
A REVIEW OF THE RELATIONSHIP BETWEEN FINANCIAL LITERACY AND FINANCIAL MANAGEMENT IN INDIA

Puranjay Maheshwari

Delhi Public School, Amritsar, Punjab, 143413, INDIA

Abstract

This review study delves into the relationship between financial literacy and financial management in India. It is a fact that financial literacy has emerged as a crucial factor in shaping individuals' financial decisions and outcomes globally. The study synthesizes existing literature to analyze how financial literacy levels influence various aspects of financial management, including savings, investment decisions, debt management, and retirement planning, among Indian individuals and households. India, as a developing economy, faces unique challenges and opportunities concerning financial literacy. The review highlights the disparities in financial literacy levels across different demographic groups, regions, and socio-economic backgrounds within the country. It also examines the impact of various initiatives, such as financial education programs and policy interventions, aimed at improving financial literacy among the population.

The review findings suggest that higher levels of financial literacy are associated with better financial management practices, such as increased savings rates, diversified investment portfolios, and more effective debt management strategies. However, significant gaps in financial knowledge persist, particularly among vulnerable and marginalized groups. Moreover, the research review discusses the implications of these findings for policymakers, financial institutions, and educators in India. It underscores the importance of targeted interventions to enhance financial literacy through accessible and culturally relevant educational initiatives. Strengthening financial literacy can not only empower individuals to make informed financial decisions but also contribute to broader economic stability and inclusive growth in India. Therefore, it is evident that while progress has been made in promoting financial literacy in India, more efforts are needed to address existing gaps and inequalities. Continued research and strategic interventions are essential to foster a financially literate population capable of navigating complex financial landscapes and achieving long-term financial well-being.

Keywords: financial literacy, financial management, research ,policymakers, financial institutions.

Introduction:

Financial literacy is the capacity to analyze financial options, plan for the future, and respond appropriately to events. This review study intends to look into the association between financial literacy and financial management. The study utilized a series of studies on quantitative and qualitative approaches for employing descriptive research on financial literacy and financial management. The relationship between financial literacy and financial management in India is a topic of increasing importance, given the country's diverse socioeconomic landscape and evolving financial sector. Financial literacy in India has been a critical area of focus due to its potential to empower individuals, enhance economic stability, and promote inclusive growth. Financial management encompasses the effective planning, control, and utilization of financial resources (Maheria, 2023). In India, financial management practices differ widely among individuals and households. Factors influencing financial management include income levels, education, cultural attitudes towards savings and investments, access to financial services, and the regulatory environment. Financial literacy is the fundamental knowledge and vocabulary that people need to internalize as facts in the successful management of their personal finances to survive in modern society. (Garman, E. T., & Fogue, 2000) The Indian government has been pursuing financial inclusion in an informal manner since 1950. However, after 2005, when the RBI began providing guidance and guidelines and commercial banks, NABARD, and other partners began supporting the financial literacy initiative, a real momentum began to build (Agarwal, M., Kureel, R. C., & Yadav, 2017).

Financial management in India encompasses the practices, challenges, and evolving trends related to the effective management of financial resources across various sectors, including households, businesses, and government. Organizing financial activities from strategy, execution, and control to financial accountability is known as

financial management(V. Grozdanovska, K. Bojkovska, 2017). Key aspects of financial management in India are mainly related to household financial management, savings, and investments. Indian households traditionally have a high savings rate, but the allocation of these savings varies widely. Good fund management, which describes the effective distribution of capital across different investment kinds and the endeavor to raise capital to support prudent investment or consumption, can be understood as a component of financial management.(Sukenti, 2023). Financial management practices among households include investing in real estate, gold, fixed deposits, mutual funds, and increasingly, equities.

Financial literacy in India

Financial literacy refers to the knowledge and understanding of financial concepts, products, and risks, which enables individuals to make informed financial decisions. In India, levels of financial literacy vary significantly across regions, socio-economic groups, and demographics. The Reserve Bank of India (RBI), along with various governmental and non-governmental organizations, has been actively promoting financial literacy through campaigns, workshops, and initiatives. Low levels of financial literacy, especially among women and rural people, describe India's current financial literacy situation. Just 18% of women and 30% of men, respectively, were financially competent in India, according to the RBI survey on financial literacy conducted in 2019. In addition, just 18% of respondents in rural areas reported having financial literacy, compared to 30% of respondents in metropolitan areas(Chauhan & Indapurkar, 2017). Financial literacy enables individuals to make informed decisions about savings, investments, loans, and insurance. It empowers them to navigate the complexities of financial products and services offered by banks, insurance companies, and mutual funds. Improved financial literacy contributes to financial inclusion by encouraging participation in formal financial systems. This is crucial in a country where a significant portion of the population remains unbanked or under-banked. Financially literate individuals are better equipped to manage financial risks, plan for emergencies, and build assets(V. Grozdanovska, K. Bojkovska, 2017). This stability at the household level translates into broader economic stability and resilience.

