individuals and society**… financial literacy in PISA is primarily conceived of as literacy around personal or household finance, distinguished from economic literacy. Financial literacy is concerned with the way individuals understand, manage and plan their own and their households' – which often means their families' – financial affairs. It is recognised, however, that good financial understanding, management and planning on the part of individuals has some collective impact on the wider society, in contributing to local prosperity as well as national and even global stability, productivity, sustainability and development.

…**and to enable participation in economic life**…..implies the importance of the individual's role as a thoughtful and engaged member of society. Individuals with a high level of financial literacy are better equipped to make decisions that are of benefit to themselves and their family or community, and also to constructively support and critique the economic world in which they live.

LITERATURE REVIEW

Puneet Bhushan et al. (2013), conducted survey of 516 salaried individuals of Himachal Pradesh using multistage sampling to check the financial literacy level. It is found that overall literacy level is low and financial literacy level of male is more than females. Level of education, income, nature of employment and place of work influence on financial literacy whereas geographical region does not influence on financial literacy.

Harsha V Jariwala (2014) assessed the financial literacy level of individual investors in Gujarat state, India and its effect on investment decision by considering 44 variables. The research found that 39.2% of 285 respondents are higher level of financial literacy and found that financial literacy does have statistically significant effect on investment decision.

Priyanka Agarwal, et al. (2015), emphasis on financial literacy importance for managing finances and investment pattern of both teaching and non-teaching female staff (20 teaching and 20 non-teaching female staff) in education sector of Jhansi District. It is found that most of working women are aware of Investment Avenue and invest their savings in bank and post office fixed deposit.

Lavanya Rekha Bahadur (2015), analysed two-pillar of the economy: financial literacy and financial inclusion and its current scenario as well as common people perspective about financial instruments. Data collected from 202 Mumbai and thane district individuals. It is found that level of financial literacy is very low and suggested to encourage financial literacy from school level, national level programs and seep effort to the grass root level.

Ratna Achuta Paluri (2016), analysed factors influencing financial attitudes of Indian women to classify Indian women based on attitude with 9 variables: anxiety, interest in financial issues, intuitive decisions, precautionary savings, free spending, materialistic and fatalistic attitude, propensity to plan for long and short term financial goals. It is found that only one third of respondents did not buy any financial products, most preferred products were fixed deposit and insurance.

J. Gajendra Naidu (2017) analysed that the rapid growth of Indian economy and complex financial market leads to improper financial decisions. To achieve the financial objectives, one has to possess basic financial skills, awareness, knowledge, attitude and good demonstrated behaviour. Though many initiatives have been taken up by RBI and government on financial literacy improvement, yet financial literacy level is still low. It is necessary to mend level of literacy through new initiatives.

Naidu (2017), has posited that, because of quick development in Indian economy in the course of the most recent decade and extension of financial markets through liberalization, privatization and globalization have given an approach to excess of financial products in banking, investment and loan products. Low degree of financial literacy keeps people from settling on right decisions with respect to financial choices. To accomplish the goals, individual should contribute his/her savings in right investment alternatives. It is tracked down that financial literacy in India is exceptionally low and requires effort to patch level of literacy.

Jayaraman and Jambunathan (2018), have opined that, the financial literacy is a significant however frequently disregarded ability that is indispensable for youngsters. Financial literacy levels in India were discovered to be lower. Gender contrasts were found, with females having better knowledge than males. Students who sought after the business/financial aspects stream of schooling were found to have more significant levels of financial literacy than students seeking after the science stream. Results showed that students, regardless of having undeniable degrees of numeracy, couldn't move that information to do financial calculations. Parental contribution was additionally found to impact financial literacy.

According to Jadhav (2020), financial literacy has developing as a need area across the world as of late. Developing nation like India has need of great importance for comprehensive growth and sustainable prosperity in financial literacy as individuals of India play a significant role in the financial advancement

of the country. It is must for people to be exceptional with the fundamental financial knowledge and attention to rehearse their financial assets in an ideal manner.

COMPONENTS OF FINANCIAL LITERACY

Every country's economy depends on investing, which is a component of savings. Money invests in a variety of opportunities that are available to the people, acting as the catalyst for the country's prosperity. The Indian financial market presents a variety of options for investors. Even while it is undeniably not the best or deepest market in the world, there are acceptable opportunities for the regular individual to invest his funds. Spending idle resources and getting a return on them are necessary for acquiring a given amount of money to achieve a particular life goal and set aside money for unforeseen circumstances. To cover the expense of inflation is one of the key reasons why one must invest intelligently. The rate at which the expense of living rises is known as inflation. Financial literacy is the knowledge of numerous financial concepts, such as managing personal finances, handling money and investing. Investing, insurance, real estate, paying for college, budgeting, retirement, and tax planning are just a few of the personal finance decisions that are covered in this topic, which focuses on how to handle personal finances effectively.

