



A CASESTUDY ON IMPORTANCE AND IMPACT OF FINANCIAL LITERACY

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Abstract

By seeing today's world, the talent to manage personal finances has become progressively more important. Individuals with Financially literate can make an effective use of the financial products and services only by evaluating the associated risks and returns and choosing the financial products which are suited for them. The purpose of this paper is to carry out the importance of financial literacy. The study analyzed various survey reports worldwide about the status of financial literacy which reveals that most of the respondents are not financial literate, might leads their money management for daily life in trouble and financial investment goals in dangerous situations. Financial literacy is not only important for one's personal money management but it have a larger impact on the economy of the country. From this study it is concluded that, as a social responsibility, the individual employer can take responsibility for conducting a financial literacy programme to their employees, on the other side the government, SEBI and other financial institutions could try to take appropriate strategies in order to increase the level of financial literacy among the individual being a way develops the economy.

Key words: Financial literacy, Personal Financial Literacy, Impact of financial literacy on economy, financial environment

Financial literacy – Introduction:

Financial literacy is defined as, “A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound

financial decisions and ultimately achieve individual financial wellbeing.”

Financial literacy means the ability to understand that how much money works, how to manages and invests it. It helps the individuals to get better level of understanding of financial matters which makes them to process the financial information, formulate informed decisions about personal finance and directly related to the well being of individuals.

Individual who financially literate can make an effective use of financial products and services by analyzing associated risks, returns and finally they will prefer those products which are best matched to them. Hence financially literate individuals can build effectual use of financial products and services, not cheated by sales people who sell financial products which not suited for them. Financial literacy improves the quality of financial services and contributes to economic development and growth of the country.

Hogarth (2002) found that “financial literacy is important because well informed, well educated consumers make better decisions for their families; increase their economic security and well-being, contribute to vital, thriving communities; and foster community economic development”

Now a day the investment market is pooled with varieties of the modern investment like shares, debentures, forex market, commodity markets and traditional investment market products like gold, real estate, bank deposits, insurance, etc. it was found that most of the do not have a financial knowledge and they were not aware of the financial product.

For making an effective money management, a person should be financially literate to prepare house hold budgets, day to day money management and to allocate the asset to meet out their financial goals. But most of the person saves money for future desires without prioritizing personal financial goals, without understanding the real rate of returns they allocate their investments in different asset classes.

According to a study of the Organization of Economic Cooperation and Development (OECD), the research project on financial literacy concludes that everywhere there is deficit of control of financial matters by the individuals. The OECD found that in every country, between 3% and 10% of people lacked access to a bank account, this problem is even more manifest in developing countries. However, the evolution of the social world and modern financial products are making every day more urgent inclusive financial education of the general public. The Social Research Centre (2008), ANZ Survey of Adult Financial Literacy in Australia defines financial literacy as the ability to make informed judgments and to take effective decisions regarding the use and management of money. From the survey around 76% of respondents are having a close eye on their household and personal expenses and only around 30% of the respondents are maintaining written records for their purpose.

Statement of the problem:

Today there are many investment alternatives offered for investors in order to secure their savings. For making an effective money management, a person should be financially literate to prepare house hold budgets, day to day money management and to allocate the asset to meet out their financial goals. But most of the person saves money for future desires without prioritizing personal financial goals, without understanding the real rate of returns they allocate their investments in different asset classes. Without the minimum level of financial literacy, It is tough for a common man to understand the risk linked with financial products, understand risk and return associated with financial products. This is a case study which deals with importance of financial literacy and available various investment alternatives in financial market.

Objectives of the study:

To understand the importance of financial literacy

To study the impact of financial literacy on economy

The Importance of Personal Financial Literacy:

- Financial literacy is the ability to utilize the knowledge and skills to build effective and informed money management decisions.
- Make sense of the financial marketplace and buy the financial products and services best to be suited for their needs.
- Financial literacy helps to manage their personal finances and plan ahead for their life events.
- Financial literacy makes us to maximize the use of the sources, including workplace benefits, pensions, tax credits, investments, home equity and access to credit.
- Financial literacy develops the knowledge gaining process and expands the skills, being a lifelong process that begins with simple as putting little pennies in a piggy bank and progress to intricate more subjects such as risk and resource allocation.
- The financial environments are changing faster like bull and bear markets, changes in interest rates. So, the proper literacy is required to aware about the changes in the market.
- Financial literacy plays a major role for making sound financial decision between more financial options like hundreds of credit card options, types of mortgages, ever-growing number of investment options, etc.
- It helps to manage the debt before it manages us.
- Understanding finances literacy means less stress. The person will always know where they stand financially at present and they can have a plan in place to reach their goals.
- People with financial literacy have a confident when making their financial decisions and they could teach to their children about finances.

Impact of financial literacy on economy :

The survey (Financial Service Authority (FSA) 2013] was conducted on different areas such as managing money, planning ahead, making choices and getting help. The result showed that many people are failed to plan in advance and they took financial risks without knowing it. The survey (Financial Service Authority (FSA) 2013] was conducted on different areas such as managing money, planning ahead, making choices and getting help. The result shows that many people are failing to plan in advance and they are taking on financial risks without knowing the risk in it. Younger people hold less financially capable than elders.

Younger people are less financially capable than elders. The global financial literacy (Puneet 2012), survey was conducted in many countries and due to lack of discussion within the families on the money management, caused low financial knowledge. Superior levels of financial literacy are linked with daily financial management skills (Hilgert, Hogarth, and Beverly, 2003), retirement planning (Lusardi and Mitchell, 2007), investments in stocks (van Rooij, Lusardi, and Alessie, 2011), and wealth accrual (Behrman, Mitchell, Soo and Bravo, 2012).

Businesses and Enterprise Applications, Bhushan and Yajulu Medury (2013) had done a study on financial literacy and its determinants in India. The analysis concluded that overall financial literacy level among all respondents is not cheering. It was found that Indian people are not much aware about their finance related issues. The result suggested that level of financial literacy diverge radically from respondents based on various demographics and socio- economic factors and also gets affected by their gender, education qualification, income level, nature of employment and place of work. Overall the study concluded that financial literacy level is low in India and necessary measures should be taken by government for increase the awareness of the public about financial related matters. Hence, without basic (Harris Interactive Inc Public Relations Research 2013), financial product awareness, investors are less savvy in choosing financial choices. Two in five people told that they could manage their money because of using debit card. The research analyzed about four in five feels being connected with an account checking at a bank, feel more in controlling of their money by using debit card.

Most of the individuals do not have a (Dean Roy Nash 2012) DEMAT account and still they depend on day to day earnings which cannot dream of saving and investment even a life insurance. Nowadays, all countries are struggling for economic prosperity and it is particularly hard for young people, never learned how to budget; plan to attain financial security (Kelly, 2002). The global financial literacy (Puneet 2012), survey was conducted among 25000 respondents in 28 countries and due to lack of discussion within the families on the money management, result in low financial knowledge.

Conclusion:

From the survey worldwide, the financial literacy is not up to the level which leads poor in money management by the individual and affects the growth of the economy. So it is hurry time, that the government have to arrange the financial literacy programme to the individual and must include the financial education at schooling levels. The employers have to take responsible of educating their employees to make use of their income efficiently for the economic growth.

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