Financial Literacy: A skillset to manage finances, an overview

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Abstract:

A literacy is always being the priority after the basic need of living. Literacy is not limited to the skill of reading and writing. Literacy is important in everything one do, one relate and the one which get affects. Literacy apart from knowledge talks more about smartness. After society got literate over the period of time it climbed a stair where peoples are literate perused education and male or female, urban or rural everyone wants to be independent wants to earn money. But earning money doesn't make individual well suffice in all way. Like all other resource money is limited kind of resource. Money earned should be managed smartly. It's important to earn money, but its even more important to know how to spend it, how to save it, how to invest it and how to plan the finances. This research paper is a insight to financial literacy. Importance and advantages of financial literacy specifically for an individual.

This research paper will also aim to give insight to skill sets required to be a financial literate.

Keywords: *Financial literacy, Finance, Spending, saving, investing and planning etc.*

Introduction:

Financial literacy is nothing but capability of an individual to understand and implementing variety of skills which are primarily associated with finance which includes personal financial management saving budgeting investing and borrowing.

Earning money is a necessity of life but most importantly how to manage this earn money it is skill. How much one earns is not at all important or co related with one's financial stability. As like any other resource money is limited in nature. And whether it is an individual, business or government they should learn the skills of managing finances. Even a limited money with a person with stronger financial literacy will assure him more wealth and stability, on the other hand even an ample of money if not used wisely result into a chaotic financial situation of an individual. This skill needs to be practised by every individual who earns; who spends. It may be a person who actually earn or it may be a person who is dependent but managers finances of home, it is very important for an individual for a corporate for any organisation or government bodies to have the skills of finances.

The U.S. FLEC highlights five principles as the building blocks of financial literacy, known as the My Money Five.

- EARN.
- SPEND.
- SAVE & INVEST.
- BORROW.
- PROTECT.

These five principles are discussed briefly as under

- **EARN-** Earning the name itself suggest the money earned by an individual with a job or business. But earning does it only include earning money though business or profession or getting salary. It also encourageous to an individual to invest the money in their professional future for example if a student is considering earning as a first tool of financial literacy, he should develop himself, he should learn more skills to sharpen his personality so that when he starts earning, he will get more paid. When an individual who's already employed or when an individual who is doing his business the earning refers to a person works on himself to sharpen his professional skills to get himself more paid from his job or business make himself more competent to fetch more money from whatever he is working with. This is the first step towards the financial literacy that when one tries to attract more earnings.

- **SPEND-** Spending is essential. Even its everyone's dream to save most of the earned money it's not practical. Saving is essential for living. How much one invests is associated with how much saved and how much saved is inversely corelated with how much is spend.

  There is an extreme need to budget spending for an individual or a businessman. It is also important to take a track of spending in every 30-90 days on an average. This tracking will lead that weather spending is in line with individuals' goals or objectives or there is a deviation.

  But when an individual is spending money for betterment of future, for better career growth for health and making future stronger, it will be termed as investing and not spending.
- **SAVE & INVEST-** Saving is not an automatic mechanism. When an individual is aware and consciously limits his spending and try to save money for the future purpose it termed as saving. Saving is consciousness towards spending.

  Its often said that its not important how much you earn its more important how you track your spending and save it.

  Saving money and keeping it in a saving account or at home is an old school phenomenon. Its essential to save but its smarter if you invest your money in good investment option. Because saving will keep your finances ready for a contingency or for a future but when you invest your saving it fetches you earning thus gives an individual a win win situation.
- **BORROW** – It's an old school understanding where borrowing is considered as a burden or symptom of bankruptcy and non-prestigious position in a society as a whole. Borrowing makes an individual pays interest for money one borrowed. In modern times many borrowing options are available for short term and long term. Borrowing can be termed as smarter when one is investing a money in a source where you are getting e.g,15% return and when you need fund instead of withdrawing money one can borrow money in a cheaper rate if available. Use of credit card smartly with consciousness and particularity in payment allows an individual to be stress free and even earn lot many discounts in shopping. Ultimately saving is also a termed as earning.
- **PROTECT-** A protection principal makes one ready for the future contingencies. A person who is financially literate always knows to how to balance between spending saving and keeping liquid asset. If all the money is invested and could not be liquified at the time of uncertainty then it's a failure to the financial management. One should be always aware about that the liquid assets he holds and should be balance between risk and uncertainty he is fetching while investing.

Objectives:

1. To study the importance of financial literacy.
2. To understand the basic knowledge, skill and requirement of finance basics for an individual to manage its finances.
3. To study the component of financial literacy.

Type of Research-

This descriptive type of study The study is based secondary data. The study also throws a light on skill set required to be a financial literate and things need to be done and technical requirements to be completed for managing finances.

Importance of financial literacy:

Financial literacy is utmost important for individuals to manage their finances effectively, achieve financial stability, and secure their future. Here are some reasons why financial literacy is important:

- **Informed decision-making:** Financial literacy enables individuals to make informed decisions about investments, savings, and debt management.
- **Budgeting and planning:** Financial literacy helps individuals create realistic budgets and plans, aligning their spending with their financial goals.

