



Financial literacy and Tendency of Financial Self-Reliance

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Abstract

Scant resources available and there is a need to find how financial literacy helps in promoting financial self-reliance. It is very important to have an understanding regarding the way in which people plan their financial resources in their daily life. Education plays a pivotal role in influencing the behaviour of individuals in making financial decisions. Financial literacy is a key component which helps in the development of individual's financial stability. The Government of India has taken several initiatives to develop financial inclusion and literacy among the people of India. This study explains the importance of financial literacy in promoting financial self-reliance in present scenario. Based on the secondary data, this study explores the relationship between financial literacy and financial self-reliance and impact of financial literacy on individual's financial stability and how financially self-reliance society can make an economy a responsible one.

Key words: *Financial Literacy, Financial self-reliance, financial stability, responsible economy.*

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Introduction

In recent year's countries across the globe inter-connected with each other like ever before. Thanks to Liberalization, Privatization and Globalisation for this to happened. Inter-connected global economy looped around countries that the misfortunes of a country will affect other countries which are far away from its shores.

On the other hand, human desires are not commensurate with available resources or opportunities. People's desires are repetitive in nature. This creates dilemma to choose most appropriate desire to get fulfilled. The same explained by Lionel Robbins in his 'Scarcity Definition'.

Due to vulnerable global economy at times along with flexile human behaviour, people around the world always suffer from financial instability. This study explains the importance of financial literacy in promoting financial self-reliance which in turn promotes financial stability of people who are vulnerable to financial risks.

Financial Literacy-An Overview

Financial literacy refers to the knowledge and understanding of financial concepts there by resulting in the ability to make informed, confident and effective decisions regarding money. Financial literacy includes 4 major components. They are-

1. Saving literacy
2. Spending literacy
3. Borrowing literacy
4. Investment literacy.

Every individual has to have proper understanding of these components to take effective decisions regarding money. Financial literacy is the key step to achieve the objectives of financial inclusion i.e. to include each and every one in to the formal financial system. Through financial literacy one can become financially self-reliant in turn one can attain financial stability.

Review of Literature

1. Das, Gautham (2020) identified the worst-case scenario in India after global pandemic is for the workers who don't have regular salary. The researcher talks about how present labour market crunch can turn into a nightmare.
2. Siraj A Chaudhary (2020) - identified the effects of global pandemic on agriculture sector which is the largest employer in India. Further states, large number of formers around the country who grows perishable products faced uncertainty.
3. Centre for Policy Research (2020) states the drop off in household income across the country. More than 45% of household income dropped as compared to previous years.
4. Vyas, Mahesh (2020) – reports that the increase in unemployment rate. Unemployment rate rose from 6.5% to 26% in 2020.
5. Acuite Rating: Business line 2020 – reports covid-19 lockdown to cost India \$4.5 billion a day.

(OR)

After hit by global pandemic India observe a sharp rise in unemployment. Rate of unemployment rose from 6.5% to 26% on April 2020 and slightly comedown after May-June 2020 (Vyas, Mahesh 2020): formers who grow perishables faced uncertain fate. (Siraj. A. Chaudhary 2020): workers who don't have regular salary greatly affected by global pandemic, approximately 136 million jobs at risk. (Das, Gautham 2020): influenced by these, household income across the country dropped more than 45% compared to previous years (Centre for Policy Research 2020): apart from individuals, Government also suffered huge drop in income. More than Rs. 35,000 crores loss incurred per day in lockdown period. (Acuite Rating- Business Line 2020).

Need for the Study

The literature review reveals the economic problems faced by Government as well as people around the country after global pandemic. Larger section of the society faced the question of their existence. This global pandemic is a timely reminder to know the importance of Personal financial management. Therefore, this study aims to identify the importance of financial literacy and financial self-reliance.

Objectives

1. To identify the factors determining financial decisions of the individuals.
2. To know the importance of financial literacy in promoting financial stability.

Methodology

Research is done through secondary data by collecting data from various sources such as annual reports, magazines, research articles, newspaper and websites.

Determinants of Financial Decisions:

Earlier studies have identified the relationships between financial literacy determinants and how they affect financial decisions. The followings are the determinants of financial decision which is identified by the prior studies.

Financial Knowledge:

Financial knowledge is a form of literacy in financial matters. Huston (2010): Hilgert et.al. (2003) defined financial literacy as financial knowledge. Financial knowledge is what is actually stored in memory and is measured by assessing people's level of understanding of various components of financial markets and products such as numeracy, assets, debts, saving and investment and risk diversification. (Lusardi et al, 2010: Lusardi and Mitchell, 2014).

Financial Awareness:

In increasingly global economic development, financial awareness is one of the elements needed to create financial stability. Financial awareness is part of financial literacy and is an important factor that influences perceived knowledge which ultimately influences decision making (Khan, 2015: Mason and Wilson, 2000: Priyadarshini, 2017).

Financial Experience:

Financial experience comes with owning financial products (or) sharing experiences with other about owning financial products also improves financial literacy. Hogarth and Hilgart (2002) identified without

practical experience, knowledge is worthless and that financially literate people had experience to bring between knowledge and skills.

Financial Capabilities:

One of the newly introduced financial literacy concept which explains how well people plan their future, choose and manage financial products and services. (Lusardi, 2011): financial capability includes a person's knowledge, their skills to understand their own financial situation and their motivations to act (Priyadarshini, 2017).

Financial Goals:

Financial goals play an important role in measuring a person's financial literacy. Without specific and measurable financial goals, a person will not have a road map to guide him/her towards financial freedom (Priyadarshini, 2017).

These are some of the major determinants which affect individual's decisions (i.e. financial decisions). Without having knowledge about these factors, it is difficult to take effective and efficient financial decisions. Everyone must possess these knowledges to achieve financial stability.

Importance of financial literacy in present scenario:

Literature review disclosed adverse effect of global pandemic on economy. An estimated 14 crores people lost employment in India. (Vyas, Mahesh 2020, Goyal, Malini 2020): those are in the formal sectors and daily wage groups have been at most risk. (Das, Gautam 2020): and more than 45% of households across the nation have reported an income drop as compared to previous years. (Centre for Policy Research): not only individuals, government income also dropped drastically. It is estimated that 35,000 crores loss incurred to India during lockdown. (Business Line & PTI).

This scenario tied up the hands of the Government to an extent from helping people to come out of vicious cycle of poverty. This helplessness of the Government pushing peoples towards self-reliance. Financial literacy through its components (saving literacy, spending literacy, borrowing literacy and investment literacy) helps the affected to achieve normality.

These financial distress situations are occurred regularly. People has to prepare themselves to meet these challenges by achieving financial stability through financial literacy mechanisms. Financial literacy helps the individuals to make effective decisions regarding savings, spending, borrowing and investments. By having knowledge about these financial activities people can make their financial decisions in more productive ways.

Conclusion

Life in this global village along with repeatable financial crisis, people around the world are always suffer financial instability. Financial instability triggers other socio-economic issues which adversely affect countries

growth. Financial decisions matter to achieve financial stability of individuals. Mastering the determinants of financial decisions can promote solid financial stability.

Financial literacy plays a vital role in promoting financial stability as well as taking sound financial decision. Providing financial literacy education from preliminary level of education to everyone is essential.

Bringing changes in people's attitude towards financial activities is the need of the moment. Its obvious that people faced difficulties, but these difficult situations can provoke them to change their thinking process. The same generation that spends their earning without even care for accountability, now thinking of how they can properly manage their financial activities.

People don't have wistfulness to be self-reliant but global economy forced them to being self-reliant and to make them believe in Precaution is better than Cure.

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