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FEATURES AND DETERMINANTS OF FINANCIAL LITERACY

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Abstract

Financial Literacy is more important in the country like India with distinct socioeconomic environment as it assists people for fulfilling their life cycle needs and makes them capable of dealing with unforeseen emergencies without holding unnecessary debt. Financial Literacy implies minimum knowledge of a person with regard to basic financial concepts like inflation, interest rates, risk and return along with the ability to use that knowledge while taking financial decisions. The importance of financial literacy has been amplified due to changes in economic and demographic determinants and expanded financial markets with range of financial instruments with varied risk and return characteristics. This paper summarizes the concept, features and Determinants of the field of financial literacy.
Keywords: Financial, Poverty, Economic, Literacy.

1. INTRODUCTION

Financial literacy refers to a bunch of abilities that permit individuals to deal with their money shrewdly alongside some comprehension of fundamental monetary ideas, items and their gamble and return. Monetary education is fundamental for empowering individuals to go with right monetary choices. Due to lack of proper knowledge and awareness, investors make decisions without proper planning and give-up midway. People who have a strong grasp of financial principles are able to better understand and negotiate the financial landscape and avoid financial pitfalls. An Overview of Financial Literacy Financial Literacy is a combination of financial awareness, knowledge, skills, attitude and behaviors which are necessary to make sound financial decisions and ultimately achieve individual financial wellbeing (The OECD International Network on Financial Education (INFE), 2012). Only 27% of Indian adults – and 24% of women – meet the minimum level of financial literacy as defined by the Reserve Bank of India. According to the report conducted by the Global Financial Literacy Excellence Center, only 24% of the Indian adult population is financially literate. In comparison to other major emerging economies, the financial literacy rate of India is the lowest. This is due to inter-state disparities, lack of formal training and awareness. While other emerging economies have better financial literacy rates, there's still scope for more improvement.

2. REVIEW OF LITERATURE

2. a Study by Martin Samy (2007) revealed that determinants of credit card are significantly dependent on a student's year of study, credit card status and daily routine, which has a strong relevance to respondents' knowledge of credit cards.

2.b Sages and Grable, (2009) in their study found that the individuals who has the lowest level of financial risk tolerance is the least competent in terms of financial matters, have the lowest subjective evaluation of net worth and are less satisfied with their financial management skills. The level of financial risk tolerance of the individuals determines the financial behavior.

2. c Mark Taylor (2010) Identify the key determinants of Financial Literacy. Using panel data models, He fined the key determinants to financial literacy are age, health, household size and structure, housing tenure, and the employment status of the individual and other household members. Older men and women in full-time work with an employed spouse have the most financial capability although many of these characteristics have significant impacts on financial capability, but results suggest that age, and employment status has the largest impacts.

3. OBJECTIVES

The objectives of the study includes

- To identify the determinants of financial literacy in India.
- To identify the channels through which financial literacy can be imparted to the masses.
- To evaluate the influence of various demographic factors on the level of financial literacy.
- To Annalise The Importance of Financial Literacy to the Economy.
- To identify suitable measures to enhance financial literacy.

4 .NEED FOR THE STUDY

Financial literacy is a global concern. Complicated financial products, low level of awareness and lack of knowledge about financial matters makes the want of financial literacy significant. The level of financial literacy differs from individual to individual. Financial Literacy is required for ensuring the stability in the financial system of the country.

Individuals take frequent financial decisions regarding their day to day financial activities such as wise investments, spendings, borrowings, future financial planning etc. Wrong financial decisions affect the whole economy along with their personal life. Financial literacy not only helps in improving financial system of the country, but also contributes to the whole development of the country. Therefore, there is greater need for people to be more financially literate which has increased the accountability of educational institutions to promote financial literacy. The present study tried to make an attempt to measure financial literacy of working youth assessing all its three dimensions, namely, financial knowledge, financial behavior and financial attitude individually for the proper assessment of financial literacy and try to fill the research gaps.

5. SOURCES OF DATA

The paper is based on secondary data. The data has been collected from the following sources. Journals,Subject-books,Magazines.,Newspapers And internet, Studies undertaken by various research institutions

6. The Concept of Financial Literacy

A number of definitions of financial literacy exist in the literature. Basically 'financial literacy' refers to the knowledge and understanding of financial concepts there by resulting in the ability to make informed, confident 3 and effective decisions regarding money. Financial literacy can be interpreted broadly or narrowly. In a broader perspective, financial literacy can be stated as "understanding of economics and how economic conditions and circumstances affect household decisions" (Worthington, 2006). A narrow definition of financial literacy focuses on "basic money management tools such as budgeting, saving, investing and insurance" (Natalie, Newton and Chrisann, 2010).It is the narrow view of financial literacy that is particularly relevant to individual decisions concerning financial matters

7. Salient Features of Financial Literacy

a. Financial knowledge: Financial literacy is concerned with financial knowledge. it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources

b. Application of knowledge: Financial literacy involves use of the financial knowledge which has acquired. Financial literacy is acquired through practical experience and active integration of knowledge. Knowledge influences behavior or action.