Financial literacy also includes being knowledgeable about key financial concepts and principles, like time value of money, debt management, financial planning, compound interest, and managing debt. A person's financial wellbeing may suffer as a result of poor financial decisions made as a result of a lack of financial literacy. The Financial Literacy and Education Commission was subsequently established by the federal government to offer resources to those who want to learn more about financial literacy. Learning how to make a budget, keep track of your spending, pay off debt, and prepare for retirement efficiently are the key components of gaining financial literacy. These actions may also involve receiving financial professional counselling.

Financial literacy consists of several financial components and skills that allow an individual to gain knowledge regarding the effective management of money and debt. Achieving an in-depth knowledge of the financial components guarantees an increase in an individual's financial literacy. These components are -

1. Budgeting - In budgeting, there are four main uses for money that determine a budget: spending, investing, saving, and giving away. Creating the right balance throughout the primary uses of money allows individuals to better allocate their income, resulting in financial security and prosperity. In general, a budget should be composed in a way that pays off all existing debt while leaving money aside for saving and making beneficial investments.

2. Investing - To become financially literate, an individual must learn about key components in regards to investing. Some of the components that should be learned to ensure favourable investments are interest rates, price levels, diversification, risk mitigation, and indexes. Learning about crucial investment components allows individuals to make smarter financial decisions that may result in an increased inflow of income.

3. Borrowing - In most cases, almost every individual is required to borrow money at one point in their life. To ensure borrowing is done effectively, an understanding of interest rates, compound interest, time value of money, payment periods, and loan structure is crucial.

4. Taxation - Gaining knowledge about the different forms of taxation and how they impact an individual's net income is crucial for obtaining financial literacy. Whether it be employment, investment, rental, inheritance, or unexpected, each source of income is taxed differently. Awareness of the different income tax rates permits economic stability and increases financial performance through income management.

5. Personal Financial Management - The most important criteria, personal financial management, includes an entire mix of all of the components listed above. Financial security is ensured by balancing the mix of

financial components above to solidify and increase investments and savings while reducing borrowing and debt.

FINANCIAL EDUCATION FOR YOUTH AND IN SCHOOLS

Younger generations are not only likely to face ever-increasing complexity in financial products, services and markets, but they are more likely to have to bear more financial risks in adulthood than their parents. In particular, they are likely to bear more responsibility for the planning of their own retirement savings and investments, and the coverage of their healthcare needs; and they will have to deal with more sophisticated and diverse financial products.

Because of the changes in the marketplace and social welfare systems (and particularly pension systems), current generations are unlikely to be able to learn from past generations. They will have to rely on their own knowledge or, given the complexities of new systems, make informed use of professional financial advice. Efforts to improve financial knowledge in the workplace or in other settings can be severely limited by a lack of early exposure to financial education and by a lack of awareness of the benefits of continuing financial education. It is therefore important to provide early opportunities for establishing the foundations of financial literacy.

In addition to preparing young people for their adult life, financial education in schools can also address the immediate financial issues facing young people. Children are often consumers of financial services from a young age. It is not uncommon for them to have accounts with access to online payment facilities or to use mobile phones (with various payment options) even before they become teenagers, and it is clear that financial literacy skills would be of benefit to them when using such products. Before leaving school, they may also face decisions about such issues as car insurance, savings products and overdrafts.

Recognising both the importance of financial literacy for youth and the unique potential of school programmes to create more skilled and knowledgeable future generations, an increasing number of countries have embarked on the development of financial education programmes. These are either dedicated to youth generally or delivered through schools, and include those at national, regional and local levels as well as pilot exercises. A survey of individual financial literacy schemes supported by the European Commission (Habschick et al., 2007) found that most were directed at children and young people, and a broad stock-take exercise launched by the INFE subgroup on financial education in schools demonstrated that amongst the 32 countries/jurisdictions contributing to the survey, 21 had some programmes in schools (OECD, forthcoming).

FINANCIAL LITERACY AS CONTRIBUTORS TO FINANCIAL PLANNING

A. Planning and Managing Income

Income and wealth need planning and managing over both the short term and long term. This includes:

1. Knowledge and ability to monitor income and expenses: It is crucial to identify various types of income and measures of income (e.g. allowances, salary, commission, benefits, hourly wage, and gross and net income); and draw up a budget to plan regular spending and saving.
2. Knowledge and ability to make use of income and other available resources in the short and long terms to enhance financial well-being: this implies an understanding of how to manipulate various elements of a budget, such as identifying priorities if income does not meet planned expenses, or finding options for reducing expenses or increasing income in order to increase levels of savings; assess the impact of different spending plans and be able to set spending priorities in the short and long term; plan ahead to pay future expenses: for example, working out how much needs to be saved each month to make a particular purchase; understand the purposes of accessing credit and the ways in which expenditure can be smoothed over time through borrowing or saving; understand the idea of building wealth, the impact of compound interest on savings, and the pros and cons of investment products; understand the benefits of saving for long term goals or anticipated changes

in circumstance (such as living independently); and understanding how government taxes and benefits create an impact on planning and managing finances.

