Financial Literacy and Personal Financial Management: Smart Moves towards Personal Finance

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Abstract
Financial literacy and personal financial management have become integral parts of everyone's life. Financial literacy is the basic knowledge, skills, behaviour, and attitude towards finance. Personal finance includes income, savings, expenses, investments, and financial protection for the person or family. Personal financial management means effective management of personal finances. There is a necessity of financial literacy for everybody to manage their personal finances. In this backdrop, this paper deals with linkage between financial literacy and personal financial management, and also discuss the smart money moves by a person to effectively manage their personal finances, backed by financial literacy.Financial literacy helps the people to manage their personal finances effectively through that they can achieve their financial goals.

Keywords: Financial Literacy, Personal Financial Management, Personal Finances, Savings and Investments.

Introduction

In India, the average literacy rate is approximately 77%, but our financial literacy is only 24%. Literate and ill-literate people are both struggling to manage their money because of their lack of financial literacy. While making wise financial decisions has substantial benefits, a lack of financial literacy can have painful consequences, including shrinking wealth, indebtedness, low credit score, and bankruptcy. People are facing difficulties in managing their personal finances; they are spending more than they are earning; they fail to invest their savings in an appropriate manner to get a better return; they are taking debt to finance their assets and fulfilling their desires; and they have no proper planning for retirement. There is a link between financial literacy and personal financial management, less financial literacy can negatively impact individuals and their family happiness.

Financial Literacy

Financial literacy refers to the knowledge and understanding of financial concepts and practices that are essential to make effective and informed decisions regarding money management.

According to Financial Literacy and Education Commission (2020) "the skills, knowledge, and tools that equip people to make individual financial decisions and actions to attain their goals; this may also be known as financial capability, especially when paired with access to financial products and services."

Organisation for Economic Cooperation and Development (OECD) defined financial literacy as, "a combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing."

Personal Financial Management (PFM)

Personal Financial Management (PFM) refers to the process of planning and managing personal financial activities such as income creation, expenditure, savings, investing, and protection.

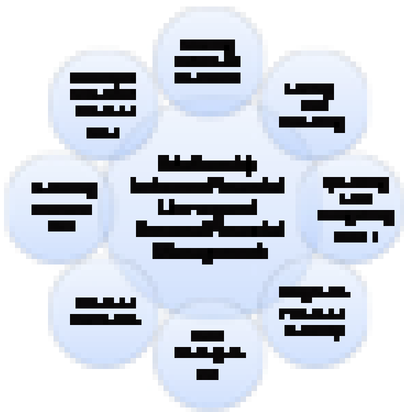
Personal Financial Management refers to methods or ways of managing one's own personal finances. Personal Financial Management is the process of managing your money to achieve personal economic satisfaction.

Personal financial management, on the other hand, encompasses the activities and plans individuals use to manage their finances effectively, including budgeting, spending, saving, investing, and debt management.

Financial Literacy and Personal Financial Management

Financial literacy and personal financial management are interrelated because, without financial knowledge, it is very difficult for a person to manage personal finance. There is a relationship between financial literacy and personal financial management, as outlined below:

Figure 2 Relationship between Financial Literacy and Personal Financial Management



1. **Making Informed Decisions:** Individuals who possess financial literacy are more prepared to make informed decisions related to financials. Knowing better ways to manage their debts, saving, investing, and budgeting enables them to make informed decisions that support their financial objectives and priorities.
2. **Savings and Investing:** Persons with financial literacy are well aware of the importance of savings and investments for the future. Those who are knowledgeable about risk-return trade-offs and various savings and investment avenues can make well-informed decisions regarding how to accumulate wealth over a period of time and meet their financial objectives, like purchasing or constructing a home for children's education and marriage or a comfortable retirement.
3. **Spending and Budgeting Habits:** People have financial literacy; they have a strong understanding of finance and are more intelligent to prepare and follow budgets. They are very cautious regarding their earnings and spending, set limits for expenditure, and avoid making unnecessary purchases. This leads to enhanced financial management and refined spending patterns.
4. **Long-term Financial Security:** The capacity to accomplish long-term stability and financial security is eventually what connects personal financial management with financial literacy. People can accumulate wealth, reduce financial stress, and strive toward their long-term and short-term financial goals by making wise judgments and managing their money well.
5. **Debt Management:** Financial literates have a solid understanding of finances, and they are aware of the risks of incurring debt and the necessity of handling it wisely. This involves being

attentive to interest rates, loan conditions, and how debt affects the financial situation of an individual. People who are financially educated are more likely to make prudent borrowing decisions, such as repayment of existing debt quickly and avoiding unnecessary debts and high-interest loans.

