CHAPTER 1
INTRODUCTION

Finance had been long perceived as a constituent for growth and development but in present era of globalization it has been attributed as the intellect of entire economic system. Economies are striving hard to make their financial system more and more efficient and robust. This paradigm shift has created immense pressure on governments to conceptualize, regulate and monitor the canons of financial proprietary in such a manner which is able to cope up with contemporary challenges of economic growth and development. Any flaw in financial structures can dismantle the economic infrastructure created over decades and centuries.

Financial Planning of each and every individual contributes in overall economic growth of any country. Similar to what each and every drop of ocean contributes in creating the huge water mass, financial planning of each and every individual also contributes in structuring the financial system of any economy. However miniscule or significant this contribution may be but ultimately it adds on to the state of economy. Personal financial management of an individual is thus one crucial aspect of financial planning which is concerning all the economies of the world. Irrespective of the size of economy, personal financial management of an individual needs to be assessed legitimacy and appropriateness. Developing and managing best Personal financial management practices among citizens are one grave challenge for all sizes of economy. Particularly developing and underdeveloped economies are struggling to fine tune with global economic order.

Since independence, India had come a long way in matching steps with pace of global economic growth. Despite in numerous drawbacks, disadvantages and pull factors, India’s economic ship had sailed through tough times boldly and had emerged stronger every time. Economic progress in India epitomized the
spirit of wishful thinking and had proved its mettle to all economic giants. However glossy or hazy this state of Indian economic affairs may seem to critics, one particular aspect had been emphasized time and again by all equally. Many economist had suggested that one of the critical factors which had contributed in India’s uninterrupted economic growth is that Indian are habitual of making personal savings. Global economic slowdown caused due to subprime crisis in USA which led to demise of many multinational banks disrupted major economic systems across Asia, Europe and Americas but India had been able to overcome tough tides in a respectable manner. Inquisition which followed after global turmoil surfaced the emphasis of culture of savings in Indians.

How impactful this culture had been in economic stride of India, presents a context for research and further studies. Does this really mean that financial management in India is exemplary to the world or is again a case of wishful thinking? To what extent financial literacy exists in India? Is personal financial management in India really impacted by financial literacy? What are various demographic aspects of financial literacy and financial management in India? How elegant and elaborate personal financial management in India really is, remains a matter of inquisition and mystic.

Just like any other country, India has characterized its own unique economic system which is influenced by its own cultures, traditions and external clout. Indians in general, to fulfil their small and short term financial requirements borrowed money from their friends, relatives or moneylenders. Most individuals who followed such practices were not even linked with formal banking systems. They did not had awareness and knowledge on practical grounds to protect themselves by accessing various financial services provided by banks and other agencies. The government of India had taken many initiatives related to livelihood and economic development of poorest of the poor, recent examples include National Rural Employment Guarantee Scheme, Jan Dhan Yojana, New Pension Scheme, Pradhan Mantri Jeevan Beema
Yojana etc. One common aspect of many such initiatives had been to connect major chunk of population to formal financial grid and include all the population in financial net. Series of mammoth initiatives taken up by government to enhance financial inclusion has fructified in plethora of outcomes. There had been increase in individual financial awareness, people had turn more responsive and concerned while lending and borrowing money, keeping deposits, savings small money in financial institutions like banks, etc. Recent initiatives made by government towards cashless transactions and digitalization of entire financial system is yet to see a long deterring journey ahead but nevertheless is a welcome step. People are now more concerned with safety and security of deposits, low transaction costs, seamless access to financial services, minimum paper work, frequent deposits, quick and easy access to credit and there had been an increasing urge to mobilize their financial resources in terms of income, savings and investments.

The financial market had undergone many changes post liberalization and had endeavoured variety of opportunities not only for the individuals but also for the corporate sector. The availability of financial services are at door steps and they also propose with variety of products with convoluted features which acts a stumbling block for ill equip individuals in doing investments.

Government had been bearing the onus for weaving a secured financial net and will always be responsible for giving financial inclusion to its citizens. The role of government had been ever changing, it had adorned the masks of developer, planner, enabler, facilitator, regulator, controller and what not. It had made people realize the importance of being a part of formal financial system by accessing financial services through financial institutions. It had emphasized the relevance of making planned and safe investments. Also, it had to face the grilling challenges posed by multitudes of financial products which had evolved in recent decades. The range and complexities associated with these products and increased by leaps and bounds. Government had to ensure education related to these products and services to the masses and at the same
time risks associated with these products needs to be brought out in public domain in such a way that no citizen is aggrieved by accessing them.

Financial markets had become more sophisticated therefore financial education is necessary to ensure sufficient level of investor and consumer protection as well as smooth functioning of the financial markets. Financial literacy can play important role in equipping the consumers with appropriate information, fundamental knowledge, and skills to evaluate their options and enable them to understand the implications of alternative financial decisions. The present study makes a humble enquiry in this context and tries to analyse the state of financial system in India. This study takes into account the different dimensions of financial literacy and personal financial management in India.

**Financial Literacy**

Financial literacy had been a global concern and still remained an unexplored territory which had played important role at every stage of life as it is crucial at multiple levels. Financial literacy empowered an individual for gaining that extra edge which enabled him/her to make day to day financial decisions easily. India being a densely and highly populated country posed an even graver burden for its government to enhance levels of financial literacy on a priority basis. In order to stand shoulder to shoulder with global economic competition, India simply cannot overlook the chronic poor levels of financial literacy among its populace. Consequently, India had seen financial inclusion efforts in priority and multiple innovative efforts had seen light of the day as many noble initiatives had been lined up to increase financial literacy. However criticized the scheme of AADHAR (Unique Identification Authority of India’ issued unique 12 digit number for each citizen) may be in term of security concerns, the sanctity of recognizing actual beneficiary and inclusion in financial net cannot be questioned at all. No frills savings account, Zero balance savings account, relaxed Know Your Customer (KYC) norms etc all have contributed in extending financial inclusion. Even digital initiatives like Unified Payment Interface (UPI), Rupay cards, Bharat Interface for Money
(BHIM) mobile application etc are set to herald a new era of digital financial inclusion in India. Other initiatives include “Common service Centres” under Ministry of finance and IT had created awareness under DIKSHA i.e. Digital Shiksha Abhiyan hosting awareness sessions on government policies and digital finance options” - Business standard in November, 2016. Financial literacy is backed up by financial education. Financial literacy gave competency to an individual to make informed choices among various investment options and fostered financial security. Financial literacy made individuals connected with the global market making an individual’s future fast developing and vitalising. Financial literacy acted as a yardstick for creative personal growth. An individual’s financial need had increased day by day and for that one need to develop skills for protective decision making. As comparing to previous decades the choices available to them had gone larger and larger leaving an individual in confounding state. So to make sophisticated choices one needs to self-reckon. Financial literacy is required at every age, income and occupation levels as it acted as a saviour against deadly investments. Financial literacy helped an individual to avoid getting trapped with high charges for financial transactions by non-financial institutions. Financial literacy significantly affected quality of life as it changed individual’s attitude towards money and investment. When an individual is financially literate then one can plan their investments well according to the needs and will be financially balanced throughout his life.

Financial literacy is much more than knowledge of financial information and general advices. It is not just knowledge but proper application of knowledge in practical sense. It is enablement through power of knowledge which facilitates wise financial decision making to procure and effectively utilize financial resources for individual well-being. It is combination of knowledge, attitude and skills possessed by an individual for sound financial decision making. It includes knowledge of various investment products and services, where to access them and how to access them ensuring growth and security. Financial attitude is behaviour of an individual and demonstration of skills justifying how
tactfully that knowledge had been used. Financial literacy is linked with better wealth accumulation and sound decision making.

Financial literacy had been catching more attention as there is global financial crisis and the available literature confirms that it is correlated with personal financial management of individuals. In parallel, recently financial education programs had achieved inclination and are in mainstream of many countries round the world. They had been working very sincerely on building national financial education strategies to make individuals more aware and empowered with these investment programs. Literature had recently emphasized the association between financial literacy and numerical and mathematical ability, on the one hand, and risk diversification, retirement savings, investment portfolios on the other. Traditional economic theories suggested that forward-looking individuals maximize their expected lifetime utility using economic information available to accumulate and then de-cumulate wealth comprehensively during their course of lifetimes. Yet surveys had revealed that less than half of U.S. workers struggled to estimate how much money they might need in retirement, and many older adults face significant retirement saving shortfalls (Lusardi and Mitchell, 2007). Various economic descriptions for these occurrences had been suggested including dispersion in discount rates, risk aversion, and credit constraints, but the empirical literature exploring such factors thus far had been unable to account for much of the observed differentials in wealth (Bernheim and Garrett, 2003).

Anthes (2004) concluded that Financial literacy is defined as an ability to read, analyse, manage and communicate about personal financial conditions that affect corporeal well-being and the ability to discriminate financial choices and also examine money and financial issues without any malaise, plan for the future, and reciprocate dextrously to all life events which affect day to day financial decisions. According to the US Financial Literacy and Education Commission (Basu, 2005), “financial literacy is defined as the ability to make informed judgements and to take effective actions regarding the current and
future use and management of money”. Financial literacy should inculcate the competence to do financial choices, project for the future, spend intelligently and be prepared for life events such as job loss or saving for retirement”.