c. Personal ability: Financial literacy is purely a personal quality. It is the ability to evaluate and make judgments on financial matters affecting day to day life of a person.

d. Managing money: People cannot live without money. Hard earned money should effectively be utilized. Financially literate person knows well about managing his money so as to make life smooth.

e. Attitude: Attitude of a person about money has an important impact on his/her financial literacy. Attitude towards money, life style, social status, formal financial education etc influences personal financial literacy and thereby future prospects.

f. Measurement: Measurement of financial literacy is not simple as that of measuring general literacy. The methods of measurement varies according to the socioeconomic back ground of the people whose financial literacy is studied, i.e., rich or poor either urban or rural.

g. Universality: Financial literacy concepts are applicable to all sections of the society, rich or poor either in developed or developing or underdeveloped nations.

8. DETERMINANTS OF FINANCIAL LITERACY

Financial education is "the process by which financial consumers/investors 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." The financial literacy level majorly depends upon the education and income of the individuals; the social factors such like family size, family background, age, regions nature of employment have a little impact on this.

(a) Gender: Financial literacy is affected by gender as women's literacy in India is matter of debate since past, hear as women's are saving rate among women's is high not in formal ways as there are several biasness only the matters of education among them .in the present periods India has improving status of women's in terms of educations as well as employment level.

(b) Age: Financial literacy follows an inverted-U shape with respect the age. Financial literacy increases among the youths is high as soon as the age increases it decline this is may be due to time as soon as time varies a lot of changes took place in the financial market and youth is make effort to update and accept the changes.

(c) Education &Income: Financial literacy is associated with higher educational attainment and income. As soon as the education levels of individuals increases their understanding about the financial terms and clarity about their financial needs and goals in order to protect their finance they increases the effort toward the accessing the information ,which ultimately enhances their knowledge of present financial services and products.

(d)Geographical region &Employment: Financial literacy is associated with more sophisticated investment. Financial literacy is independent of geography and religions of the individuals. While it is dependent upon the nature of employment the privet employees have better levels in comparison of government employees

9. Channels through which financial education can be imparted

a. School Curriculum: School curriculum can act as a platform for financial education. Governments also realized the importance of imparting financial education at school level to increase financial literacy rate. OECD has developed international level guidelines for efficient financial education programs. These guidelines will be compulsory to adopt at national level to provide diversity to education systems. The guidelines have suggested the best suitable framework which facilitates integration of financial education in school curriculum. It suggests following facets like identifying suitability and sustainability of resources, flexibility in the implementation levels, assessing and setting quantifiable goals, progress monitoring and impact assessment, participatory involvement of all major stake holders which include educational system, public authorities etc.

b. Media Marketing: Various Government ministries are targeting multiple forms of media to spread the words of financial education. Many financial literacy campaigns are on its way through all forms of media available today in the country. Government of India is in the process of integrating financial awareness messages and messages of general social and economic concerns. Particularly the mode of Social Media Marketing has seen great awareness campaigns in present times which are guiding masses through various forums and activities. Major Media marketing sources include the following: Newspapers, Radio, TV, Financial education websites, Books and magazines and Use of social networking sites like twitter, face book etc

c. Self Help Groups and Microcredit Institutions: According to RBI Self Help Groups are registered or unregistered group of people having homogeneity in socioeconomic background that join hands together to contribute regular savings to a common fund and meet their emergency needs on mutual help basis. In India, SHGs are related to various banks so that they can deliver micro-credit to poor women. Micro-credit refers to small loans that is given to individual who don't have collateral to meet their immediate credit needs which are short term in nature .With various initiatives of central and state Governments, the National Bank for Agriculture and Rural Development (NABARD), is lending the financial assistance for rural women of India. This kind of initiatives expected to reduce gender inequalities and also growth of marginalized sections of the country. Self Help Groups have successfully contributed in enhancing financial literacy as SHGs provide financial exposure by collecting, investing, spending, accounting and managing common funds. They have learned the art of smart budgeting.

d. Other Channels: There are various other channels through which financial education can be imparted are: Registered / Unregistered Associations of consumers, Investors' Associations, Association/Bodies of Policy Holders, Deposit holders' association, Stock Exchanges associated with regulators.

CONCLUSION

Financial literacy matters on many levels. It helps people manage their financial affairs and improve their standard of living. But it also makes an important contribution to the soundness and efficiency of the financial system and to the performance of the economy. The entire structure of financial system in our country is dependent on the levels of financial literacy among the masses. Thus, imparting financial literacy should be on the priority list of policy makers, government agencies, educators etc. The policy making should be based on BOTTOM – UP approach where field surveys, assessment reports, review reports etc can be created and implementation should be based on the lines of TOP-DOWN approach. The hierarchy of central government-state government-local bodies should be adhered to in actuating the policy decisions. Various massive financial education and awareness campaigns needs to be conducted across the country keeping in mind all sections of the people which should equally include the well educated financially illiterate and uneducated financially illiterate. The target must be to train individuals to manage money more effectively and to achieve financial well being by letting them access to appropriate financial products and services.

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