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- **Debt management:** Financial literacy equips individuals to manage debt effectively, avoiding financial pitfalls and stress.
- **Investment and growth:** Financial literacy empowers individuals to make informed investment decisions, growing their wealth over time.
- **Financial independence:** Financial literacy is essential for achieving financial independence, allowing individuals to pursue their goals and dreams.
- **Reduced financial stress:** Financial literacy leads to better financial management, reducing stress and anxiety.
- **Improved credit scores:** Financial literacy helps individuals understand credit reports and scores, enabling them to maintain good credit habits.
- **Retirement planning:** Financial literacy ensures individuals are prepared for retirement, with a sustainable income stream.
- **Avoiding financial scams:** Financial literacy helps individuals recognize and avoid fraudulent schemes and scams.
- **Economic stability:** Widespread financial literacy contributes to a more stable economy, as individuals make informed financial decisions.

By understanding personal finance concepts, individuals can take control of their financial lives, achieve stability, and build a secure future.

The literacy in finance doesn't comes with the theoretical knowledge earned about it. Unless and until one is applying the knowledge earned in actual situation it takes advantage of all the skills and knowledge you earn and apply it. But this application, implementation needs some technicalities to be completed. So here are some requirements to and basic concepts to practically manage finances.

1. **Need of bank account and Internet Banking:** Firstly, one should have a bank account with its net banking and all other allied services knowledge. Nowadays withdrawing, transfer, bill payment doesn't need to go to bank physically. Internet banking knowledge serves an individual the most in the journey of managing finances.

Many financial transactions require you to have a bank account to:

- Use a debit or credit card
- Use payment apps like paytm, google pay etc.
- Write a check
- Use an ATM
- Buy or rent a home
- Receive your pay check from your employer
- Earn interest on your money

2. **Debit and credit cards:**
   Debit cards: Debit cards allow one to transact with the money he has with his bank account. With this card one can spend, transfer and even withdraw and deposit
   Credit card: Allows one to borrow the money from credit card company and return it in a certain period. Generally, credit card period cycle is 45 days.

Things need to be understood while using credit cards:

- **APR:** APR stands for Annual Percentage Rate. This is the rate of interest one is payable to credit card company on the amount left unpaid after credit card cycle period. Lower the rate better the card and lesser the risk of spending more money.
- **Things to be considered while choosing credit card**
  √ Consider credit score
  √ Analyse the lifestyle and perks one intends to use
  √ Choose wisely from different types of cards e.g. Travel reward card, cash back card, balance transfer card and Low or No APR cards etc

3. **Need to create Budget:** Everyone knows Earning-Spending=Saving
   But for saving money there should be conscious spending. **Consciousness** comes with the breakers with the targets. Targets limits the expense and promotes investing. Thus for the budgeting one should create road map for their investment.

- **Incomes:** Dot down all the probable income sources with the highest assurance. Which means incomes which are less probable to receive don't count on.

- **Spending:** Limit the spending. Postpone the spending if not required.
- **Saving:** Saving should be a habit. It's generally accepted that one should save at least 10-20% of earnings

4. **Risk and Return:** Every person has a different risk appetite. One should understand first what kind of return he is expecting how much range of risk or uncertainty he can deal with. One person's interests in securities and tolerance of risk could not be the same for other.
5. **Investing:** Ones one start saving the next step is starting investment. Investing money could be a tedious job. Unlike traditionally we have ample of ways to invest. The things to be consider while investing is risk and uncertainty factor, room for liquidity and expected returns. Its also a great saying about the investing that **'Don't put all your eggs in one basket;** .so the fund should be invested in different types of investment to avoid pitfalls.
Here are some of the sources could be consider for investing

- **Stock Market:** The stock market refers to the collection of markets and exchanges where stock buying and selling takes place. The terms "stock market" and "stock exchange" can be used interchangeably.

√ **How to invest in Stock market:** Either the one can invest in stock market by its own. But this requires lots of patience, research and knowledge. One can also do it with the help of broker or agent which works on commission basis.

√ **Where to invest:** There are many sources such as Securities which includes shares and debentures, Bonds and ETF exchange Traded Fund. Mutual funds also known as SIP is also a good option.

- **Low risk investment:** This type of investment gives moderate return with no to low risk. Options for investing in these types of investments are

√ Fixed Deposits
√ Public Provident Fund
√ Money Market Fund
√ Municipal Bonds
√ Certificate of Deposits
√ Treasury bill

- **Medium risk investment:** These offers medium risk and comparatively higher return than low risk investment securities

√ Balance Mutual Funds
√ Debt Funds
√ Dividend Paying stocks
√ Exchange-Traded Fund (ETFs)
√ Corporate Bonds

- **High risk investment:** These types of securities doesn't necessarily offer a guaranteed return. Though the capital appreciation and market value appreciation are highly expected. These kinds of securities can fetch very attractive returns if invested wisely
Some of the examples of these kinds of securities are:
Direct Equity
Equity Mutual Fund
Forex Trading /Foreign exchange
Hedge funds

6. **Maintaining Emergency Fund:** Despite the need of investing individual also need a fund to specially maintained for the contingencies and uncertainty. This fund doesn't only mean cash in your locker but the set of assets which are liquid and very liquid in nature. Liquid assets are assets whose realisation gives you faster and quick money.

Conclusion:

An Indivisual should be literate with the finances he deals with. There are many ways where one can deals with money.Financial literacy gives conciousness with the money one deal with. Conciousness in earning,spending saving and Investing.

Investment also comes with the risk association. Everyones financial situation,back up plans and risk appetitte could be different. Understanding the concepts and investing wisely without mislead by roumers,advertisement and thinking wisely can give attractive results to an indivisual.

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