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<tr>
<th>Financial Literacy Concepts</th>
<th>Dimensions</th>
<th>Authors</th>
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<tr>
<td>Financial knowledge and the application of that knowledge, with self-confidence in making financial decisions.</td>
<td>Financial knowledge and application of knowledge</td>
<td>Huston (2010)</td>
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<td>The ability to use knowledge and skills acquired to better management.</td>
<td>Financial knowledge and skills</td>
<td>Hung, Parker and Yoong (2009)</td>
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<td>The ability to understand financial information and make effective decisions, by using this information.</td>
<td>Understanding and decision-making</td>
<td>Robb, Babiarz and Woodyard (2012)</td>
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<td>It goes beyond the primary idea of financial education, where the influence of financial knowledge on behavior is mediated by financial attitudes.</td>
<td>Knowledge, behavior and attitude</td>
<td>Norvilitis and MacLean (2010)</td>
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<td>The choice of numerous alternatives for establishing financial goals.</td>
<td>Effective choice</td>
<td>Criddle (2006)</td>
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<td>The most specific human capital, measured by financial literacy issues.</td>
<td>Financial knowledge</td>
<td>Robb and Sharpe (2009)</td>
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<td>Measured through a set of questions that measure primary financial concepts, such as capitalization of interest, inflation, and risk diversification.</td>
<td>Financial knowledge</td>
<td>Lusardi and Mitchell (2014)</td>
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Table 1.1: Financial Literacy definitions by various authors over years.


Financial literacy is considered as a supplement for the promotion of financial inclusions which had kept government on toes. In India, there had been a dire need of financial literacy as with the low level of literacy, large proportion of population remained disconnected to the formal financial institutions. Thus, attempt should be made to increase financial literacy taking it as an obligation on imperative basis. The concept of financial literacy should be made broader as it acquires greater significance because it could be monitored as an important factor in the access of various individuals to finance. The majority population of India had minimal resources and had been considered as poor and operates on the margin. These groups were really prone to various vulnerable issues which created downward financial pressures. Moreover, these gap needed to be bridged by creating established banking relationship with the marginalised sections who were trapped to expensive alternatives. Various challenges in the areas of household management could be highlighted by the lack of skills or knowledge they possess, which will help in making well informed financial decisions. Financial literacy supports them and prepares them in advance to deal with unexpected contingencies.

On the basis of review of literature and discussion with the experts “Financial literacy is knowledge, proficiency and mind-set to manage financial resources effectively for a lifetime of financial well-being. An individual is considered to
be financial literate if he had adequate knowledge of various personal financial management tools like insurance, mutual funds, bank deposits, Public Provident Fund, Fixed deposits, savings account, recurring account, commodity market, stock market investments, debt extinguishment, real estate gold investments. It allows individuals to make informed and effective decisions related to their financial resources”.

The present study seeks to examine the link between financial literacy that is the ability to process economic information and make informed decisions about household finances, and personal financial management. Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being while financial education is the process by which individual improve their understanding of financial products, services and concepts, so they feel endowed to make informed choices, elude pitfalls, identify where to go to seek help and take appropriate action at right moment to improve their present and long-term financial welfare. The study also explains that individuals can be considered financially literate if they have competency skills and can exhibit to use that knowledge which they seemed to have learned. Financial literacy is obtained through practical exposure and active assimilation of knowledge. As individual’ financial literacy increases, they behave in more monetarily sophisticated manner having command over many concepts, numeracy skills and basic skill set more aligned towards general intellectual abilities.

In a simple terms, financial literacy is an apprehension of the most basic economic concepts which are required to make saving and investment decisions and the understanding that an ordinary investors should have regarding market principles, instruments, organizations and regulations. Financial illiteracy or low levels of financial literacy is exhibited due to lack of healthy financial ways of thinking, lack of necessary financial knowledge and difficulties in applying financial knowledge. Financially illiterate individuals are part of financial exclusions and rely on unreliable sources for information.
Financially illiterate individual either voluntarily do financial exclusion or will get the financial information from unreliable sources which results into the misallocation of resources which causes social declination in society as well as increased expenditure to gain social security. Absence of this knowledge and skill exposes to a variety of risk to individual, societal and economy as a whole. Individuals should be considered as financially literate who is:

* Knowledgeable and informed on the issues of managing financial resources of funds.
* Understand the basic concepts and issues relating with management of financial instruments.
* To plan and implement sound proof financial decision making.

Diagram 1: Consequences Of Financial Literacy

Source: Conference Proceedings on Financial Literacy : A call for attention 2011, Ms Harsha Jariwala
The level of financial literacy had played a vital role in the Indian financial services sector as it was considered to be the crucial determinant of the financial behaviour and financial preferences of individual investors. Recent developments in markets laid more emphasis on level of financial literacy of individual as it drastically changed the financial behaviour and opened wide opportunities for them, as it builds confidence and attitude, making them experienced for critical circumstances. A conceptual model of financial literacy can be understood as:

![Diagram 2- Conceptual Model of Financial Literacy](image)

Why Financial Literacy Matters:

Financial literacy helped to build pillars of financial capabilities which directly helped to reduce economic inequalities in the country and empowered them to fight with the asymmetries which an individual faced in the perplex world. Financial literacy helps to bridge the gap between their financial planning and their management.

Financial literacy empowered individuals with more knowledge and understanding complex financial products and helped them avoid pitfalls of crisis. Individuals with low financial literacy got trapped with financial products ending up paying high fees, charges and yielding less returns. In other words, financial literacy helped to create strong grasp on understanding of finances reducing the possibilities of financial troubles.

1. Complex options
Today there is a variety of investment options available to an investor. At present numerous options act like platter with assortment of appetizing selections. But individual ought to make effective utilization of available resources. Financial literacy helped in better decision making and planning for various investments, planning for house, financing an education, retirement planning etc.

2. Boost self confidence
Financial literacy increased morale of an individual as it resulted in better selection of choices. It makes them independent and stress free.

3. Higher returns
Returns of various investments are sometimes fixed and sometimes volatile. When financial literacy was increased there were more chances of getting higher returns as one made informed choices.
4. Planning for unforeseen contingencies
Planning was required at all levels as occurrence of various emergency contingencies was very common. Planning begins from womb and expires though cradle to garve. Thus, it was very important to safeguard to share the risk through various investment alternatives for some considerations monthly, half yearly or yearly by making their future safe and secure.

5. Raising educated future generations
Levels of financial literacy had long lasting effects muted in future generations. Financial literacy taught individuals the importance of money and how money worked. Financial literacy helped to bloom smart kids.

6. Spotting the fraud
Financial literacy safeguarded individual from being victim of various frauds in the financial market and made their experience less awful. Financial literacy built the acumen of an individual making them cognizant.

7. Setting and fulfilling financial goals
Every individual had fixed set of financial dreams and goals in their life. But - prioritizing them, brainstorming them and convert them into reality in shorter span was head honcho. Goals should be specific, attainable and realistic and should be compatible with time. Financial literacy reinforced fulfilment.

8. Improving quality of life
Intellectual insight helped to make one’s life stress-free and refines it, making it worth spending. The principle of one percent infinity helped an individual to progress every day and to transit from casual investments to pro investments. This habit made them and their life overwhelmed, improved and grown.
Determinants of Financial Literacy

There were several indicators which influenced financial literacy for gaining an understanding of personal financial management.

1. Knowledge:

It had been the ability to understand financial information and make effective decisions, by using the same. It influenced the choice of numerous alternatives for establishing financial goals.

2. Attitude:

The positive results of being financially literate were driven by behaviour such as; planning expenses, building financial security, certain behaviour, positive attitude. Financial attitudes were established through economic and non-economic beliefs held by a decision maker on the outcomes of a particular behaviour hence, a key factor in the personal decision making process in the financial matters.

