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THE IMPORTANCE OF PERSONAL FINANCE TODAY: A DISCUSSION OF CONCEPTS AND COMPETENCE OF FINANCIAL LITERACY EDUCATION, IN INDIA

M.SATHYAPRIYA[1] & R.NANDAGOPAL[2]

[1]Research Scholar, PSG Institute of Management, PSG College of Technology, Tamil Nadu, India

[2]Director, PSG Institute of Management, PSG College of Technology, Tamil Nadu, India

ABSTRACT

This study explicates the importance of personal finance which is fast becoming a key ingredient in financial policy reform around the world. For a country like India, this plays a bigger role as it is considered an important adjunct to promotion of financial inclusion and ultimately financial stability. Indian consumers face a real challenge given its technological backwardness and financial illiteracy as people caught in ancient financial systems that were both exploitative and futile. Nevertheless, the present absence of consensus of definitions and measurement of personal finance will first need to be overcome. The development of personal finance approaches will be encouraged by better proof on the extent, examples and effect of low financial literacy and what may be included in enhancing it. A great change has happened in the last ten years to overcome financial exclusion in India. We gather and highlight insights from the literature and outline worldwide confirmation on global evidence, its associates, and existing and upcoming causal examinations. This study dissects with a synthesis of discussion and practical suggestions for the route forward in this quickly developing range of research.

KEYWORDS: Personal Finance, Financial Literacy, Financial Exclusion, Development, Discussion

INTRODUCTION

Personal finance education is needed to help an individual or a family make rational financial decision throughout their life. Before 1990, mainstream economists and business faculty paid little attention to personal finance. However, several American universities such as Brigham Young University, Iowa State University, and San Francisco State University have started to offer financial educational programmes in both undergraduate and graduate programmes in the last 30 years. These institutions have published several works in journals such as *The Journal of Financial Counseling and Planning* and the *Journal of Personal Finance*. Research into personal finance is based on several theories such as social exchange theory and andragogy (adult learning theory). Professional bodies, such as American Association of Family and Consumer Sciences and American Council on Consumer

Interests started to play an important role in the development of this field from the 1950s to 1970s.

Increasing number of studies from finance, economics and publicly funded financial literacy and financial capability surveys showed that most people lacks basic knowledge, skill and attitude required in effecting personal financial management tasks **(IPAS, 2012, Xu & Zia, 2012)**.

Financial literacy and financial stability are two key aspects of an efficient economy. Financial literacy enhances individuals' ability to ensure economic security for their families. In India, on one hand, there is a need to reach out to lower income groups and economically weaker sections, and on the other, to the millennial who are hyper-connected and require tailor-made financial products but have limited awareness of the possible financial solutions.

The millennial are economically more active compared to their predecessors but are also more fragile in dealing with personal finances. The bottom-line, therefore, is that a 'me-too' approach to personal finance will not work in India. All stakeholders including consumers must work in conjunction for personal finance through a combination of innovative strategies. Increasing number of studies from finance, economics and publicly funded financial literacy and financial capability surveys showed that most people lacks basic knowledge, skill and attitude required in effecting personal financial management tasks **(IPAS, 2012, Xu & Zia, 2012)**. According to its literal definition, personal finance is the ability to use skills and knowledge to take effective and informed money-management decisions.

For a country like India, this plays a bigger role as it is considered an important adjunct to promotion of financial inclusion and ultimately financial stability. As per a global survey by **Standard & Poor's Financial Services LLC (S&P)** less than 25% of adults are financially literate in South Asian countries. For an average Indian, personal financial literacy is yet to become a priority. India is home to 17.5% of the world's population but nearly 76% of its adult population does not understand even the basic financial concepts.

LITERATURE REVIEW

In this study, the focus is on three dimensions of personal finance. These dimensions are financial literacy, financial products and tax literacy. Thus the literature has been reviewed along these three dimensions of personal finance.

