THE IMPORTANCE OF FINANCIAL LITERACY AND FINANCIAL EDUCATION IN SOCIETY

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Abstract**: Financial literacy is the mix of one's knowledge, skill and attitude towards financial matters. It helps to make informed decisions and well-being of an individual. Financial knowledge and literacy of the executive management plays an important role in their ability to make important financial decisions. In the aftermath of the global financial crisis the policy makers worldwide expressed deep concern about the lack of financial knowledge and, as the recent research has suggested, lack of financial literacy amongst different population groups. Faced with a wide variety of available financial products and services today both individuals and company management need to be able to make informed financial decisions. The quality of these decisions will greatly depend on the level of knowledge of the decision makers, including their financial literacy. It has been argued that financial literacy could be one of the key factors of economic growth, as decisions made by management directly affect the business, financial performance and, ultimately, overall economy. This paper reacts to the current situation in our society and the need for financial education in schools and for adults. Today's world demands financial and economic literacy. This paper outlines the importance of education and financial literacy in society.**

INDEX TERMS: FINANCIAL LITERACY, IMPORTANCE, DIFFERENCE BETWEEN FINANCIAL LITERACY AND EDUCATION.

I. INTRODUCTION

Financial education and financial literacy have recently become subjects of interest for governments, various financial institutions, education institutions, media and other entities at national and international levels. As a result, we have seen the implementation of many studies, projects, and strategies, or even the incorporation of financial literacy topics into school education. The only constant of today's society are changes. The society modifies faster and faster and even more complex. At the same time it modifies the social values it is based on. Today's society marks individualism and a wide choice among various possibilities the market offers. Power by Bagon et al. (2006) acquires the one who has the knowledge and not only the information.

Financial education and connected competencies of individuals are becoming more and more important because of the dynamic, fast developing, globally connected and complex financial markets and common requirements. The financial needs of individuals are becoming more and more complicated and pretentious. Only they can with the appropriate knowledge in the field of finances, pension schemes and taxes improve their understanding in financial products, service and concepts and develop skills they need for improving the financial literacy, their decisions, protection and ethical acting.

II. FINANCIAL LITERACY AND FINANCIAL EDUCATION

The data of the research show that approximately one fifth of adults (France, Germany, United Kingdom) is not literate enough to cope the basic requirements of the modern society (Commission of the European Communities, 2012). The use of the notion financial literacy and financial ability appeared in the 90's in the last century. There are various different definitions of the notion financial literacy, financial ability and financial education, often are also mentioned financial ability and economic literacy (Orton, 2007; Pignal and Arrowsmith, 2006; Schwartz, 2010). Although the notions financial literacy, financial ability are often used as synonyms but there are differences. The financial literacy focuses on understanding and knowledge. The concept of financial ability is on the other hand more extensive and covers beside cognitive views also behaviour, decision and practical skills (Orton, 2007).

➢ FINANCIAL EDUCATION

"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"(OECD, 2005, p. 26).

➢ NEED OF FINANCIAL EDUCATION IN THE SOCIETY

One of the reasons for an increased interest in the problem of financial education, or the inquiry into financial capability, has been levels of individual and household debt, which have been constantly rising. The only possible way to eliminate this phenomenon is to improve financial awareness through education, not only in schools but also in classes open to the public and implemented primarily with the support of government.

➢ MEANING OF FINANCIAL LITERACY

Defining a concept is almost always difficult, because of the content itself and the diversity of opinions. It is even more difficult when we do not operate with the same words and meanings – and this is the case for the syntagm "financial literacy", which incorporates knowledge, education, ability, competence and responsibility at the same time. The focus is either on knowledge, or on the ability of using the knowledge and even people's self-confidence towards their own financial actions. Quite often concepts are mixed or confused – speaking about economic education or competence, which is larger than the financial ones, or about mathematical or numerical abilities – also larger, but in another sense. Different languages deal with different expressions, but even within the same language – English – in which the concept was generated, we find apparently interchangeable words, with quite different meanings and definitions: financial capability, financial literacy, financial knowledge, financial education, financial competence, economic capability, economic literacy. For USA and Australia the dominant expression is « financial literacy », for Great Britain and Canada we find mainly the expression « financial capability » (Orton, 2007; Remund, 2010). OECD uses « financial literacy », without clearly defining the concept (OECD, 2005). All these make comparisons different, especially when studies have been conducted in different countries and different languages.

Basically 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 can be interpreted broadly or narrowly. In a broader perspective, financial literacy refers to understanding of economics and how economic conditions and circumstances affect broader household decisions. A narrow definition of financial literacy focuses on basic money management tools such as budgeting, saving, investing and insurance and so on. It is the narrow view of financial literacy that is particularly relevant to individual decisions concerning financial matters.

III. IMPORTANCE OF FINANCIAL LITERACY AND EDUCATION

The importance of the financial literacy and education can be understood by:

1. The impact of the financial literacy and education to different segments of the population and
2. Area covered under the financial awareness.

1. Importance of Financial Literate to different segment of population

Financial literacy is essential for both developed nations and emerging economies. However, we need to bear in mind that the focus of financial literacy initiatives would vary depending on the economic profile of the target population. For developed countries, the access to financial products/ services is fairly widespread and hence, consumers/ market participants are required to be educated more about the characteristics of the financial products/services, including their risks and returns.