3. Socio-economic & Demographic variables:

These exerted major impact on financial literacy. The main variables were gender, age, income, marital status, occupation, education etc. Regarding gender, on the basis of the past studies, it was found that women were significantly less likely to answer the questions correctly and more prone to respond to their ignorance. They also assessed their financial literacy levels more conservatively whereas men were open and very calculative. On the other hand, women had greater difficulty in performing financial calculations and lower knowledge level which ultimately hindered the ability of making responsible financial decisions. It is fact that men tend to see money as power and they believed that having money will make them more socially desirable, while women seemed to have a rather passive approach to money. As far as age was concerned the financially literate and mature person was more prone to take right financial decision as compared to immature ones. So age was also
one of the important determinants to respond to financial matters more appropriately. Marital status was concerned; bachelors had a propensity to lower financial literacy compared to married ones. As they had no liabilities so it may have happened that they ran the risk of making poor financial decisions. Married people had a number of responsibilities so they took decisions in financial matters by using the higher level of financial literacy. Occupation helped out in facing the challenges related with financial matters. Service and business class people underwent a large number of financial situations therefore; they acquired more knowledge for facilitating the complex information and provided a basis for decision making. In the same way income was a strong indicator in financial literacy as if people had wealth then they try hard to get more and more information about investment avenues. The following table shows various variables and their relation with financial literacy:

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<th>Variables</th>
<th>Relation with financial literacy</th>
<th>Authors</th>
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<tr>
<td>Gender</td>
<td>Women generally had lower financial literacy levels than men; - Women were less likely to answer the questions correctly and more likely to say they did not knew the answer; - Men's financial literacy was increasingly faster than that of women; - Making a comparison between women, those married and having higher incomes showed higher financial literacy levels.</td>
<td>Chen and Volpe (1998); Agarwal et al. (2009); Lusardi and Mitchell (2011); Atkinson and Messy (2012); OECD (2013).</td>
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<td>Age</td>
<td>The average age from 30 to 40 years was associated with higher financial literacy levels. - Financial literacy was low among young and elderly individuals. - Young adults had used loans with high costs.</td>
<td>Agarwal et al. (2009); Lusardi and Mitchell (2011); Atkinson and Messy (2012); OECD (2013).</td>
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<td>Marital status</td>
<td>Singles were significantly more prone to have lower financial literacy levels than married individuals.</td>
<td>Research (2003); Dew (2008); Calamato (2010); Brown and Graf (2013).</td>
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<td>Having dependent family members</td>
<td>Individuals who had a child were less likely to have low financial literacy levels than those who had two or three children; - Families with dependent members were more likely to contract loans with higher costs.</td>
<td>Servon and Kaestner (2008); Mottola (2013).</td>
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<td>Occupation</td>
<td>Individuals with longer labour experience had higher financial literacy because of greater familiarity with economic and financial subjects, while unskilled or unemployed workers showed less desirable attitudes and behaviors.</td>
<td>Chen and Volpe (1998); Research (2003); Kim and Garman (2004); Calamato (2010).</td>
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<tr>
<td>Educational level</td>
<td>Those with higher educational levels were those with higher financial literacy levels; - The number of courses related to the financial field attended at a undergraduate education is related to the financial literacy level; - Those with lower education were less likely to answer the questions correctly and more prone to say they do not know the answer.</td>
<td>Chen and Volpe (1998); Amadeu (2009); Lusardi and Mitchell (2011).</td>
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<tr>
<td>Parental educational level</td>
<td>Parents influence their children's literacy; - Individuals' financial literacy was uniformly related to parental educational levels; - Parents played a major role by influencing their children's literacy.</td>
<td>Liao and Cai (1995); Pinto et al. (2005); Clarke et al. (2005); Jorgensen (2007); Mandell (2008).</td>
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consumer behavior; - Individuals learned more about money management with their parents.

| Income       | Low income levels were associated with low financial literacy levels. | Monticone (2010); Hastings and Mitchell (2011); Atkinson and Messy (2012). |

Table 1.2: Variables and their relation with financial literacy.


**Financial Literacy Programs**

Various financial literacy programs had been initiated in various parts of India by Reserve Bank of India, Security Exchange Board of India, National Council for Education Research Training(NCERT), National Stock Exchange, Insurance Regulatory Development Authority. They were as follows:

Project Financial Literacy: This was initiative taken by RBI to educate individuals about formal banking structure. It included individuals of school, college, women, rural urban and poor, defence personnel, and senior citizens. It was carried out in two phases: first was related to RBI and second phase was related to other banking features.

NCERT had launched various modules for financial literacy which included financial plan, budgeting, managing money, financial assets, protection of assets, investing money, retirement planning, taxation and career planning.

SEBI and NISM National Institute of security markets had launched pocket money workbook which will help school students to understand the concept of
money and also developed savings attitude by showing value of money. This was available in Hindi and English both.

IRDA had developed resource material in the form of comic strips and videos to develop awareness on various types of insurance both life and non-life.

Dhangyan : This program had been launched as online course in the form of free e-learning. This initiative is taken by TATA Capital and CERE (Centre for environment research and education), an NGO which worked to promote environmental and action oriented educational programs. It had interactive phase and enhances financial literacy through financial literacy games, films and stories. It was making an individual money smart programme and had won corporate social responsibility community initiative award 2017 hosted by India CSR- cere_india.org.

**Implications of Various Financial Literacy Programs**

The following issues were observed as major implications:

**Managing Tax:** Financial literacy helped in utilizing tax reliefs and rebates in filing tax returns and managed tax process as personal financial management.

**Managing Liabilities:** Financial literate individual opined that interest charges by financial institution on credit card balance were reasonable. He would be able to settle mortgage and hire purchase instalment efficiently and also could make a decision about various avenues available in the market.

**Managing Investment:** Financial literacy helped in understanding the risk profile and able to distinguish different types of avenues. If financially literate individual had given a lump sum money, know how to use it properly.

**Managing Retirement:** Financially literate individual could take proactive measures by thinking retirement planning.
Importance of Financial Literacy

1. Reduce financial dependency:

Financial literacy benefits individuals of all ages and incomes. Financial literacy helped to reduce burden of bread-earners of the family to every one’s shoulder. It educates individuals of all ages by making them well equipped for informed decision making. When individuals knew how to keep themselves under safety net it reduced burden of the families. It helped individual to analyse financial risk and making themselves more capable of financial planning. It helped individuals to live with their own balanced and responsible decisions.

2. Budgeting skills:

Financial literacy helped individuals to be more knowledgeable to evaluate various different options they had before them. It developed trust and confidence among them. It helped them to build good financial habits which enriched their future.

3. Financial awareness and decision making:

Financial literacy helped to develop their own extensive financial plan and also helped them to track them. It helped an individual to build good financial habits which reduced financial anxiety depicting difference in their lifestyles. Financial literacy developed good money handling skills which helped to utilize their resources in an effective manner.

4. Spending and saving matrix:

When one’s level of financial literacy increases; arena of thinking towards savings gets more elaborate. As individuals have more wider prospective towards various options available, i.e. one knows how to channelize their savings into investments and earning good returns on it. When one saves more and more then it becomes a habit and these automatic savings plans helps them
accumulate more funds making their financial situation stronger and diversified.

5. Sustainability financial future:

Financial literacy assisted in taking right decision with right approach at right time. Financial literacy brought innovation and enhanced the scope of working. It enriched the intellect and awareness of an individual by showing magnified effect on their financial behaviour.

Current Status of Financial Literacy In India

According to a survey conducted by Standard & Poor’s, over 76% Indian adults lacked basic financial literacy and they did not understand the most basic and key financial concepts conducted by Standard & Poor’s Financial Services LLC. The S&P’s Ratings Services Global Financial Literacy Survey found that this number is lower than the worldwide average of financial literacy, but was roughly in line with other BRICS (Brazil, Russia, India, China and South Africa) and South Asian nations. According to the survey, three-quarters of Asian adults and two-thirds of adults worldwide were not financially literate. Unfortunately, when it came to India’s financial literacy rate the statistics were quite shocking. In this survey some questions were asked from participants regarding the personal financial knowledge and its attributes which they thought before investment. Of the questions asked, only 14% of Indian adults answered the one on risk diversification correctly, and just 51% understood compound interest. On the other hand, 56% answered the question on inflation correctly. What was interesting was the fact that about 39% of adults who have a formal loan were financially literate, while 27% of formal borrowers were not financially literate. With regards to the participants’ knowledge of financial products, a mere 14% of Indian adults said they saved with a formal financial institution.
In a survey of global financial literacy in 2012 by Visa, India originated as one of the least financially literate among 28 countries. India was behind certain countries because of various reasons like inadequate household budgets, skills related to money management financial education etc. India ranked 23 among these 28 countries which indicated that only 35% of Indian respondents were financially literate. It was also revealed that Indian families discuss only 10 days a year about money related matters like money management, savings, spending, budgeting habits etc., with their children. Only 43% women and 20% men understand that what personal financial management is and never discussed something related to it with their children.

A survey of Financial Literacy among students, young employees, and retired in India by IIM Ahmedabad, supported by CITI foundation concluded that only 22% of students have had high financial knowledge while 50% of them were scored very low on a financial knowledge barometer. Among them only 45% of respondents were able to answer questions on the core concept of compound interest and only 43% understood that how inflation affected prices.

The survey indicated that employed adults lacked awareness of financial products, only 7% of all respondents were aware of commonly available financial products. Even the most common investment formed fixed deposits, they were not aware of it. More than half of young employees were not aware of employee specific tools like PPF, pension funds etc. They just relied on friends, relatives and internet in choosing their financial products and services.

One survey conducted by HELP AGE India indicated that 79% of old age population is dependent on their children. The financial dependency was highest in Delhi NCR at 90%, next Kolkata at 84% followed by Ahmedabad at 83%. The population of Hyderabad performed the best at 40%.
Personal Financial Management

Every individual had different mindset when they planned for investments and it also differed at each life cycle stage. Every individual expected that his savings which were hard earned money should be properly channelized. The decision making regarding various investments depended on risk bearing abilities and its objective for investment. When individuals saved, it was very difficult for them to decide what to invest, where to invest, how much to invest, for how much time and then there starts the role of personal financial management.

