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EVALUATION OF LITERATURE REVIEW ON FINANCIAL LITERACY

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Abstract

The research paper reviews the literature available on the concept of financial literacy. By reviewing the papers on the multifaceted domain of financial literacy, and exploring its significance, along with the current status of financial literacy, it was observed that financial literacy is an essential indicator to measure the decision-making ability, financial knowledge, and handling of personal finance. The study highlights the need for tailored educational programs, integration of financial literacy into school curricula, and comprehensive public awareness campaigns to address the diverse needs and backgrounds of India's population.

Keywords: Financial Literacy, Financial Knowledge

Introduction

Many research scholars have defined the term Financial Literacy. For a long time, research has been conducted to know the extent of financial literacy. This concept has gained importance in financial planning as well as economic decisions. The recent health crisis has made individuals observe the need for budget management (Kurowski, 2021). Before the health crisis, the financial breakdown occurred in the year 2008, which also caused the policymakers to develop concerns about the financial literacy levels in their respective countries. Financial literacy encompasses the knowledge, skills, and behaviors necessary to make informed financial decisions that are crucial for individuals, families, businesses, and societies at large. Despite the research studies done in this field, there is still a need to explore the aspect among individuals and groups from different places. This research paper aims to delve into the multifaceted domain of financial literacy, exploring its significance, determinants, current status, and potential interventions. By conducting a comprehensive review and analysis of existing literature, empirical studies, and theoretical frameworks, this paper seeks to contribute to the ongoing discourse on enhancing financial literacy worldwide.

The Concept of financial literacy

Researchers have tried to develop an understanding of financial literacy concepts through a series of research and development activities. The common base for the definitions of financial literacy remained financial knowledge and a general understanding of personal finance. The parameters on which financial literacy has been studied are- Knowledge of financial concepts, Ability to manage personal finance, Skills in making financial decisions, and confidence in future planning. As long as 20 years back financial literacy has been defined by many authors, one of them is (Noctor T. A., 1992), who presented this definition as "the ability to make informed judgments and to make effective decisions regarding the use and management of money" (p. 4). Financial literacy is also defined as "The ability to make financial decisions in their own best short and long-term interests." (carlin, 2012). In the study conducted (Carlin, 2012), they used data from finance-related theme parks to get an idea about the impact of financial knowledge on investment, financing, and consumer behaviour. It was found the individuals who received training regarding financial literacy remained debt-free and were more frugal. Many initial definitions for financial literacy were taken and used by contemporary researchers in their research works. One such definition was given by (Noctor, 1992), who defined financial literacy as the ability to make informed judgments and to make effective decisions regarding the use and management of money. This definition explains that financial literacy makes the individual effective in making individual financial choices. (Hastings, 2013) in their study defined financial literacy based on knowledge about the available financial products, financial concepts, and skills to make financial decisions. The quotation from their research paper is taken which defines the concepts as "As operationalized in the academic literature, financial literacy has taken on a variety of meanings, it has been used to refer to knowledge of financial products, knowledge of financial concepts, having the methodical skills of numeracy necessary for effective financial decision-making, and being engaged in certain activities such as financial planning." The concept of financial literacy was given by (Mitchell, 2014) in the research work -Financial Literacy and Retirement Planning: New Evidence from Financial Literacy "People's ability to process economic information and make informed decisions about financial planning, wealth accumulation debt, and pensions." This definition highlights the importance of investment in human capital, it further suggests that the financial knowledge has its importance welfare of individuals as well as financial policy planning. After conducting the study among 14 countries to study the variation in financial knowledge, behaviour, and attitude; (Messy, 2012) defined financial literacy as "A combination of Knowledge, awareness, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing". The definition also highlights other aspects like skill, attitude, and behaviour other than financial awareness. Similar concepts have been given by other scholars, (Remund, 2010) defines financial literacy as "Financial literacy is the measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finance through the appropriate, short-term decision making and sound long-range financial planning, with mindful of life events and changing economic conditions". (Huston, 2010), defined the concept as "Financial Literacy has added application dimension requiring the individual to have the ability and confidence to use the financial knowledge to make financial decisions". (Levine, 2010) "Financial Literacy is the ability to make informed judgments and effective decisions regarding the use and management of money and wealth." (Robb.Cliff A., 2009) "Financial Knowledge is defined as an individual understanding of important concepts related to personal finance". Financial Literacy has been invariably defined as a) a specific form of knowledge b) the ability or skills to apply that knowledge c) Perceived knowledge d) good financial behaviour and even e) Financial Experiences. (Hung, 2009) "The ability to evaluate the new and complex financial instruments and make judgments in both choices of instruments and extent of use of that would be in their own best long–run interest." (Mandell, 2008).