Financial Literacy

- Financial literacy is the ability to make informed judgments and to take effective decisions regarding the use and management of money (**Noctor et al. 1992).**
- Personal financial literacy is the ability to read, analyze, manage and communicate about the personal financial conditions that affect material wellbeing. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future and respond competently to life events that affect everyday financial decisions, including events in the general economy **(Vitt et al. 2000).**
- Financial literacy is a basic knowledge that people need in order to survive in a modern society **(Kim, 2001**)
- Financial literacy refers to a person's ability to understand and make use of financial concepts **(Servon and Kaestner, 2008).**

Financial Products

This section discusses previous literature on awareness of financial products as well as investment behaviour of individuals. For long researchers have researched on the demographic factors that influence the investment decisions of an individual. The focus has mostly remained on core factors such as age, gender, income, marital status, profession, education and financial knowledge. A number of research studies have been undertaken in India and abroad to identify the investment behaviour of retail investors and households.

Components of personal finance might include savings accounts, credit cards and consumer loans, retirement planning, investments and insurance policies and income tax management. Personal financial management is the process of planning spending, financing, and investing to increase the profit and to optimize the financial situation. In order to achieve the intended goals of a business unit, proper financial plan should specifies the financial goals, describes the spending, financing, investing plans **(Madura, 2007).**

Gupta and Jain (2008) on the basis of an all-India survey of 1463 households found the preferences of investors among the major categories of financial assets, such as investment in shares, indirect investment through various types of mutual fund schemes, other investment types such as exchange-traded gold fund, bank fixed deposits and government savings schemes. The study provides interesting information about how the investors' attitude towards various investment types are related to their income and age, their portfolio diversification practices, and the over-all quality of market regulation as viewed by the investors themselves.

Tax Literacy

This section discusses the scant literature available on tax literacy. Very few studies have been carried out all over the world on tax literacy. Mostly the previous studies discuss the relationship between tax knowledge and tax compliance behavior.

Lewis (1982) studied the impact of increased tax knowledge on attitudes towards taxation which might have a significant impact on tax compliance. He found that there is insufficient knowledge about tax regulations and because of this people exhibit non-compliance behavior. He pointed out that, low level of tax knowledge has a correlation with negative attitudes towards taxation.

Harris (1989) in his study divided tax knowledge of respondents into two categories, namely, knowledge which has been received through common or formal education system and knowledge specifically directed at possible opportunities to evade tax.

Measurement of Financial Literacy

Financial literacy has been studied from different aspects. Government entities, private organizations and individuals have conducted surveys in different countries to measure financial literacy level of their population.

The following two approaches to measure the level of financial literacy amongst the population has been found:

- Self-assessment approach
- Objective test approach

Under the self-assessment approach respondents are asked to self-assess their financial understanding and ability to deal with financial matters. They are asked to evaluate their financial literacy skills and also to provide information regarding their attitudes towards financial decisions and knowledge. This approach has been used by **Jappeli (2010)**. He performed an international comparison of financial literacy level, among executives in 55 countries. The results suggest that, financial literacy varies quite substantially among countries, and its level depends on educational achievement and generous social security systems in the country.

Self assessment approach of measuring financial literacy has not gained much acceptance amongst the researchers because of the fact that respondents try to over assess their knowledge regarding financial matters and also try to portray positive financial attitudes and behavior. Thus, bias has been found if the measurement of financial literacy has been done on the basis of self assessment approach.

The second approach of measuring financial literacy is the objective test approach. Under this approach, objective test in the form of multiple choice questions is given to the respondents. Based on the score obtained in the test, the level of financial literacy of respondents is gauged. The objective test measures the respondents' knowledge in the different areas of personal finance, respondents' understanding of various financial concepts and respondents' ability to apply financial numeracy skills while taking decisions relating to finance.

Measurement of Financial Products

A number of research studies have been undertaken in India and abroad to identify the investment behaviour of retail investors and households.

Gupta et al. (2001) studied the Indian household investors' preferences, future intentions and experiences and found that bonds were regarded as an investment for the retired people but that did not have much appeal for young people. The market penetration achieved by mutual funds was found to be much lower than equity shares for all age classes.

Measurement of Tax Literacy

Very few studies have been carried out all over the world on tax literacy. Mostly the previous studies discuss the relationship between tax knowledge and tax compliance behavior.

Chattopadhaya and Das-Gupta (2002) in their study, focused on the influence of compliance costs on compliance behaviour of individual tax payers in India. The main findings of the study are that, there appears to be a relationship between some components of compliance costs, including bribes, and compliance which have a negative effect on tax revenue. The compliance costs may positively affect compliance whereas bribes and use of tax advisor may adversely affect compliance. The major policy suggestion from this study is to reduce the compliance cost of return filers, to reduce the scope for avoidance and implementation of more extensive TDS and also to lower TDS threshold wherever possible such that third party compliance cost do not increase greatly.