Personal financial management involved investment planning for future and is capability to comprehend one’s financial situation for better decision making. It is related with financial understanding and proper management of financial resources. There were plethora of complex products available in the market to channelize one’s savings into investments but to gain financial success basic understanding of all played important role. They need to be strategically planned within financial spectrum which yielded good returns and also safeguarded their future. We all have had few goals in life for financial well being so for that personal financial management gives yardstick to improve their lives and meet those goals.

Financial planning played a crucial role in helping individuals make the most out of their money. A good plan can help in creating long term wealth and provide substantial immunity against fluctuating economy. It also protected individuals against the unanticipated events like loss of income or major illness. Financial Planning varied and it was different for different people and was highly dependent on income level, age, risk appetite, responsibilities etc. It was very much true that what suits someone may not necessarily be suitable for another. However, it can be said that there were some mechanisms which remained universal across all the plans. They may be stated as:
• Planning, creating and managing capital accumulation to generate future capital and also analysing cash flows for achieving predestined goals and define spending habits.
• Risk related with cash flows could be managed through risk management and investing in insurance products.
• Financial planning guaranteed financial autonomy at retirement. It included Public Provident Fund, Employee Provident Fund and other pension plans.
• Planning regarding reduction of tax liabilities which would helped to invest that extra cash flow for other purposes
• Planning for the creation, accumulation, conservation and distribution of assets
• Maintaining and increasing personal cash flows through debt and lifestyle management.

Diagram 3 : Framework for individual financial health

Source: Prepared by researcher.
Elements that define Personal Financial Management:

Personal Financial Management was perplexing and everlasting task which leaved even savvy individuals in confused state. Today, in this competitive world there are variety of assets and investments available so there is need of full extent of personal financial planning. Personal financial management included planning of short term and long term investment decisions which helped to have a safe and secure present and future both. This required basic understanding of investment options that how much to save, where to invest, how to invest etc. Personal financial planning involved:

- It involved knowledge and selection of investment plans according to income and goals of an individual.
- It involved prioritizing investment decision making and also money management.
- Personal Financial Planning encouraged savings and dealt with its proper allocation.

On the basis of review of literature and discussion with the experts, **Personal financial management may be defined as** Personal financial management as process of using financial literacy (knowledge) in the planning of investments that satisfies his/her present personal financial situation and fulfills his financial needs of future.

Reasons for doing Personal Financial Management

1. **Boost Savings**

Savings are that portion of income which is not spent on current expenditure with a view to protect oneself with contingent and uncertain events. Savings makes individual’s financial future safe and secured. But this is also true that they should be adequately invested so that they yielded good returns and was not suffered by time value of money. Personal financial management helped to build proper financial goals and also assisted in achieving them.
2. Analyzing Cash flows

According to Forbes magazine (Dec 2013), Real cash flow meant understanding of components like where money came from, where it went, and what choices should be made for life of greater satisfaction. Some components can be explained as:

- **Components of income**

  Cash flows could be increased under various heads of income by taking extra efforts like doing extra time, taking extra projects etc. Cash flows had direct relation with income; it was considered that more the cash flows more will be the savings.

- **Fixed expenses**

  Fixed expenses were linked with structural or routine expenses which were done out of the income. To increase cash flows an individual must reduce his fixed expenses.

- **Taxes**

  Managing taxation issues were equally important and as well it may lead to increase in flow of cash. There were various auto deductions which were done by the government which demanded refund within proper time limit. Thus, it can be said that these taxation issues need to properly taken care for increase in cash flows. Taxation aspect was critical in case of personal financial planning.

3. Financial Security

Personal financial management ensures an individual to have a secured future as it was backed up by proper financial planning. It helped in creating proper back up plans for contingent events, thus in case if any uncertainty occurred individual was ready with the shockproof investments available with them to bear that situation.
4. Financial understanding
When a person does financial planning then it acted as a mental training programme and became integral part of personal financial management. It was informative in nature, increased their knowledge and helped in better understanding of investment alternatives available in the market. Understanding of financial products also increased timely with experience and lead to economic development.

5. Channelize Investments
Personal financial management was linked with financial planning which included proper assignment of savings into various portfolio of investments and also yielding good returns out of it. These may vary from individual to individual on the basis of personal needs and goals in life.

Strategies for doing personal financial Management
The following PFM strategies can be divided in two parts:

1. Offensive
Offensive financial management involved planning of finances which will allow one to lead secured financial future. It involved basically those investments which were expected to give good returns in future like investments in stock market, mutual funds, banks etc.

2. Defensive
This strategy involved defending oneself from various financial shocks i.e. it involved safeguarding against the exposure to risk for example insurance.

Importance of Personal financial Management
1. Personal Financial Management helped to achieve financial goals in life.
2. Personal Financial Management helped to manage debts.
3. Personal Financial Management helped to prepare adequate saving and investment plans.
4. Personal Financial Management developed capacity to gulp in financial shocks.
5. Personal Financial Management provided flexibility in making choices.
7. Personal Financial Management assisted in managing expenses.
8. Personal Financial Management supported money management and decision making.
10. Personal Financial Management helped in managing budget according to one’s income and goals.
11. Personal Financial Management lead to insurance coverage of an individual.
13. Personal Financial Management helped in analyzing cost of credit which in turn helped in appropriate investments according to objectives.

**Factors Affecting Personal Financial Management**

Some of the factors that affected the personal financial management included age, gender, income level and education level.

- **Gender**

Gender had been identified by several empirical studies to have a relationship with the personal financial management. It was one of the important attributes to examine the impact of male and female attitude on the personal financial management. It was revealed that females were more risk averse and they were more prone to invest in fixed deposits, Post Office or purchasing Gold in form of jewellery etc. On the other hand, males were more inclined to take risk by purchasing the mutual funds, shares. It also examined that one of the important reasons for investing in LIC, Real Estate and NSC for tax rebate so the females also who are professionals, they preferred these avenues. If we take the example of business class people, they were willing to invest in shares and mutual funds or others. Regarding the PPF, basically the working professionals
had this option. For the health insurance policies, males were conscious about their family members and they also considered various unavoidable circumstances which may counter any time. The study by Bernheim, Garett and Maki (2001) found that males performed better on both financial and macroeconomic questions. Being male is associated with greater financial knowledge. Goldsmith and Goldsmith (1997) suggested that women score worse than men because in general they were less interested in the topics of investment and personal finance and, consequently, used financial services more seldom information through interacting with others.

- Age Group

Age was also one of the parameters on which every individual developed his/her intellectual ability to take the personal decision for financial management. The age legion was important for two reasons: the older the retirement age, the more years an individual will have in the work force, thus increasing the probability of having adequate financial management. Regarding the youth group, it was determined that this group of people were not mentally prepared for their future planning but the middle aged groups were conscious about their future security and they planned accordingly. If this segment of youth planned early, in that case they could double their money and contribute in national economy. Age factor resolute the personal feelings and prepared the person for taking decisions in a broad spectrum. It is a distinctive approach to personal financial planning involves effective utilization of savings to accumulate wealth, followed by careful safeguarding of such wealth against value depreciation and losses, and finally distribution of wealth at a later stage of one’s life. Such planning reflected an individuals’ current state of play determined by stages of age and how individuals plan to progressively develop and built their capacity in managing financial needs with respect to credit and cash management, tax planning, insurance and risk management, investment, as well retirement and estate planning.
As per the Old Age Social and Income Security (OASIS) Project, the total population was expected to rise by 49% from 1991 to 2016, and the number of elderly (person aged 60 and above) were expected to increase by 107%. In other words, the percentage growth in the elderly population was more than double than that of the population as a whole. Both male and female population in India at age 60 today was expected to live beyond 75 years of age. Thus, an average person should have adequate resources to plan for their personal management.

- **Education**

This factor reflected the knowledge and awareness level for personal financial management. Education and financial literacy was an important predictor of financial planning. The shift from defined benefit to defined contribution plans meant that individuals have to decide how much they need to save, how to invest their savings, and during the post-retirement period, how to allocate their portfolios and draw down their savings and income. It was true that an educated person chose avenues for personal financial planning according to their income and their needs and more aware about the risk in different avenues. On the other hand it was easy to convince the uneducated person regarding the investment avenues but due to their lack of knowledge, they were not supposed to take right decision depending on the current market study. Hence, for the financial planning, it was better to have some knowledge about the market irrespective of education.

- **Income**

Income had been shown to be the main factor to determine both savings and asset holdings (Browning and Lusardi, 1996). Inheritances were sometimes overlooked as a source of income, but they were important because they transferred residual savings or wealth across generations. Individuals who planned financially were more likely to have congruence in their preferred and
planned income segment. Income helped in making advance provision for financial needs that would arise in the future. The objective was to ensure that the right amount of money was available at the right point in time in the future to achieve an individual’s life goals.