B. Risk and reward

Risk and reward are key areas of financial literacy, incorporating the ability to identify ways of managing, balancing and covering risks and an understanding of the potential for financial gains or losses across a range of financial contexts. There are two types of risk of particular importance in this domain. The first relates to financial losses that an individual cannot bear, such as those caused by catastrophic or repeated costs. The second is the risk inherent in financial products, such as credit agreements with variable interest rates, or investment products. This includes:

1. Recognising that certain financial products (including insurance) and processes (such as saving) can be used to manage and offset various risks (depending on different needs and circumstances): knowing how to assess whether insurance may be of benefit.
2. Applying knowledge of the ways to manage risk including the benefits of diversification and the dangers of default on payment of bills and credit agreements to decisions about: limiting the risk to personal capital; various types of investment and savings vehicles, including formal financial products and insurance products, where relevant; and various forms of credit, including informal and formal credit, unsecured and secured, rotating and fixed term, and those with fixed or variable interest rates.
3. Knowing about and managing risks and rewards associated with life events, the economy and other external factors, such as the potential impact of: theft or loss of personal items, job loss, birth or adoption of a child, deteriorating health; fluctuations in interest rates and exchange rates; and other market changes.
4. Knowing about the risks and rewards associated with substitutes for financial products; in particular: saving in cash, or buying property, livestock or gold; and borrowing from informal lenders.

C. Financial landscape

Financial landscape relates to the character and features of the financial world. It covers knowing the rights and responsibilities of consumers in the financial marketplace and within the general financial environment, and the main implications of financial contracts. Information resources and legal regulation are also topics relevant to this content area. In its broadest sense, financial landscape also incorporates an understanding of the consequences of changes in economic conditions and public policies, such as changes in interest rates, inflation, taxation or welfare benefits. Tasks associated with this area include:

1. Knowledge of rights and responsibilities, and ability to apply it: understand that buyers and sellers have rights, such as being able to apply for redress; understand that buyers and sellers have responsibilities, such as: consumers/investors giving accurate information when applying for financial products; providers disclosing all material facts; and consumers/investors being aware of the implications of one of the parties not doing so; recognise the importance of the legal documentation provided when purchasing financial products or services and the importance of understanding the content.
2. Knowledge and understanding of the financial environment, including: identifying which providers are trustworthy, and which products and services are protected through regulation or consumer protection laws; identifying whom to ask for advice when choosing financial products, and where to go for help in relation to financial matters; and awareness of financial crimes such as identity theft and scams, and knowledge of how to take appropriate precautions.
3. Knowledge and understanding of the impact of financial decisions including on others: understand that individuals have choices in spending and saving and each action can have consequences for

the individual and for society; and recognise how personal financial habits, actions and decisions impact at individual, community, national and international level.

4. Knowledge of the influence of economic and external factors: aware of the economic climate and understand the impact of policy changes such as reforms related to the funding of post-school training; understand how the ability to build wealth or access credit depends on economic factors such as interest rates, inflation and credit scores; and understand that a range of external factors, such as advertising and peer pressure, can affect peoples' financial choices.

D. Apply financial knowledge and understanding

The fourth process picks up a term from the definition of financial literacy: “to apply such [financial] knowledge and understanding”. It focuses on taking effective action in a financial setting by using knowledge of financial products and contexts, and understanding of financial concepts. This process is reflected in tasks that involve performing calculations and solving problems, often taking into account multiple conditions. An example of this kind of task is calculating the interest on a loan over two years. This process is also reflected in tasks that require recognition of the relevance of prior knowledge in a specific context. For example, a task might require the student to work out whether purchasing power will decline or increase over time when prices are changing at a given rate. In this case, knowledge about inflation needs to be applied.

CONCLUSION

Understanding how money works, setting and accomplishing financial objectives, and dealing with both internal and external financial issues are all part of the today’s education. The development of self-sufficiency through financial literacy enables people to achieve financial stability. People who are knowledgeable about the topic have should be able to respond to a number of inquiries regarding purchases, including if a product is necessary, whether it is affordable, and whether it is an asset or a liability. This area shows how a person’s thoughts and behaviours around money are applied to his daily life. Financial decision-making is demonstrated by one’s level of financial literacy. This ability can assist someone in creating a financial road map that shows what they earn, what they spend, and what they owe. All socioeconomic levels and ages are impacted by financial illiteracy. Many people who lack financial literacy wind up being victims of excessive interest rates, fraud, predatory lending, and subprime mortgages.

In addition to the benefits identified for individuals, financial literacy is important to economic and financial stability for a number of reasons. Financially literate consumers can make more informed decisions and demand higher quality services, which will encourage competition and innovation in the market. They are also less likely to react to market conditions in unpredictable ways, less likely to make unfounded complaints and more likely to take appropriate steps to manage the risks transferred to them. All of these factors will lead to a more efficient financial services sector and potentially less costly financial regulatory and supervisory requirements. They can also ultimately help in reducing government aid (and taxation) aimed at assisting those who have taken unwise financial decisions – or no decision at all.

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