Kasipillai (2002) commented that, tax knowledge is an essential element in voluntary compliance tax system. Without tax knowledge, it becomes difficult for tax payers to comply with tax laws.

Few Initiatives taken by the Government are highlighted as follows

Financial literacy is the main tool for promoting financial inclusion in the country. In order to boost up the financial literacy, the government of India has framed various schemes to encourage people to participate in the process of capital formation by encouraging them to take up savings and investments activities **(Prasad et al., 2014).** There are several schemes introduced by the government which directly or indirectly promotes the financial support and literacy among the people of the society.

Financial Literacy and Credit Counselling Centres (FLCC): In order to spread the financial inclusion in the country, the government of India establishes FLCC to give free financial literacy/education in the country.

Beti Bachao, Beti padhao Yojana- This is a Government of India scheme that, aims to generate awareness and improving the efficiency of welfare services, meant for women.

Sukanya Samridhi Yojana (Girl Child Prosperity Scheme)- the scheme primarily ensures equitable share to a girl child, in resources and savings of a family, in which she is generally discriminated as against a male child. This would ensure the financial support to females, which will encourage the financial literacy as well.

Pradhan Mantri Jan-Dhan Yojana- One of the biggest steps, taken by government to enhance the financial inclusion in the country is the launch of PMJDY. It is a national mission on financial inclusion, encompassing an integrated approach, to bring about comprehensive financial inclusion of all the households in the country.

Objective of "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" is, ensuring the access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration needs financial literacy, among the people. Hence, special arrangements are being made by the government, for spreading financial knowledge so that financial inclusion can be made possible.

Establishment of NCFE- The National Centre for Financial Education (NCFE), has been set up to implement National Strategy for Financial Education (NSFE), under the guidance of a Technical Group on Financial Inclusion and Financial Literacy of the Financial Stability and Development Council (FSDC), which would cater to all sections of the population in the country. It comprises of the representatives from all financial sector regulators i.e. Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), Pension Fund Regulatory and Development Authority (PFRDA) and National Institute of Securities Markets (NISM).

The main role of NCFE is to create financial education materials and conduct financial education campaigns across the country for all sections of the population along with awareness campaigns at different levels for existing and potential customers so as to improve their knowledge, understanding, skills and competence.

Instruments for Enhancing the Personal Finance in India:

Although several initiatives are taken by government for spreading financial education across the country, yet there are several issues faced by the people due to which they are unable to acquire financial education.

Hence following measures are suggested for enhancing financial literacy level in India:

Training- Training is one of the best measures that should be used to inculcate the habit of learning financial terms. People with low level of family income and low level of education benefit significantly from the training imparted (**Agarwalla et al., 2013).** Most of the people feel hesitant, while dealing in financial matters because of lack of training. Hence, from time to time, training programs should be organized specifically for women, so as to make them more capable while dealing with their finances.

Financial awareness and Education- People require multifaceted financial skills that are knotted with their life, livelihood and businesses this include skills in budgeting, savings, understanding financial services, debt management, financial negotiation skills and investments. Hence, they must be taught the financial terms through financial awareness programs and courses. Financial education programs should focus particularly on important life-planning aspects, such as, basic savings, debt, insurance and pensions **(Das, 2007).**

Establish nearby Institution- Distance is another challenge faced by people as many financial institutions are located far away from where they live. To deal with this challenge, banks, post offices, insurance companies etc. must open their branches nearby the residential accommodation. This also presents additional income opportunities for women who are recruited as bank agents.

E-learning- E-learning can be another powerful educational tool for training, knowledge sharing, and international best practices.

In India, women are supposed to be the home maker only and are not given independence to be the part of financial matters. Hence, cultural change is needed to ensure wider financial literacy among women.

Cultural change- The major problem being faced by Indian women is the male dominating society. “A lot of women don't have reliable ways to learn about money...They just do what their families do” — Focus group participant, Literacy DuPage.

More benefits to women- Women would feel allured to indulge in financial activities, if they will be offered financial services with more lucrative benefits such as low rate of interest on loans, high rate of interest on deposits, tax benefits etc.