- **Socio-Economic Background**
  It constituted social location which recognized existing social hierarchies and divisions that impacted life experiences. Hierarchies and differences based on gender, race/ethnicity, and education created systems of disadvantage and privilege in society; which lead to considerable diversity in old age, consistent with the cumulative advantages and disadvantages. Social location of individuals impacted life expectations and influenced personal financial planning. The relationships between socioeconomic status with educational and occupation was an important indicator of the degree of social equity and the success of government policies aimed at reducing social inequality.

  India was seeing a change in its family structures from the joint family system to the nuclear family system. It was mainly because of the increasing migration of younger generations to different places of the work which diminished the old age financial support. Moreover, the increased life span and increased medical expenses were beyond the means of a common man to sustain. Hence there was a pressing need to re-examine the existing formal procedure for financial management.

- **Consumption Pattern**
  Understanding consumption changes was important for individuals who were trying to assess how much income they would need to meet their basic needs and secondary needs, and what more they need to do to continue to enjoy the same level of economic well-being that they now experience. In life cycle financial planning, it was consumption over a lifetime that was of primary interest to individuals and families, rather than wealth. Consumption was a measure of ultimate economic well-being. The life-cycle predicts that
consumption remained smooth during the transition from work to retirement. So, it influenced the personal planning through individual involvement.

- **Future Security**
  Savings were inherently related to the future; and financial planning related to expectations regarding a future event. People with a future orientation were more likely to anticipate events such as retirement and more likely to think about and make preparations to achieve a successful outcome. Being an Indian, the first and foremost psychological need is security and to be safe for future life, so there was a need to consider on the personal financial aspects by considering the different investment avenues. With the changing social and economic environment, making one's future secure by way of proper planning provided great relief to individuals and helped them live a financially secure and dignified life till their end of journey.

- **Convenient Set-Up**
  This was the predominant perceptual factor which described agent's role in mobilizing the savings. Investors preferred to have convenient arrangements to make investments. They also considered convenience as the most important criterion while evaluating any investment. The convenience may be required while making investment and also at the time of getting regular return and capital redemption at the end. Every investor will have some kind of perception about institutional set up depending on what kind of convenience and inconvenience they had enjoyed.

**Process involved in Personal Financial Management:**

1. Setting the objective and goal of doing investment.
2. Analyzing the present financial situations and current obligations.
3. Development of personal financial plan using money management skills i.e. rational decision making regarding investments.
4. Evaluation of alternatives and review them with time.

*Source: Prepared by researcher.*

1. **Setting the objective and goal of doing investment:**

The first step in personal financial management was to set individual objectives and goals for doing investments. Here goals were decided by analyzing one’s personal financial situation and also length and duration of finances. The goal which we defined had to be very specific and accurate because what type of returns we wanted and what type of risk we were taking depended on that. It matched with one’s life goals. We should also look after the plausible limit of money which we wanted to invest in justifiable time limit. It should be taken care of that we wanted monthly investments or quarterly or yearly investments. Time needs to be given importance so that risk factors attached to it could be analyzed. Our financial goals could be short term or long term depending on our finances and savings. While setting objectives, every individual should be planned for emergency surplus to meet the contingent emergencies. These
reserves acted as a cushion for unpredictable happenings with an individual. These should be planned on monthly basis so that accumulation of regular deposits enhanced one’s savings accounts. The Objectives could be divided into short term goals and long term goals:

**Short term goals:**

They were the goals which an individual wanted to achieve in time frame of one or two years. They were immediate in nature and commitment to achieve them depended on person to person. It included day to day expenditures like household furnitures, planning for buying car and making down payments, basic home decors and changes.

**Intermediate goals:**

They were the goals which lied between short term and long term. They were goals whose time frame was between two to five years. They took slightly more time in its completion than short term goals.

**Long term goals:**

Long term goals included:

- Buying a house.
- Starting business or any new venture.
- Making retirement plans.
- Planning for child education.
- Planning for child marriage.
- Planning for all types of insurance.

2. **Analyzing the present financial situations and current obligations.**

Here past and present incomes and their disbursements should be analyzed to get clear image of what and how to plan for future. This helped in decision making of what extra should be included in our plan and what needed to be
excluded. Even our day to day activities regarding savings and investments affected long term and short decisions. All assets, liabilities, debts should be analyzed to trace one’s financial progress. Various efforts should be made to develop a good savings plan vis a vis good investment habits should be developed so that one can secure their future. Planning of investments should be done starting from young age so that accumulation takes place over a period of time and one could land up with good investment portfolio.

3. **Development of personal financial plan using money management skills i.e. rational decision making regarding investments.**

After planning one’s objectives there was a need to develop proper financial plan which included various investment alternatives for an individual. It was planned on the basis of financial strengths and weaknesses so that it did not create difficulties in future. There was requirement of money management skills to draft a successful financial plan. Financial plan was built on the basics and requirements of one’s financial life like financial security, liquidity, profitability, safeguarded against the unexpected etc. It was basically involvement of all investment alternatives in one’s portfolio which meets one’s financial goal. There were various elements of financial planning like budgeting investments, estates, tax planning, retirement planning, insurance planning etc. A good plan acted as shock absorber against the fluctuating economy and also helped in enhancing wealth in near future. Financial planning varied from person to person according to their suitability and was individual in nature. There were various demographic factors like income, age, gender, risk appetite, occupation, education, and responsibilities etc which affected Personal Financial Planning. It was like what was perfect for one may be imperfect for another. Financial planning brought effectiveness in selecting proper investment option and influenced one’s personal financial situation. It was creating capital accumulation and managing cash flows by analyzing risk management.
4. Evaluation of alternatives and review them with time.

The financial plan or portfolio constructed keeping financial goals in mind needed to be evaluated from time to time. The performance of various investments needed to be studied with its impact. Investments should be analyzed keeping the concept time value of money in mind. Interest earned on investments should be analysed that it was in line with inflated pressures or not. Investments should be regulated by keeping a check on regular basis i.e. time to time reviewing your portfolio was very necessary. One should analyze that the risk related with one’s investments was matching one’s goals or not. If there was need or requirement to make some adjustments then they should be done.

**Personal Financial Management tools:**

There were various tools through which an individual managed his finances to achieve their goals in life. An individual should involve below mentioned areas in to personal financial planning:

- Insurance
  - Health insurance
  - life insurance
  - property insurance
- Emergency funding
  - savings account
  - Recurring deposits
- Retirement planning
  - PPF
  - fixed income savings account
  - pension plans
  - PPF
- Real estate / housing
• Debt Management
  o Vehicle loan
  o Housing loan
• Capital formation / profitability
  o Mutual funds
  o Stock Market
  o Bank FDs
  o PO savings schemes
  o Savings account
  o Current account

1. INSURANCE

Insurance was a form of risk management primarily used to hedge against the risk of contingent losses. It may be defined as the equitable transfer of risk of a contingent loss, from one entity to another in exchange of some premium. Insurance was an arrangement where small premium payments from all exposed was collected and distributed to those suffering loss. In legal sense: Insurance was a contractual agreement where one party agreed to compensate another party for losses. Basically Insurance was a contract between the insurer and insured whereby the insurer undertook to pay a fixed amount to the insured, in exchange for a fixed sum at the happenings of certain incidents (maturity or death) or compensate the actual loss, due to the risk insured. Insurance can be broadly divided into two sub parts which were useful for an individual in financial planning.
Diagram 5: Insurance and its types.

Source: Prepared by researcher.

a. Life Insurance:

Life insurance was an contractual obligation between two parties in exchange of premium payments. The subject matter in this type of insurance was human life. Most of the insurance policies were combination of savings and security. Life insurance was a contract in which insured is promised by an insurance company that during the tenure of insurance in case of uncertainty or death, his nominee will be paid the whole insurance amount which was called sum assured. This was a contract between the insurance company and the insured for a number of years. The main aim of taking Life insurance policy was risk coverage against loss of life.

Thus, with life insurance one would be able to achieve double benefits of Protection as well as Savings. Life insurance offered following benefits –

- Life Cover
- Long-term Savings
- Life Stage Specific Planning
- Tax saving
Life Stage Specific Planning:

Life insurance held its importance at every phase of life for various advantages. At every phase, individual and his family had certain aims and issues which they need to plan for. These goals could vary from buying a new house, making arrangements for the education or marriage of children, accumulating wealth for retirement, and much more. Life insurance gives options to minimise these risks which can make one's life troublesome. These risks may arise due to accident, illness or natural causes like fire, flood, and earthquake. Life insurance aimed to protect the family of the life insured so that they may not undergo from financial trauma on the death or disability of the insured person. Life insurance needed to be a mandatory part of every person's life. Life insurance covers three contingencies:

- Contingency of death
- Contingency of old age
- Contingency of disability and critical illness.

One should remain aware about the renewal policies otherwise it lapsed and the penalty was borne by the policy holders. In this policy there were various term life insurance schemes that provide financial support to dependent family members in case of death. And also in some cases, facility of loan was available against life insurance policy to meet the contingency situation at very reasonable interest.
Types of insurance policies:

![Diagram 6: Concept of life Insurance.](source)

*Source: Prepared by researcher.*

**Pure Insurance:**

Pure insurance covered term plan which insured an individual against the death of an individual i.e. on occurrence of any event insured amount was paid to the nominee. As age increased policy premium also increased. It was cheapest form of insurance and also had convertibility option to whole life policy within limited period. It could be renewed with same amount of premium at same rates. This was only insurance and had no components of investments into it. An investment in this insurance gives taxation benefits.