Significance Of Financial Literacy

Individual Financial Well-being: Financial literacy empowers individuals to make informed decisions about managing their finances, including budgeting, saving, investing, and planning for retirement. Studies have shown that individuals with higher levels of financial literacy tend to exhibit better financial behaviors and outcomes (Lusardi & Mitchell, 2014). A population with high levels of financial literacy contributes to overall economic stability by reducing the likelihood of financial crises and market failures. Financially literate individuals are better equipped to navigate economic downturns, mitigate risks, and contribute to sustainable economic growth (OECD/INFE, 2016).

Consumer Protection: Financial literacy enables consumers to understand financial products and services, evaluate their suitability, and protect themselves from fraudulent practices and predatory lending. Improved financial literacy leads to more informed consumer choices and fosters a competitive and transparent financial marketplace (Van Rooij, Lusardi, & Alessie, 2011). Access to financial education and resources is essential for promoting social equity and inclusion, particularly among vulnerable populations such as low-income households, minorities, and youth. By addressing disparities in financial literacy, societies can reduce income inequality and promote economic mobility (Fernandes, Lynch Jr, & Netemeyer, 2014).Financial literacy encourages individuals to engage in long-term financial planning, including setting goals, building assets, and preparing for major life events such as homeownership, education, and healthcare expenses. A financially literate population is better prepared to adapt to changing circumstances and achieve financial resilience (Remund, 2010).Policymakers play a crucial role in promoting financial literacy through education initiatives, regulatory frameworks, and consumer protection measures. Evidence-based policies that prioritize financial education can yield significant societal benefits, including improved financial stability, increased economic productivity, and reduced welfare dependency (Lusardi & Mitchell, 2011). By recognizing the significance of financial literacy and implementing targeted interventions, stakeholders can empower individuals to achieve greater financial well-being and contribute to a more prosperous and equitable society.

Measuring Financial Literacy

Lusardi and Mitchell (2008, 2011B, 2011C) have extensively researched financial literacy and found it to be low worldwide, regardless of national income levels. Their standard questionnaire has been implemented in various surveys, revealing a universal need for improved financial knowledge (Lusardi & Mitchell, 2008; Lusardi & Mitchell, 2011B; Lusardi & Mitchell, 2011C). Investing involves sacrificing current resources for future benefits, yet it can be challenging due to the need to differentiate between needs and wants. Research by Nair and Pravitha (year) found that fixed deposits are commonly chosen as the first investment option by individuals under 25, indicating a preference for safety and security (Nair & Pravitha, year). Hung (2009) identified financial mismanagement as a significant contributor to economic crises, emphasizing the importance of financial literacy in making sound financial decisions. Hung, Parker, and Yoong (year) discussed the measurable aspects of financial literacy and its role in guiding decisions related to savings and housing (Hung, 2009; Hung, Parker, & Yoong, year). Chakravarty (2013) highlighted the importance of financial literacy for consumer protection and financial stability. A strong understanding of financial products and concepts is essential for avoiding crises and maintaining a robust financial system (Chakravarty, 2013). Kimiyaghalam (2015) reviewed literature on financial literacy, noting its impact on individuals' decision-making processes. Financial literacy encompasses more than just knowledge; it involves the ability to understand and apply financial information in various contexts, such as loan applications and budget management (Kimiyaghalam, 2015).