The current landscape of financial literacy in India

The Indian government, through agencies like the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI), has launched various initiatives to promote financial literacy. These include educational campaigns, workshops, and collaborations with educational institutions and NGOs. Banks and financial institutions play a crucial role in promoting financial literacy. They often conduct financial literacy programs, especially in rural and semi-urban areas, to educate customers about banking services and digital financial tools. With the rise of digital payments and financial technologies (fintech), there's a growing emphasis on digital financial literacy(Agarwal et al., 2012). This includes educating individuals about online banking, mobile wallets, and cyber security measures.

Challenges and opportunities

India's linguistic diversity poses a challenge to delivering uniform financial education programs across the country. Tailored approaches that consider regional languages and cultural contexts are essential. Low levels of formal education among certain demographics hinder financial literacy. Efforts are needed to integrate financial education into school curricula and promote lifelong learning opportunities. Ensuring consumer protection is crucial to building trust in financial products and services. Regulatory frameworks must be strengthened to safeguard consumers from fraudulent schemes and unethical practices. Incorporating advanced financial literacy principles into higher education curricula can equip students with comprehensive knowledge of financial products, enabling them to develop well-informed and efficient financial plans. Regulatory agencies are able to periodically validate their initiatives(Hridhya & Reddy, 2020).

Financial management in India

Financial management in India involves the efficient management of financial resources by individuals, businesses, and the government to achieve financial goals and objectives. The key aspects and considerations are mainly personal financial management, savings and investments, budgeting, and tax planning(Finance & Kumar, 2021). Individuals manage their finances through savings accounts, fixed deposits, mutual funds, stocks, and insurance products, and budgeting is crucial for managing expenses and ensuring savings for future goals such as education,

healthcare, and retirement. It is very important to understand the importance of optimizing tax liabilities through investments and deductions allowed under the Income Tax Act.

When it comes to financial literacy and entrepreneurship skills such as corporate financial management, capital budgeting, working capital management, and above all, financial risk management of banking and financial institutions, it is compulsory to understand because for evaluating and selecting long-term investments that align with the company's strategic goals and managing short-term assets and liabilities to ensure efficient operations and liquidity, there is a need for identifying and mitigating financial risks such as interest rate risk, currency risk, and credit risk.

India has a diverse banking sector comprising public sector banks, private banks, cooperative banks, and specialized financial institutions like NBFCs (non-banking financial companies)(Dixit & Dixit, 2021). Financial institutions play a crucial role in providing loans, credit facilities, and other financial services to individuals and businesses. Apart from traditional investments, India offers opportunities in emerging sectors such as real estate, infrastructure, and technology startups. Alternative investment avenues include real estate investment trusts (REITs), infrastructure investment trusts (InvITs), and venture capital funds. Regulatory bodies such as the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and Insurance Regulatory and Development Authority of India (IRDAI) oversee and regulate financial markets and institutions(Hridhya & Reddy, 2020). Compliance with regulatory requirements is essential for financial stability and investor protection.

The government manages its finances through budgeting, taxation, borrowing, and spending to promote economic growth, infrastructure development, and social welfare. Fiscal policies and reforms impact economic stability and the investment climate. Financial inclusion and digitalization are very important in this context; therefore, initiatives like the '*Jan Dhan Yojana*' aim to promote financial inclusion by providing banking services to the unbanked population. Digital financial services have witnessed rapid growth with the adoption of digital payments, mobile banking, and fintech innovations(Agarwal, M., Kureel, R. C., & Yadav, 2017). Challenges include financial literacy, income inequality, regulatory complexities, and global economic uncertainties. Opportunities lie in demographic dividends, infrastructure development, technological advancements, and policy reforms aimed at enhancing the ease of doing business. Overall, effective financial management in India requires a combination of sound financial planning, strategic decision-making, risk management, and adherence to regulatory frameworks to foster economic growth and prosperity.