**Insurance cum Investment:**

(i) *Whole Life Policy*

The policy was also called ‘Ordinary Life Policy’. Under this policy the premium was paid throughout the life of the insured. The payment of the policy was made after the death of insured. The insured will have to pay premium even at the old age when is not earning anything. The rate of premium was
lowest under this policy. It was suitable for individuals who had to plan their post retirement needs. Investment in this policy should be done at younger age so that premium comes out to be less and will remain same.

(ii) **Unit Linked Insurance Plan**

ULIP’s provided financial protection in form of insurance with good investment opportunities. In this premium which was paid was allowed for some deductions and rest money was invested in debt or equity market and was linked to market growth with the help of NAVs. The premium paid in these offered tax benefits under Income Tax Act, 1961 for maximum amount of Rs 1, 00,000. But it had lock in period of 5 years and also did not guaranteed assured return. It was suitable for investors who wanted to go for long term investments with insurance cover and tax benefits.

(iii) **Endowment Policy**

Endowment policy was simple policy with guaranteed returns and the sum assured was paid to the beneficiary on the death of insured or maturity of the policy. Here, beneficiary got sum assured with accrued bonus over years. If policy was surrendered within 3 years time frame receives no surrender value and after 3 years received surrender value. This policy was taken up for a specific period called ‘endowment policy period’. There were following types of endowment policy like Pure endowment policy, Ordinary endowment policy, Double endowment policy, Money back endowment policy, Joint life endowment policy, Triple benefit endowment policy, Educational endowment policy, Marriage endowment policy.

It was an ideal long-term savings tool that could help an individual meet the financial needs after retirement or even fulfil a future goal like child’s marriage. Under these policies, investor received a certain amount either or his/her death or in the expiry of a certain number of years. Government had provided an opportunity to investors to choose the right option for premium payment, such as; single premium policy, monthly paid, quarterly paid, half-
yearly paid, yearly paid. It has unique features and benefits provided to investors for their secure future life.

But this policy provided low returns and demands higher premium than term plans. In case of maturity, only some companies provide renewability option to individuals.

**Benefits:**

Various benefits were as follows:

**Death Benefits:** Full sum assured + Bonus was paid to nominee in case of natural death of policy holder and if policy holder meets an accidental death then the sum assured was paid to the nominee.

**Maturity Benefits:** Full sum assured + Bonus was paid to policy holder after the maturity of the policy.

**Survival Benefits:** As per the norms of the policy, the policy holder receives a sum assured amount after a regular period respectively.

b. **Non-life insurance**

Non-Life insurance products include property or casualty, health insurance or house, fire, marine insurance etc. This insurance class deals with all the non-life aspects of an insured like his/her house, health, land, office, cargo, etc., which might bring financial loss. Non life insurance had been divided into three parts:

**1. Health Insurance Schemes/Policies:**

Health insurance was form of collectivism which meant collective pooling of funds and sharing the risk in case of medical expenses. The health insurance market in India had very limited coverage as total population is considered.
Healthcare in India was in a position of enormous switch that increased income and health consciousness was developed among the majority of the classes of individuals. The introduction of private healthcare financing had helped the lot in increasing the penetration. Today, wide range of health insurance plans covers the cost of regular, preventive and emergency health care events and also most prescription drugs persuade the beneficiaries to inculcate it as an important part of the financial personal management. Health insurance could go cashless. There were cashless health insurance policies under which one could get treatments in associated hospitals without paying cash and also these health insurance policies provided tax benefits under Section 80 D of Income Tax Act. There were various types of health plans like individual health plan, family floater plan, senior citizen plan, critical illness plan, Daily hospital cash plan and unit linked health plan. Hence, it could be said that there are number of factors that encouraged the investors to buy their health plan.

**Mediclaim policy:** - It was introduced in 1986. It reimbursed the hospitalization expenses owing to illness or injury suffered by the insured, whether the hospitalization was domiciliary or otherwise. It does not cover outpatient treatments. Government had exempted the premium paid by individuals from their taxable income. Because of high premiums it had remained limited to middle class, urban tax payer segment of population. Some of the various other voluntary health insurance schemes available in the market were :- Asha deep plan II, Jeevan Asha plan II, Jan Arogya policy, Raja Rajeswari policy, Overseas Mediclaim policy, Cancer Insurance policy, Bhavishya Arogya policy, Dreaded disease policy, Health Guard, Critical illness policy, Group Health insurance policy, Shakti Shield etc. At present Health insurance is provided mainly in the form of riders. There were very few pure health insurance policies under voluntary health insurance schemes.

**2. Motor Insurance Policies:**
The Motor Vehicle Act was passed in 1939 to protect one’s vehicle caused by fire, theft, accident, mishandling and other mis-happenings. Under this Act
there was a provision for claim settlements to policy holders for Motor
Insurance (Scooters, Motorcycle, Private Cars, all types of commercial vehicles
and vehicles in showrooms and garages). It covered two types of risk:
(1) Damage to property caused to other
(2) One’s own automobile is damaged or loss.
This policy covered two features:
- Liability only Policy: This policy covered the vehicle’s owners’ legal
  liability to pay compensation to the death or insured to the third party
  and damage of property of third party.
- Package Policy: It covered the loss of insured vehicles due to fire,
  burglary, theft, accidental damages or other means.
Every year it was to be renewed and premium amount is being calculated year
wise on the depreciation.

3.Property/ Fire Insurance:
Fire insurance was an arrangement which protected an individual from the
damage caused due to fire. It was a specific form of insurance in addition to
property insurance and it covered the cost of replacement, repair or
reconstruction that policy covers. Individuals should inform insurer as early as
possible and should be done within 24 hours. The surveyor analysed the
situation and the claim procedure took place within two to three weeks.

Current status:

According to Indian Brand Equity Foundation(IBEF) in July 2017 reported
that the insurance industries in India comprises of 53 insurance companies out
of which 24 were related to life insurance and 29 were related to non-life
insurers. Among the life insurers, Life Insurance Corporation (LIC) was the
sole public sector company. Apart from this, in non-life insurers there existed
six other public sector insurers. They were Star Health and Allied Insurance
Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa
Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. In addition to these, there was sole national re-insurer, namely, General Insurance Corporation of India (GIC Re). The other role players which were included in Indian Insurance market included agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims etc.

Health Insurance policies which were registered in 2015-16 was approximately 36 crores, out of which 20.80 crore was covered in previous year i.e. 30 % of India population. The life insurance industry recorded a new high of premium income of Rs 1.98 trillion which showed growth rate of approximately 22.5% in April 2015 to March 2016. India insurance market was biggest in the world with 360 million policies which would increase Compound Annual Growth Rate (CAGR) by 12- 13%. India held 2 % of worlds life insurance premiums.

The general insurance sector of India was also growing at an healthy rate of 17 % and constitutes Rs 78000 crore premium per annum. India currently held less than 1.5% of worlds insurance premiums. So if we considered overall, India held fifteenth position in the world in terms of premium volume. So, there was great potential in insurance sector of India and individuals were preferring to park their funds into it. Digital India and Post demonetization both will increase the demand of insurance as tax payers will also increase.

2. BANK FIXED DEPOSITS

A fixed deposit was meant for those investors who want to deposit a lump sum of money for a fixed period of 15 days to five years and above, thereby earning a higher rate of interest in return. Investor gets a lump sum (Principal + Interest) at the maturity of the deposit. Bank fixed deposits were one of the most common saving scheme open to an average investor. Fixed deposits also gave a higher rate of interest than a savings bank account. The facilities varied from bank to bank.
Current Status:

India

![India's Bank FD interest rate over years](source)

**Figure 1.1: India’s Bank FD interest rate over years.**

*Source: Tradingeconomics.com*

According to report by NDTV September, 2017, Interest rates on bank FD’s (Fixed Deposits) were on multiyear lows and this fall stared from January 2015 and was still rallying low. But they still remained one of the preferred option of the individuals as the rate of interest was guaranteed. Interest was credited on basis of convenience that was either monthly or quarterly basis with maturity of 7 days to 10 years. According to Profit.ndtv April 2017, it was seen that SBI State Bank of India is giving interest rate of 6.75% on one year deposits and 6.25% on deposits of 3-5 years.

According to Manoj Nagpal in April 2017, CEO Outlook Asia Capital, it can be seen that the post tax return of FD’s comes 5-6% and that too depends one ones tax slab, thus it can be said that they will now only match inflation and will act as a value protector in today’s era. But it had various benefits like deposit insurance which was given by Deposit Insurance and Credit Guarantee Corporation (DICGC), a subsidiary of RBI, in which each individual will
maximum up to Rs 10000 in case if bank failure. This premium was borne by banks only. In addition to it, there was loan facility available up to approx 90% of principal amount for which bank charges just 1% extra over your deposit interest. But it should be kept in mind that interest on Bank FD’s attracted TDS tax deduction at source for above Rs 10000 FD’s. One can submit self declaration Form 15 G/15 H to bank if income less than taxable limit for so that they don’t have to follow refund procedure.