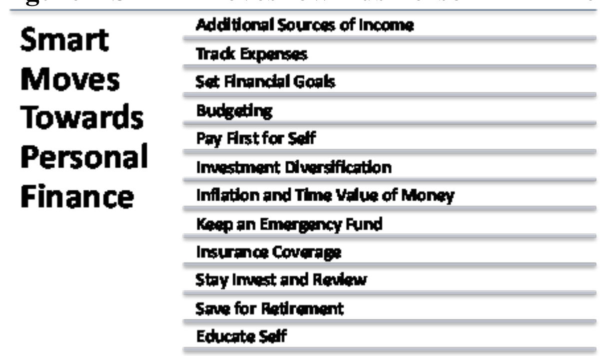
6. **Financial Resilience:** Having a solid financial literacy helps people be more financially resilient since they are well prepared to manage unexpected emergencies or effects of uncertain events, such as medical expenditure, job loss, and economic recessions, if they have a firm grasp of financial principles and practices.
7. **Reducing Financial Riks:** With the proper financial education, financial issues like overspending, having debt with high interest rates, and becoming a victim of scams or fraud may all be prevented. By understanding how to manage money wisely, preparing a budget, and using credit responsibly, people can avoid financial pressure and setbacks that could undermine their efforts to accumulate wealth.
8. **Accomplishment of Financial Goals:** Making a strategic plan of action to achieve individuals desired financial goals is a chunk of managing wealth. A proper understanding of personal finance aids individuals to plan a pathway towards their objectives. Anyone can design a plan to meet their financial goals if they have the proper understanding of financial ideas and tools.

Improving financial literacy is essential for promoting better personal financial management, enabling individuals to make informed decisions, build wealth, and achieve financial security and well-being.

Smart Moves Towards Personal Finance

The financial journey is difficult for people who are educated and wealthy but fail to manage their income because of their lack of financial knowledge, which will lead to poor financial conditions. The following are some smart money moves that assist people in leading a good financial life: These moves are discussed below and are helpful for everyone to adopt when managing their money.

Figure 1 Smart Moves towards Personal Finance



1. **Additional Sources of Income:** The financial condition of a person mainly depends on the income earned from their work. If their salary is not enough to fulfil their commitments, there is a need to increase their income. So, it is necessary to create additional sources of income apart from their regular income or other family members support to improve their family income by doing jobs. Additional sources of income may be created by doing overtime work, part-time jobs, income from investments, agricultural income, and other family members joining to work to improve their income. This additional source of income helps them achieve their financial goals early.

2. **Track Expenses:** Expenses are the major part of everyone life, expenses incurred for food, shelter, children education, entertainment and other purposes. The majority of people spend their maximum earnings on their day-to-day expenses. Savings and investments depend on expenses; it is essential to track expenses to avoid unnecessary expenses.
3. **Set Financial Goals:** Every person has set some financial goals because they give motivation and direction for financial decisions. Financial goals can be divided into short-term, medium-term, and long-term; they will encourage people to achieve their goals within a specific period of time. These financial goals support building financial discipline in their lives. Financial goals may be the purchase of a bike or car, the purchase of a bike or car, the purchase of a site or home, or retirement.
4. **Budgeting:** Every person has to prepare budget for their incomes and expenditure, periodically estimates the incomes and expenses through this they can easily control their expenses and save some money. People generally every month not record their incomes and expenses, it will not give idea about their spending and savings. Budgeting helps people to effectively manage their income and allocate their income towards expenses, savings, and investments this also avoid unnecessary expenditure, debts and loans.
5. **Pay First for Self:** People save and invest money for the future if there is any income left after payment of bills, EMIs, debt, and expenses. Financial experts suggest that every month, when receiving income, a person has to pay themselves first before paying their expenses or debt. Every person should save and invest a fixed amount or percentage of their income in investment avenues.
6. **Investment Diversification:** Investment diversification is very important to earn more returns and reduce the risk associated with investments.Usually, the majority of people invest their savings in limited avenues like bank or post-office deposits, gold, insurance, and land. It is because they are less aware of modern investment options. There is a need to choose investment avenues that give more return with considerable risk.
7. **Inflation and Time Value of Money:** At the time of investment, people do not consider the time value of money and inflation to ascertain their future returns. It will have a huge impact on their future returns because, over a period of time, money value decreases as well as inflation increases, which has an impact on return on investment. It is necessary to consider both the time value of money and inflation while investing.
8. **Keep an Emergency Fund:** If any uncertain or unexpected expenses arise, an emergency fund helps to pay off the expenses without any debt. This fund acts as a safety net during unforeseen circumstances, such as medical emergencies or job losses. For instance, at the time of the COVID-19 pandemic, a lot of people suffered from loss of earnings, and some people incurred medical expenses. In these types of unexpected events, people struggle to pay off their day-to-day expenses. Keeping some money in an emergency fund will help them in difficult situations. A financial expert suggests that everyone should maintain six times their monthly salary as an emergency fund.
9. **Insurance Coverage:** In India, most people choose insurance as an investment option rather than protection against uncertain events. Insurance should be a part of the investment; it gives protection against loss of life, health, and accidents, as well as investment avenues. Life insurance and general insurance are important for family members because life insurance provides financial protection to the family in the event of the death of a breadwinner. On the other hand, general insurance like health insurance and vehicle insurance provide protection against medical expenses for serious health problems and reimbursement of expenses for vehicle accidents. Insurance products are sold to people with misguided advice by the agents as an investment avenue.

