

Importance of Financial Literacy in Rural Areas

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Abstract: *Financial Literacy is the ability to understand basic financial concepts and the possession of knowledge and skills required to make informed and effective financial planning, decisions using the available financial resources. It is about knowing how to generate, spend, invest and save money. It is the ability to manage your finances well by making the optimum use of the available financial products and resources to give you maximum benefit. This concept Financial Literacy has become one of the top priorities for most of the world today as it is directly proportional to the economic growth of a country. It is alarming to know that the financial literacy rate in India is way behind other countries. According to a global survey, India is home to almost 20% of the world's population; however, 76% of its adult population is not even aware of the basic financial concepts. The survey reports that Financial Literacy in India has been signification poor compared to the rest of the world. So the financial awareness education and program conduct by government. .So this study conduct how to improve awareness of financial literacy in rural areas.*

Keywords: financial literacy, investment, rate of return, risk, hedge

1. Introduction

Financial literacy means the ability to understand how money works in a business and in personal life. Financial literacy is the education and understanding of knowing how money is made, spent, and saved, as well as the skills and ability to use financial resources to make decisions. These decisions include how to generate, invest, spend, and save money. It is applicable to both individuals and organizations. Individuals must be able to balance a checkbook, comprehend personal income taxes, and understand the concept of budgeting in order to make wise decisions with money. These skills are vitally important; yet, many individuals lack this basic knowledge and consequently are unable to meet their daily expenses. The lack of knowledge on financial literacy may lead to making poor financial decisions that can have serious impacts on your financial well-being. Hence, it is high time we understood our finances well and did better financial planning and investments for a smooth financial life.

It ensures that financial planning is made a priority and a formal conversation between couples is not just an argument on exceeding the budget and spending too much. In a family, both in India and abroad, the financial plan should cater to the needs to the earning member, the dependents especially the children. Financial planning basics, any financial planner or financial planning tool includes ensuring that your personal as well as the financial future of your family including your child or children is secured.

While savings, investment, wealth creation and debt reduction is central to a good financial plan, you need to keep track of developments, invest early and manage your finances. You could manage your finances personally or by using the services of a financial planner. The key is constant financial learning and making the knowledge work for you. And most importantly the need of the hour is inculcate financial literacy early. The younger you are when you invest and prioritize financial planning basics, the wealthier you will be. The mantra is "invest early, invest well" after all! Financial literacy must be part of school and college curriculums. More the number of wealthy individuals mean a healthy economy, which is good for all.

2. Objectives of the Study

- a) To study present financial literacy awareness in rural areas.
- b) To study importance of financial literacy in rural people.
- c) To study financial literacy awareness initiatives in India.

3. Importance of Financial Literacy

In India, Financial Literacy has still not become a priority like other developed nations. Lack of basic financial knowledge results in poor investments and financial decisions. That's why most people invest in short-term plans and physical assets to accomplish their personal goals which give lesser benefits and does not help in the economic development of the country. According to a global survey, about a staggering 76% of Indian adults do not understand basic financial concepts and are unfortunately financially illiterate even today. The survey confirms the financial literacy rate in India has been consistently poor as compared to the rest of the world. It is indeed high time for a developing country like India to realise the importance of financial literacy as such poor financial literacy rate can prove to be a major setback to India's ambition of becoming an economic superpower in the coming years.

It helps in improving the financial knowledge of individuals. It brings clarity on basic financial concepts and principles such as compound interest, debt management, financial planning etc. It enables you to manage your personal finances efficiently. It helps in making appropriate financial decisions about investing, saving, insurance, managing debts, buying a house, child education, retirement planning etc. It helps individuals to achieve financial stability and financial freedom. It helps in understanding the difference between assets and liabilities. It helps in developing the skill sets required for better financial planning and managing your money. It provides in-depth knowledge on financial education and strategies which are indispensable for achieving financial growth and success. It helps you in generating, managing, saving, spending and investing money. It enables you to be debt free by inculcating financial knowledge and debt strategies.

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Consequences of low levels of financial literacy

Low level of financial literacy lead to the exploitation of people by the traditional money lenders and un authorized chit funds and all .Moreover, this will badly affect the entire financial system of the country itself.

The following are the consequences of the low level of financial literacy.

- a) Financial market participation may be limited to a lack of financial literacy.
- b) Households are not familiar with workings of a bank. So that this may lead to store cash at home or invest in other stores of value such as gold, which may offer unattractive returns.
- c) Financial illiteracy leads to investment in the illiquid instrument which charges substantial fees to withdraw.
- d) A borrower unable to truly understand the terms of a loan may borrow too much exposing to the risk of missing a payment and potentially incurring substantial penalties.
- e) People may be cheated by the unauthorized chit companies and other institutions due to the lack of awareness about the banking and the financial matters.

How to improve financial awareness of rural area

- a) It must understand basic financial concepts like compound interest, credit scores, mutual funds etc
- b) It able to make effective financial decisions
- c) It knows the best ways to generate cash flow.
- d) It able to make effective financial planning
- e) To manage your personal finances well
- f) It aware of the most profitable savings techniques
- g) I enough savings for your rainy days
- h) It know the best investment options for gaining maximum profit
- i) It must solutions for your financial problems

4. Present Financial Literacy Improvement Initiatives in India

With the advent of the global economic crisis, the need for financial literacy has become more evident. Presently, there are a few organizations in India working in the field of financial literacy.

- 1) RBI:-The reserve bank of India has an active role in the field of financial literacy in India. RBI's main focus remains on financial inclusion and financial literacy. RBI has directed that public and private banks take up the promotion of financial inclusion and financial literacy campaigns aggressively across the country.
- 2) SEBI:-SEBI undertakes awareness programs through its department of national institute of securities markets.. Securities exchange board of India has the responsibility of financial education to various target segments such as the school students, college students, working executives, middle income group, homemakers, retired personnel, self help groups ect. SEBI has appointed empanelled resource persons throughout India for the purpose of the financial education to these target groups.
- 3) MCA:-The ministry of corporate affairs has constituted a separate fund called the investor education and protection fund. From this corpus of funds, they conduct literacy programs throughout the country. The focus of MCA is, however, more geared adult programs primarily comprising of investor awareness campaigns.

- 4) Stock exchange:- NSE,BSE,MCSX and others also have programs on investor awareness and regularly release related to financial literacy. These organizations are not really focused on financial literacy but on increasing the public the participation in the stock markets.
- 5) IRDA:- Insurance regulatory and development authority have been taken up various up various initiatives in the areas of financial literacy. They usually conduct awareness programs on television and radio. It contains simple messages about the about the rights and duties of policy, channels available for dispute redresses etc. holders.
- 6) PFRDA (Initiatives on financial education):-The person fund regulatory and development authority, India's youngest regulator has been engaged in spreading social security messages to the public.

5. Conclusions

It concluded that to achieving financial literacy include learning the skills to create a budget, the ability to track spending, learning the techniques to pay off debt and effectively planning for retirement. Here a good counseling from a financial expert is required. Education about the topic involves understanding how do money will works on once own life, creating and achieving financial goals and managing internal and external financial challenges.