3. POST OFFICE SCHEMES: The post office offered a number of schemes such as National Savings Certificate (NSC), Public Provident Fund (PPF), saving accounts, fixed deposits, recurring deposits, monthly income account etc. These are government backed and hence, secure. They offer a fixed rate of interest and are for a fixed duration. For instance, the PPF was 15-year deposit offering 8.7% current interest per annum. Recently, the government had decided to link the interest rates offered by post office schemes to the market rates and they were tax free in nature. Interest rates were reviewed on yearly basis. Post office schemes were not tradable in nature. They were very much similar to bank fixed deposits.

1. NATIONAL SAVINGS CERTIFICATE
NSCs issued by Department of Post, Government of India and was available at all post office counters in the country. It was a long term safe savings option for the investor. They were available in the denominations of minimum 100 and there was no maximum limit. Here, interest was compounded half yearly but payable after a year. The scheme combined growth in money with reduction in tax liability as per the provisions of the Income Tax Act, 1961. The duration of a NSC scheme was six years. It provided tax benefits as per the rule of the Government of India
2. PUBLIC PROVIDENT FUND

PPF was among the most popular small saving schemes. Withdrawals were allowed only after five years from the end of the financial year in which the ‘first deposit’ was made and there was also limit to withdrawal. PPF did not provide any regular income and only provided for accumulation of interest over a 15 year period and the lump sum amount (Principal plus Interest) was payable on maturity. In these investments withdrawal can be made every year from seventh financial year that is after six years of investment. Loan could also be availed on these investments prior to that in case of need. These investments gets rebate under section C of Income Tax act, 1961. An individual can open an account with post office or nationalised banks for investments. This is suitable and ideal investment option for self employed.

**The current interest rate for years 2016-2017 is 8.1% pa.**

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>8.80%</td>
</tr>
<tr>
<td>2013-2014</td>
<td>8.70%</td>
</tr>
<tr>
<td>2014-2015</td>
<td>8.70%</td>
</tr>
<tr>
<td>2015-2016</td>
<td>8.70%</td>
</tr>
<tr>
<td>2016-2017</td>
<td>8.10%</td>
</tr>
</tbody>
</table>

Table 1.3: PPF interest rate over years.
*Source: policybazaar.com*

3. RECURRING DEPOSITS

A Recurring Deposit or RD was an exclusive term deposit plan which was offered by banks. It acted as an investment tool which allowed individuals to make regular deposits which earned handsome returns on the investment done.
The concept of Recurring deposits earned importance of investors as it was based on regular deposits and comprised of reasonable interest component. They provided more flexibility in deposits with good returns than fixed deposits which was rigid and strict. It was a regular investment cum saving plan. Almost all major banks in India were offering a Recurring Deposit Account services whose time frame ranged between 6 months and 10 years in which an individual decides the as per their convenience and needs. There existed stringent competition in the market so banks offered attractive rate of interest leaving an individual in beneficial position. Lump sum amount is paid on maturity.

4.KISAN VIKAS PATRA
The Kisan Vikas Patra were available at all head post offices and other authorized post offices throughout India. The KVPs were measured as the most safe investment tool, as it has the backing of the Government of India. Investments in these were available in multiple of 100, 500, 1000, 5000, 10000. Interest was compounded yearly in these investments. The principal was assured and it was deemed to be a safe avenue for investing one’s money.

**Current status:**
The trends in post office schemes over years was seen to be :

<table>
<thead>
<tr>
<th>Product / Interest rate</th>
<th>SCSS</th>
<th>MIS</th>
<th>5 year NSC</th>
<th>PPF</th>
<th>KVP</th>
<th>SSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2012 – 31 March 2013</td>
<td>9.30%</td>
<td>8.50%</td>
<td>8.60%</td>
<td>8.80%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1 April 2013 – 31 March 2014</td>
<td>9.20%</td>
<td>8.40%</td>
<td>8.50%</td>
<td>8.70%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1 April 2014 – 31 March 2015</td>
<td>9.20%</td>
<td>8.40%</td>
<td>8.50%</td>
<td>8.70%</td>
<td>8.70%</td>
<td>9.10%</td>
</tr>
<tr>
<td>1 April 2015 – 31 March 2016</td>
<td>9.30%</td>
<td>8.40%</td>
<td>8.50%</td>
<td>8.70%</td>
<td>8.70%</td>
<td>9.20%</td>
</tr>
<tr>
<td>1 April 2016 – 30 June 2016</td>
<td>8.60%</td>
<td>7.80%</td>
<td>8.10%</td>
<td>8.10%</td>
<td>7.80%</td>
<td>8.60%</td>
</tr>
<tr>
<td>Date Range</td>
<td>Savings Deposit</td>
<td>1 year FD</td>
<td>2 year FD</td>
<td>3 year FD</td>
<td>5 year FD</td>
<td>5 year RD</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-----------------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>1 July 2016 – 30 Sept</td>
<td>8.60%</td>
<td>7.80%</td>
<td>8.10%</td>
<td>8.10%</td>
<td>7.80%</td>
<td>8.60%</td>
</tr>
<tr>
<td>1 Oct 2016 – 31 Dec</td>
<td>8.50%</td>
<td>7.70%</td>
<td>8.00%</td>
<td>8.00%</td>
<td>7.70%</td>
<td>8.50%</td>
</tr>
<tr>
<td>1 Jan 2017 – 31 Mar</td>
<td>8.50%</td>
<td>7.70%</td>
<td>8.00%</td>
<td>8.00%</td>
<td>7.70%</td>
<td>8.50%</td>
</tr>
<tr>
<td>April 2017 – 30 June</td>
<td>8.40%</td>
<td>7.60%</td>
<td>7.90%</td>
<td>7.90%</td>
<td>7.60%</td>
<td>8.40%</td>
</tr>
</tbody>
</table>

SCSS Senior Citizen Savings Scheme
MIS Monthly Income Scheme
NSC National Savings Certificates
KVP Kisan Vikas Patra
SSA Sukanya Samriddhi Account

**Table : 1.4 Trends in post office schemes over years**

*Source: Bachatkhat.com*

The trends in savings account and RD’s can be understood by the following table:

<table>
<thead>
<tr>
<th>Product / Interest rate</th>
<th>Savings Deposit</th>
<th>1 year FD</th>
<th>2 year FD</th>
<th>3 year FD</th>
<th>5 year FD</th>
<th>5 year RD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2012 – 31 March</td>
<td>4.00%</td>
<td>8.20%</td>
<td>8.30%</td>
<td>8.40%</td>
<td>8.50%</td>
<td>8.40%</td>
</tr>
<tr>
<td>1 April 2013 – 31 March</td>
<td>4.00%</td>
<td>8.20%</td>
<td>8.20%</td>
<td>8.30%</td>
<td>8.40%</td>
<td>8.30%</td>
</tr>
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<td>4.00%</td>
<td>8.40%</td>
<td>8.40%</td>
<td>8.40%</td>
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<td>7.10%</td>
<td>7.20%</td>
<td>7.40%</td>
<td>7.90%</td>
<td>7.40%</td>
</tr>
</tbody>
</table>
Table 1.5 Trends in savings account and RD’s

Source: Bachatkha.com

According to economics times March 2017, Post office schemes were seen as better investment option to FDs these days if one’s investment horizon is long as they attracted 8% interest. If after tax returns were considered it ended up to 5.6% for an individual in highest tax bracket. An investment in KVP also doubled in almost 9 years 4 months which seemed to be good return.

PPF were considered to be any time good investments because of their exempt status. Its rates had also come up to 8%. Sukanya Samriddhi Yojana was one of good option to invest for them who had daughters below 10 years of age as it also attracted return of 8.5%. RD’s were less lucrative to other options of post office schemes.

4.MUTUAL FUNDS

A mutual fund was known as a special type of investment which influenced a large number of investors to regularize their savings in such a way that they receive quick returns, capital appreciation with lesser risk. Mutual funds were popular investments because of low risk and high returns. Any individual with investible surplus can invest in a mutual fund. A mutual fund is a trust that
pools the savings of a number of investors who shared a common financial goal. These investors purchased units of a particular mutual fund scheme and each scheme was followed by investment objectives and strategies. Investors can place their contributions in equity or growth fund, bond or income fund, balanced fund which is mixture of both. They were professionally managed by fund managers or financial experts so it saved time, offered diversification and thus, also reduced risks associated with it. There was also reduction in transaction cost in case of mutual funds. Fund manager allocated various securities in one portfolio on the basis of his/her experience and looked for optimum return. The returns on these funds were dispersed among the investors in proportion to their investments. They charged commission for management of the funds and they were charged to the fund, like mutual funds in India were registered as trusts under the Indian Trust Act. The trustees were appointed and they looked after the management of the trust. They decided the investment policy and gave the benefit of professional investment through the mutual funds.