10. **Stay Invest and Review:** People invest their savings into various avenues regularly, but most of them break the investment and use that investment for unexpected expenses. On the other hand, people invest in various schemes, but they don't review their investments regularly. It is very necessary to stay invested for a long time, and they must also review their investments periodically to know the return and performance of their investments.
11. **Save for Retirement:** People save money for the future, but they fail to plan for their retirement life. The majority of people use their savings and investments for children's education, marriage, and the construction of their homes. They do not save their money for retirement; it is advised that everybody plan for their retirement and save money for the future. They can invest some amount in pension schemes to get regular returns at their retirement, and they do not depend too much on their children.
12. **Educate Self:** In India majority of population have lack of financial literacy whether irrespective of their literacy level, it is because we did not learn or study concepts of financial literacy in home or school and college curricula. It is required to educate ourself about financial concepts through reading books and magazines, joining financial education courses, through online platforms, etc. So, everyone learns basics of financial literacy to manage their money for happy life.

Financial Literacy and New Opportunities

If people are aware financial concepts, new avenues will open for them. The following paragraphs suggestnew opportunities through financial literacy:

1. **Reading:** The financial literacy of a person can be enhanced through appropriate reading and understanding of financial concepts. It is one of the common and effective way of increasing financial literacy,reading books, journals, articles, blogs, newspapers, magazines, and websites related to basic financial knowledge helps them manage their personal finances.
2. **Budgeting Habit:** Budget plays a vital role in management of personal finance by estimating incomes, expenditures, savings, and investments.A person can effectively manage their personal finances by preparing and adhering to a budget. It is requisite for every person to make a habit of budget preparation and adopt it in their financial transactions.
3. **Financial Literacy Programs and Courses:** An individual can increase their financial literacy by attending programs and courses about financial literacy. Financial institutions and other agencies offer financial knowledge programs and certificate courses on financial literacy that can enhance financial literacy.On the other hand, the specialised and certified courses on financial literacy can be offered by the educational and financial institutions to increase the financial knowledge among people.
4. **Online Learning:** Now people depend on social media and online platforms for entertainment and various services. It can be the stage to learn about concepts of financial literacy through videos on social media like YouTube and online learning platforms.
5. **Identify Modern Investment Avenues:** The majority of people still dependon traditional investment options like bank and post-office deposits because of less awareness about modern avenues. Every person has to conduct some basic calculation before investing their hard-earned money, it helps them identify new investment avenues for their investment.

Conclusion

Financial literacy plays a prominent role in the management of personal finances; it is not only learning about financial knowledge but also using that knowledge in life to manage earnings to reach financial goals. Financial literacy is the continuous process of updating financial knowledge, skills, behaviour, and attitude towards personal financial management. Smart money moves help to lead our financial lives smoothly, and these moves can be game changers for the people in their lives. These smart moves facilitate people to overcome their financial issues and manage their earnings to lead their lives in an effective manner and achieve financial goals. The policymaker's responsibility to build financial literacy among the people of the country as well as people's equal responsibility to learn basic financial literacy to manage their money in an effective manner will lead to improvement in the economic development of the country.

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