

MAJOR CHALLENGES OF FINANCIAL LITERACY

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Accepted: 07.02.2023

Published: 01.03.2023

Keywords: Financial Behaviour, Financial Attitude, Financial Literacy.

Abstract

Financial literacy is the ability to understand and effectively utilize financial skills like financial management, budgeting, investing and capital structure. It provides the base of your relationship with money. People who are financially literate can protect themselves from financial fraud. We can get ourselves financially literate by reading books, subscribing to financial content, talking to financial experts, and listening to podcasts. The research shows that financial illiteracy is very common which can lead to some major problems- poor credit, bankruptcy, housing for closure and other negative consequences. This paper presents a comprehensive understanding of financial literacy and its major problems. It helps the individual make more assertive and sound financial decisions. If we increase the level of financial education, it results in wise financial behaviour.

Paper Identification



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Introduction:

The Economic growth and development of any country depend upon a well-knit financial system. The financial system comprises, a set of sub-systems of a financial institution, financial markets, financial instruments, and services, which help the formation of capital. It provides a

mechanism through which savings are transformed into investments. In today's financial world, financial literacy is globally accepted as being a major component of the financial well-being of a person and the financial stability of a nation. In today's era, consumers are entering a risky marketplace where they are confronted with a variety of financial products and services. Most of people possess basic financial knowledge. With the help of financial literacy, we can understand how money works in the world. A person who is financially literate knows how to earn, manage and invest money. The evidence shows that highly educated high-income consumers have less knowledge about financial literacy as compared to less educated less income consumers. financial literacy has become a matter of concern all over the world. The problem of financial literacy is not confined to developing or underdeveloped nations but it is pervasive throughout the world. Financial literacy includes banking, budgeting, handling debit and credit and investing. NCFE (National Centre for Financial Education) a non-profit company was created under section 8 of the Companies Act 2013, to promote financial literacy in India. It is promoted by RBI, SEBI, IRDA, PFRDA. It organizes various programs to improve financial literacy.

“Money is one form of power, but what is more powerful is financial education”

-Robert Kiyosaki

The objective of the study: The objective is to attempt to understand the level of financial literacy and its problems.

Elements of financial literacy are- knowledge of the concepts, capability to apprehend the financial concepts, ability to manage personal finances and skills to make financial decisions appropriate to one's circumstances. The factors affecting financial literacy are:

Personal –

- Child education/marriage
- Health care
- Loan repayment
- Family Welfare
- Household budgeting

Financial–

- High profit
- Tax benefit
- Financial security
- Regular income
- Low risk

External –

- Guidance of professional colleagues
- Company's past performance
- Influence of relatives
- Financial newspaper
- Discussion with financial consultants

The main problem of financial literacy:**1. The problem of literacy:**

Financial literacy means the knowledge and skills required to take a good financial decision but the research shows that schools and colleges don't provide this type of financial knowledge to their students. They provide the knowledge and skills the students require to succeed in their careers. Cultural, social, and economic conditions, behavior, biasness etc. are the factors that can prevent an individual from attaining a desirable financial well-being level. Literacy in finance means the knowledge and skills required to take sound financial decisions. According to our research (figure 1), 90% of the respondents answered that educational institutions do not prepare students enough to reach the skillset and knowledge required to take sound financial decisions.

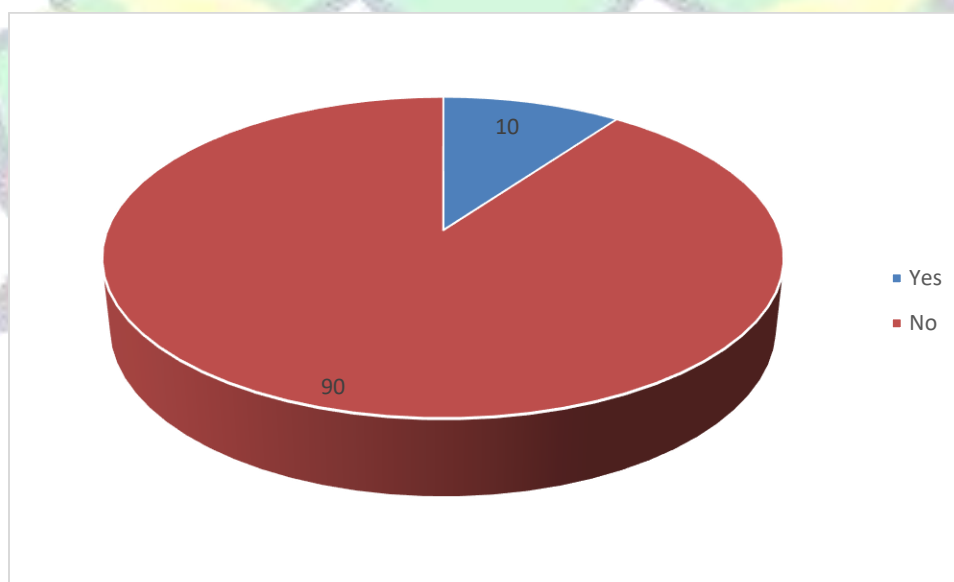


Fig 1: Do educational institutions provide enough skills and knowledge to take sound financial decisions?

2. The Problem of equality-

Women are having less financial knowledge than men. They are less confident in their skills and long-term investment plans. They are less interested in investing risky assets like mutual fund, stock market etc. Men show their interest in purchasing the securities in risky market. Even though women appear to have more reasonable short term money management behavior than men, they lack knowledge in financial and long-term planning. According to fig 2, 82% of men take major financial decisions while in case of women, only 18% show their readiness to take financial decisions.