Many institutions, such as banks, are providing such kind of benefits but they are not sufficient to attract more and more women investors. Women need to have the opportunity to seek out and use financial information if they are to improve their financial literacy **(Mathivathani and Velumani, 2014).** Hence, efforts must be made by the government, to provide more benefits to women and open more opportunities, which would encourage them to be more financially literate.

Establish more women oriented Universities- The financial literacy among the women can be spread, with the establishment of more universities. There are very few universities in India, that are spreading financial awareness among the women, such as Banasthali Vidyapith, but more such institutes are needed.

Research Priorities

Through analysis of existing research, this study has identified a crucial need for researchers to employ clear, consistent criteria when defining and measuring personal finance. Indians would certainly benefit from greater knowledge and self-efficacy relative to personal finance. We still understand very little about how wealthy families become wealthy over time, or whether aversion to risk and willingness to use more complex investment instruments is more a function of who you know and what you've experienced than your innate set of preferences, **Jane Schuchardt, Sherman D. Hanna (2008)**.However, it will remain impossible to evaluate and assess financial literacy in India until officials, researchers and other experts embrace common conceptual and operational definitions.

The Following Research Questions were Identified, Not in Rank Order

- What are the core principles of personal finance that every consumer needs to know, and what evidence exists that current standards are effective in helping people reach their financial goals?
- What are reliable and valid measures of the success for financial education, and what measures should be used to document success for various financial topic areas and target audiences?
- What is the most effective mix of financial education, decision framing, and regulation to improve financial well-being?
- How do socialization factors, including conflicting messages, influence and affect household financial behavior?
- How do financial socialization and education processes vary by gender, life stage, race, socioeconomic status, education and ethnicity?

It is the collective hope of the Financial Literacy and Education Commission and the scholars who dedicated their time, expertise, and passion to this process that the results of the symposium guide important research over the next decade. Only by affirming and adding to the science base for financial literacy and education can this emerging interdisciplinary profession (**Schuchardt, et. al., 2007**) gain appropriate notoriety and respect for relevance and rigor.

Very few research studies have been carried out in developing countries like India. Target population in most of the studies is college students rather than adult population. Very few studies used all the areas of personal finance in order to measure the level of financial literacy. No attempt has been made in existing research to link financial literacy with financial product awareness and investment behaviour of salaried individuals. Personal taxation knowledge i.e. tax literacy has not been measured by any of the earlier studies carried out in Indian context. The present study can be considered as one among the many bricks that will be required to bridge the gap between research needs and efforts made so far.

CONCLUSIONS

Personal Financial planning research has made tremendous strides in the past several decades. Personal Finance is a component of human capital that requires a potentially enormous expense of time and effort to gain a marginal improvement in investment ability. The estimated present value of benefits received from additional knowledge will vary by wealth level and initial knowledge, and the estimated costs will be a function of ability, interest, and experience. It should be expected that the majority of financial mistakes are made by those who perceive the highest cost to financial education or the least benefit. The common research agenda discussed presents opportunities for continued collaboration and development in the area of financial literacy and education. Continued interdisciplinary study of this field, as outlined by the symposium results, is essential to further understand financial decision-making and behavior, and develop education and other interventions that result in positive financial outcomes for individuals, families, and society as a whole. It is likely that people will have less education, less wealth, lower earnings, and be more isolated from low-cost information sources. The millennials are economically more active, compared to their predecessors, but are also more fragile in dealing with personal finances. All stakeholders including consumers must work in conjunction for financial literacy, through a combination of innovative strategies. If so, the potential welfare benefits to be gained by increased financial education, securities regulation, and information disclosure are immense.

To date, there are wide variations in the methods and metrics being used to document program impact, and many in the research community are still grappling with the fundamental question of how to define program success. Since the importance of having both personal financial literacy skills and knowledge is expected to grow, personal finance will continue to be a prominent research topic both in India and overseas and it is predicted that the focus will lean towards the implementation and evaluation of strategies to improve the financial literacy levels of certain cohorts of populations where a lack of financial knowledge and skill has been identified by previous research. Because financial literacy has become increasingly important for the economic wellbeing of the nation's future (CBF, 2004b), it is important that it can be explicitly linked with financial behaviour, and hence financial success and sustainability.

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