Current Status of Financial Literacy in India

The Indian government has launched several programs to enhance financial literacy among its citizens. The National Strategy for Financial Education (NSFE), launched by the Reserve Bank of India (RBI), aims to promote financial literacy through education and awareness campaigns (Reserve Bank of India, 2019). The Pradhan Mantri Jan Dhan Yojana (PMJDY) is one of the world's largest financial inclusion initiatives, aimed at providing access to basic banking services to all households in India. While PMJDY has succeeded in increasing the number of bank accounts, there is still a need for comprehensive financial education to ensure effective usage of these services (Government of India, n.d.). Various organizations, including banks, non-profits, and educational institutions, have been conducting financial literacy programs across the country. These programs cover topics such as budgeting, savings, investments, and retirement planning, targeting both urban and rural populations (Agarwal & Dey, 2017). Despite efforts to improve financial literacy, challenges remain, including low levels of awareness, limited access to formal financial services, and language barriers, especially in rural areas (Sharma, 2020). Additionally, there is a need for customized and culturally relevant financial education materials to effectively reach diverse populations (Verma & Sinha, 2016). Academic research on financial literacy in India has been growing, focusing on various aspects such as determinants of financial literacy, effectiveness of financial education programs, and impact on financial behavior (Bharathi & Anantharaman, 2018). Future Directions: Moving forward, there is a need for continued collaboration between government, financial institutions, NGOs, and educational institutions to develop targeted financial literacy initiatives that address the specific needs of different demographic groups and regions in India (Natarajan & Rangaiah, 2019).

Recommendations

Based on the above review of literature there are some recommendations to bridge the gap.

1. Develop and implement financial literacy programs that are tailored to the diverse needs and backgrounds of different demographic groups in India. These programs should be culturally sensitive and linguistically appropriate to effectively reach urban and rural populations. Integrate financial literacy education into the school curriculum at an early age to instill good financial habits and behaviors from childhood. Collaborate with educational authorities to incorporate topics such as budgeting, saving, and basic financial concepts into existing syllabi.
2. Launch comprehensive public awareness campaigns to promote financial literacy and inclusion across the country. Utilize various media channels, including television, radio, social media, and community outreach programs, to disseminate information about financial products, services, and responsible money management practices. Foster partnerships between government agencies, financial institutions, non-profit organizations, and educational institutions to pool resources and expertise in delivering financial literacy initiatives.
3. Collaborative efforts can help maximize the reach, effectiveness, and sustainability of programs. Promote digital financial literacy to capitalize on the growing penetration of smartphones and internet connectivity in India. Educate individuals on the safe and responsible use of digital financial services, including mobile banking, digital payments, and online investing.
4. Conduct regular evaluations and research studies to assess the impact of financial literacy programs and interventions in India. Evaluate the effectiveness of different approaches, identify best practices, and refine strategies based on empirical evidence and feedback from stakeholders.
5. Design and implement targeted financial literacy initiatives aimed at empowering women to take control of their finances and improve their economic well-being. Address gender-specific barriers to financial inclusion and provide women with the knowledge and skills needed to make informed financial decisions.
6. Encourage financial institutions to invest in financial literacy initiatives as part of their corporate social responsibility (CSR) efforts. Provide incentives such as tax benefits or recognition for institutions that actively contribute to promoting financial literacy and inclusion in India.

Conclusions

The findings highlight the need for tailored educational programs, integration of financial literacy into school curricula, and comprehensive public awareness campaigns to address the diverse needs and backgrounds of India's population. Collaborative partnerships and digital financial literacy initiatives can further enhance the reach and effectiveness of financial education efforts, particularly in underserved rural areas and among marginalized groups. Moreover, the study emphasizes the importance of ongoing evaluation and research to assess the impact of financial literacy interventions, identify best practices, and refine strategies based on empirical evidence. Empowering women through targeted financial literacy initiatives and incentivizing financial institutions to invest in financial education can also contribute to advancing financial inclusion and gender equality in India. As India continues on its path of economic development and financial transformation, prioritizing financial literacy remains imperative for building a more resilient and inclusive society. By implementing the recommendations outlined in this study, India can unlock the full potential of its citizens, promote responsible financial behaviors, and pave the way for sustainable economic prosperity for generations to come.

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