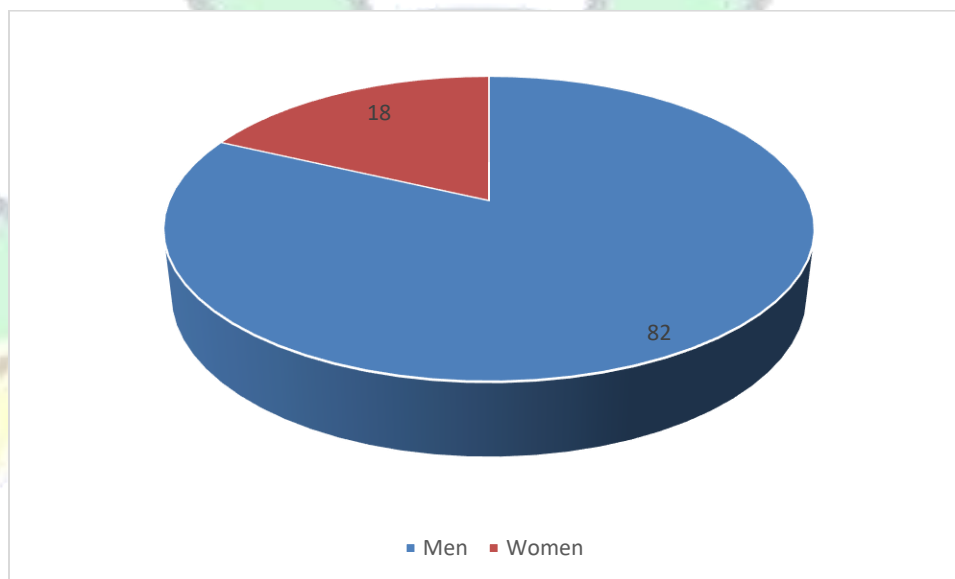


Fig 2: How many men and women take financial decisions?

3. The Problem of confidence-

Many people are overconfident about their financial knowledge. They trust their financial planners. Most people are worried about being rejected for loans, mortgages, or other financial products. One problem is that financial institutions are not transparent enough. According to fig 3, 67% of people are dependent on their financial advisors and experts while only 33% take their decisions on their own.

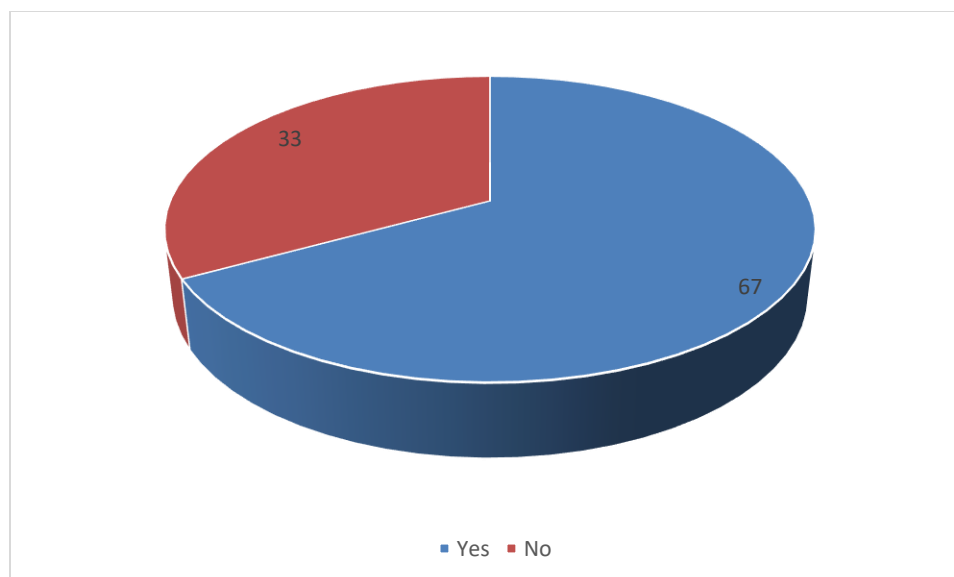


Fig 3: Dependence on the financial advisors and experts

4. **The Problem of legislation-**

Many governments agree that they should raise the level of awareness among their citizens. The Govt. has plans but they have not implemented them fully or at all. The other problem is the lack of govt. monitoring of financial institutions and legislations that protect the consumers. The other reason is funding. Governments and other federal agencies do not allocate enough funds to public institutions to provide additional classes or pay for those professionals that have the skills and knowledge to provide them. This produces a huge gap between those who are prepared and those unprepared. We can eventually infer from our study that this is what causes the huge gap between those who have no savings for retirement and those who have enough funds.

Conclusion:

It is crystal clear that although the majority of people possess basic financial knowledge and positive financial behaviour. For increasing financial literacy some new policies should be framed. It was found that certain factors may prevent people from being financially literate. Low levels of income, instability of income, and low age are the main factors responsible for low levels of financial literacy. Financial literacy is the foundation of financial well-being. Consumers should take their financial well-being into their hands; they should ensure they have enough financial resources once they retire.

Emphasis should be placed on women's financial literacy and awareness. The Government should plan and implement the legislative framework that helps them to be financially stable. Schools and colleges should have a curriculum for financial literacy. At last, we can say that a building without a solid foundation will fall. It is only a matter of time.

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