There were variety of mutual funds open ended, close ended, and interval schemes. There was liquidity in case of open-ended schemes and some of the schemes provided tax savings. Investment in mutual funds were convenient, flexible and possessed high liquidity as they could cash their investments just selling this units on market value with additional benefits of regular investment and regular withdrawal option. Mutual funds were getting popularity in India and every class of individual was supporting them.

These funds took appropriate investment decisions and handed over the benefits of profitable investment to the investors. It had many features to get popularized as follows:

1. Investors could invest their small savings in purchasing the shares of one or two companies and after getting steady and profitable returns they could diversify to a large basket of shares of different companies.
2. Due to its liquidity in nature, they were preferable as they could be converted into cash without any hidden charges. If investors invested in a number of companies then this decision helped them to minimize the risk.

3. It also helped in tax rebate under the section of Income Tax Act and the taxation amount could be reduced proportionally.

4. It had no operating cost included commission, processing charges or any other liabilities which was to be finalized on the part of investors.

5. Mutual fund had flexibility according to the preferences and comfortability of the investors.

6. Depending on the needs and time period, investors preferred to invest in regular plan, regular withdrawal plan or dividend re-investment plan, etc. So they could invest or withdrawal their funds respectively.

7. It had higher returns on invested money due to low risk and professionally managed.

8. Investor was assured of a minimum interest rate as per notified by the Government time to time.

5. STOCK MARKET

Stock market was a market for trading of existing shares and derivatives at an existing price which was determined by demand and supply in the market. These securities were traded through stock exchanges. There were two stock exchanges in India through which an individual could invest in stock market i.e. Bombay Stock Exchange and National Stock Exchange. BSE had more than 5400 listings of companies and market capitalization was more than 1.5 trillion. Sensex was the key index through which one could invest in companies. NSE had 1700 listings of companies with market capitalization of 1.4 trillion. NIFTY and NIFTY junior was key index here through which an individual invested. Stock market was market for risky securities because it was based on the concept of speculation in risky financial transactions. Investments in these were done with the help of stock brokers or brokerage firms in return of fees or commission.
Various benefits were:

- When economy was growing stock ownership turns out to give best returns.
- Stock ownership was away from the ill effects of inflation.
- An individual could easily invest as they are easy to buy.
- They could be sold easily and possess high liquidity.
- Here an individual could take two positions in the market i.e. as a day trader and hold investor.

Investing in stock market suffered from various disadvantages:

- An individual had chances of losing their whole money if in case there was incidence of market crash.
- If company diluted then equity stockholder were the last one to be paid.
- Investing in stock market was tedious process which required ample amount of time and energy.
- Stock market investments acted as an emotional roller-coaster and hijacked the peace of mind of an individual.
- They were highly affected by exaggerated commissions of brokers.

**Trends in stock market:**

As stock market was considered to be barometer of growth so according to neutral stock market outlook, 2017, the market was expected to be slightly bearish to neutral.
COMMODITY MARKET

Commodity market was a market for commodities like gold, silver, iron ore, copper, wheat, salt, rice, coffee, beans etc. There were two kinds of commodities in which an investor could invest are soft commodities and hard commodities. Soft commodities were goods that are grown and hard commodities were extracted from mining i.e. energy commodities. These kinds of investments were good as they gave diversification benefits with low investment and also acted as a hedging tool. But here markets were very much volatile and sometime exercising a contract plunged high losses as they had concept of lot size. If an individual wanted to invest here then he needed good amount of money to trade in and also very high risk was involved because of lot sizes. Here trading could be done through MCX (Multi Commodity Exchange) and NCDEX (National commodity and Derivative Exchange) which was regulated by Forward Market Commission.
6. GOLD INVESTMENT

According to world gold council – Gold made a strong contribution to Indian economy. In recent years it had been found that the investment in Gold was high as in the past. It was highly appreciated by the investors due to its liquidity in nature and also when any emergency occurred, it may be sold out. Gold was recognized as pious in the traditions and deeply rooted in the Indian culture. With the pace of time, its value was increasing day by day and especially women were more willing to purchase the Gold as for their future investment, safety and security. According to a article in business standard (2015), the government has tightened norms and measures related with gold so that gold imports decline. India was gaining prominence as an international sourcing destination for high-quality designer jewellery. Gold investments have had historically shown a low correlation with investments in other asset classes such as stocks or shares, mutual funds, government and corporate bonds and even commodities and other precious metals. Gold was one asset class, which was perceived as a store of value in the long term. Investing in gold could help to preserve value by reducing the risk of severe losses. Among various investments, gold investment lied just behind cash, bank deposits and other mainstream savings accounts. The most surprising thing was that even the people feared to put on the Gold Jewellery for being theft or other happenings, but the purchasing power was increasing.

Current status
It has been observed that gold prices move or rises upwards with sentiments.

**7. REAL ESTATE INVESTMENT**

Indian economy was having favourable impact on all asset classes of real estate. Real estate investments could be one family investment and can be multifamily investment which included duplexes, triplexes, quad lexes. Real estate could also take forms of corporate real estate investments which included office buildings, industrial buildings etc. and were generally done for rental earnings. Investments made in real estate and equities had grown up by 20% in last two decades- Times of India in June 2015. Policy bazaar.com declared it as fastest mode of return in 2017. Here, risk involved was low and good returns were expected. Investment in these kinds was preferred for long term investments. According to times of India June 2015, Real estate investment highlights the prominence of real estate as an investment asset for an average urban household in India. This chart reflected that the majority of population invested in the Real Estate that was 30%, 27% were invested in Gold and Arts, 19% invested in Bank Deposits, 10% were invested in Insurance and Pension.
then the percentage was lower than 5% in the rest of the avenues viz., Mutual Funds, Post Office, Consumption, Equities and others.

Now-a-days more and more investments were made in the form of real estate for the following reasons:

- Real estate ensured high capital appreciation as compared against gold and silver particularly in the urban area- IIFL in 2015
- Loans were availed easily for purchase of land site and construction of houses. Even there were many schemes related to it and there was opportunity for tax deduction also.
- Feeling of ownership of house made individuals more relaxed and secured by improving their status and position in society.

**RELATIONSHIP BETWEEN FINANCIAL LITERACY AND PERSONAL FINANCIAL MANAGEMENT**

Financial literacy and financial management were two crucial aspects of financial stability in a country. When people were financially literate, they were more likely to explore the products and services offered by various banking and insurance sector and used them for their benefits. This accelerated the pace of financial inclusion, where everyone could access the basic facilities rather than relying on the orthodox systems of money market such as borrowing money from zamindaars or village money lenders.

Financial literacy had a positive association with personal financial management as it helped in understanding the financial planning which led to set financial goals and objectives. A professionally managed individual gathered data and analyzed current financial situation before taking a financial decision.

Managing personal finances was an important and often difficult issue. Personal debt continued to rise (Bennett, 2006), bankruptcy rates were uncertain due to recent changes in bankruptcy legislation, while the personal
savings rate remained in the low at negative 1.5% in June 2006 in developing nations. In The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 required consumers who filed bankruptcy to complete a personal financial management class before the bankruptcy could be discharged, suggesting that more knowledge will help avoid future financial difficulties (White, 2005).

Educators believed that financial education lead to improved financial literacy and financial security for families. There had been an increase in interest in how financial education could equip individuals with the skills needed to avoid financial problems and recover from the consequences of extreme debt such as bankruptcy. Researching the effectiveness of financial education programs can guide program development and refinement (Hilgert, Hogarth and Beverly, 2003) and helped educators find a method for dealing with community needs related to family financial management.

**RESEARCH PROBLEM**

Evidences showed that those who were less financially literate were likely to face more challenges with regard to debt management, savings and credit, and were less likely to plan for the future. Regulators of financial services, had a responsibility to help consumers of financial services in making informed financial decisions so as to promote consumer protection, public awareness, and maintenance of market confidence.

Financial literacy helped in empowering and educating investors so that they were knowledgeable about finance in a way that was relevant to their business and enabled them to use this knowledge to evaluate products and make informed decisions. It was widely expected that greater financial knowledge would help overcome recent difficulties in advanced credit markets (Lusardi and Oliver, 2006). Investors were likely to make investment decisions based on the information available in the market, if investors had information about an investment which was likely to generate higher returns in future investors were more likely to invest in such an investment to accrue higher returns in future (Goel and Dolan, 2003).
NEED OF THE STUDY

In present competitive era, it is imperative for every person to think rationally about future planning supplemented with adequate knowledge and information so that a financially secured life could be planned. This was only possible when one had adequate financial literacy under which all three aspects i.e. knowledge, attitude and skills mattered. The 20s was age when an individual developed financial literacy skills and applied them to establish themselves and maximize earnings. Entering 30s brought stability with several responsibilities which should be in accordance with appropriate financial planning. Such a plan should include planning for contingency expenses, accumulating retirement corpus and achieving major financial goals such as purchasing property, marriage, child’s education etc. Hence, through this study, it had been depicted that one should have had adequate financial literacy, so that one can choose wisely among plethora of financial products and services. Learned decision making could help in assessing pros and cons of various investment options and could enable a financially proactive attitude in an individual.