All Groups of People:

Everyone associated with the financial system needs to be financially literate. This includes all users of financial services, be it the financially excluded resource-poor, the lower and middle income groups or the high net worth individuals; the providers of services; and even the policy makers and the regulators.

Resource Poor Population:

The resource-poor population, which operates at the margin, vulnerability can be acute due to constant financial pressures.

Household cash management can be daunting under difficult circumstances, with few resources to fall back upon. Financial literacy efforts, in case of such population groups, essentially, involves educating them about the benefits of being part of the formal financial system and managing short term volatility in incomes and meeting unexpected emergencies without getting trapped in unnecessary debt. To cite one example, a study by NCAER and Max New York Life has shown that in India, around 60 per cent of labourers surveyed stored cash at home, while borrowing from moneylenders at high interest rates; a pattern of saving money that is bound to aggravate financial vulnerability of these labourers.

The process of educating these excluded sections would involve addressing deep entrenched behavioural and psychological factors that are major barriers to participating in the financial system.

Middle and lower-middle income groups:

These groups that are participating in financial markets as either savers or borrowers or both, i.e. the financially included, financial literacy efforts should aim at enhancing their knowledge about the market and new products/services. For instance, there is a large section of our population that has a bank account but refrains from participating in the capital market on account of lack of knowledge. Financial literacy, in such cases, would focus on creating awareness about the way the capital market functions and also about the fact that the equity market provides relatively higher returns as compared to other investments, over a longer time horizon.

High Net worth Individuals:

For these people, better knowledge about the financial markets, new and innovative products and instruments is important as it helps them in making better use of the available avenues in the financial markets. This knowledge is also useful for fetching greater returns from their investments in the market and to avail credit at relatively cheaper rates. However, whether saving or investing, the basic lesson that "higher return implies higher risks" should not be lost sight of.

Banks and Financial Institutions:

The need for financial literacy for the users of financial products/ services is a well-accepted fact, it is emphasized that even banks, financial institutions and other market players need to be financially literate and be fully aware of the risk and return framework.

Financial literacy for the providers of financial services would involve understanding the risks involved in their businesses and in the products that they offer to their customers. As market players, they need to understand risks inherent in complex financial products and choose wisely while committing funds. For service providers, financial literacy also involves understanding the needs of existing and potential customers and creating products and services suited to those needs.

Opinion Makers and Policy Makers:

Financial literacy is also relevant for opinion makers and policy makers. Literacy is a must to gauge the needs of the population and financial institutions; to understand the risks inherent in products and markets; and to create a policy environment conducive to attainment of the national goals. Only such an approach would ensure that physical and financial resources are put to their optimum use to generate higher economic growth, while minimizing the financial stability risks.

2. Area covered under the financial awareness:

Indian households make many financial decisions each year. These relate to a wide range of financial matters, including decisions on how to budget, how much to spend and to save, where to invest their money i.e., their earnings, how to manage their financial risks, how much debt they may need to fund their expenditure, and what form that debt should take. These decisions range in complexity, but all require at least a basic level of financial literacy.

In the world of escalating financial complexity, there is an increasing need for financial knowledge and at least basic financial skills. Technological advances have dramatically transformed the provision of financial services in India and around the world. There is an ever increasing diversity of financial products and services, including debt products and investment opportunities available to the public. While this provides increased benefits, it also entails more complex risks, including risks that are not always readily apparent to the unwary.

Accordingly, the scope and complexity of the financial decisions an individual has to make in managing their financial affairs has grown significantly. Individuals must be able to differentiate between a wide range of financial products and services, and providers of those products and services. Based on the empirical justification drawn above, conduct of this study is deemed to be rational in nature.

The financial literacy helps in creating awareness about the following areas:

Financial Market performance:

The financial literacy helps in financial management for individuals, government and corporate world. Multiple decisions about savings and its instruments, investment avenues, changing the portfolio as per the changes in policies, ups and downs in the market, allocation of the assets as per risks involved, calculation of different types of risks and uncertainties, risk taking capacities etc. This all helps in decision making in financial matters.

Knowledge of various Savings and Investment instruments:

The financial literacy creates awareness about the various savings and investment instruments like- Fixed Deposits, Recurring Deposits, Public Provident Fund, National Saving Certificates, Post Office Savings, Mutual Funds, Life Insurance, Debentures, Bonds, Share Market, Commodity Market, Forex Market, Real Estates, Gold/Silver, Chit Funds etc. for better returns and risk management.

Knowledge of various Debt instruments:

Management of debt also requires a good amount of financial literacy regarding prevailing rates and instruments for different purposes like- Housing Loan, Vehicle loan, Education Loan, Personal Loan etc.

Awareness about Financial Scams:

Now a day variety of financial scams and frauds are taking place. Individuals, Government Departments, Banks and Financial institutions as well as big corporate houses are prone to such scams of kind like Banking Frauds, Share Market Frauds, Chit Fund Frauds, Corporate Frauds, Consumer Court Decisions, Misuse of Internet Banking, Misuse of Credit/Debit Cards, Signature Forgery, Corruption/Bribing officers etc. Thus, the literacy related to types of scam, preventive measures, role of vigilance department etc. is required.

CONCLUSION

To conclude, Financial literacy is the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others. More specifically, 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. The financial literacy and education affects wide segment of the population including businessman, house wife, stock market people, bankers, industrialists, government and corporate.

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