Emerging trends in financial literacy and financial management are related to the digital transformation. The adoption of digital technologies in financial services (fintech) is transforming financial management practices, enhancing efficiency, expanding access to financial services, and promoting financial inclusion. The Sustainable Finance, There is a growing emphasis on sustainable finance practices, including environmental, social, and governance (ESG) considerations. Companies and financial institutions are increasingly integrating ESG criteria into their investment and lending decisions. With the volatility in global and domestic markets, effective risk management practices, including hedging strategies, are becoming increasingly important for businesses and investors in India(Barik, D., & Sharma, 2019). Financial management in India is poised for further evolution, driven by technological advancements, regulatory reforms, and changing consumer behavior. Strengthening financial literacy, enhancing digital infrastructure, and promoting sustainable finance will be crucial to fostering inclusive economic growth and financial stability in the coming years.

Relationship between Financial Literacy and Financial Management

The relationship between financial literacy and financial management is integral to understanding how individuals and organizations effectively handle their financial resources. It is very comprehensible that the term financial literacy refers to the knowledge and understanding of financial concepts, products, and services. It includes the ability to make informed decisions about personal finances, such as budgeting, saving, investing, and managing debt. Individuals with high levels of financial literacy are more likely to understand the risks and returns associated with different financial products. They are capable of making informed decisions that align with their financial goals. These people also navigate financial institutions and markets confidently. They are able to plan for retirement and emergencies effectively. Financial management involves the strategic planning, control, and optimization of financial resources. The ability to handle issues related to (digital) money with agility and

awareness of a variety of financial situations is one of the key abilities needed in today's world. It encompasses the practices and processes used by individuals, households, businesses, and governments to manage their finances efficiently (A. N. P. Azeez et al., 2021). The key aspects of the relationship between financial literacy and financial management includes:

1. Budgeting: allocating income towards expenses, savings, and investments.
2. Investment Management: Making decisions about where to invest surplus funds to achieve financial goals.
3. Debt Management: Managing borrowing and repayment schedules to minimize costs and risks.
4. Risk Management: Identifying and mitigating financial risks through insurance, diversification, and hedging strategies.
5. Relationship between Financial Literacy and Financial Management
6. Informed Decision Making: Financial literacy equips individuals with the knowledge needed to make informed financial decisions. This includes understanding the implications of different financial choices and selecting options that best fit their circumstances and goals.
7. Effective Planning: Financially literate individuals are more likely to engage in proactive financial planning. They create budgets, set savings goals, and develop investment strategies that align with their long-term objectives.
8. Risk Management: Understanding financial concepts enables individuals to assess and manage financial risks effectively. This includes evaluating the risk-return trade-offs of investments and implementing strategies to protect against unexpected financial setbacks.
9. Utilization of Financial Products: Financial literacy increases awareness and confidence in using various financial products and services. This can lead to better utilization of banking services, investment opportunities, and insurance products.
10. Long-Term Financial Stability: By combining financial literacy with effective financial management practices, individuals can build financial resilience and achieve long-term stability. This includes accumulating wealth, preparing for retirement, and weathering economic uncertainties.

Challenges: Low levels of financial literacy pose challenges to effective financial management, especially among underserved populations. Cultural factors, educational barriers, and a lack of access to financial services can hinder financial empowerment.

Opportunities: Educational initiatives, financial literacy programs, and technological advancements (such as mobile banking and digital financial tools) present opportunities to improve financial literacy and enhance financial management capabilities across diverse demographics.

Conclusion

The relationship between financial literacy and financial management is symbiotic. It is very important to understand that financial literacy provides the foundation for informed decision-making and effective financial management practices, while financial management skills reinforce and apply financial literacy concepts in practical ways. Enhancing both areas through education, access to resources, and supportive regulatory frameworks can contribute significantly to individual and societal financial well-being. Higher levels of financial literacy generally correlate with improved financial decision-making. Individuals with better financial literacy are more likely to budget effectively, save for the future, and invest wisely. This is crucial in a country like India, where savings patterns and investment choices vary greatly. Financially literate individuals are more likely to access formal financial services such as bank accounts, insurance products, and mutual funds. This enhances their ability to manage financial risks and leverage opportunities for wealth accumulation. Improved financial management skills contribute to economic stability at both individual and household levels. This stability is critical for overall economic growth, as it enhances consumption patterns and encourages long-term investment (Sethi & Singh, 2024).

Despite efforts to improve financial literacy, significant challenges remain. These include linguistic diversity, low levels of educational attainment in certain regions, and limited awareness of financial products among marginalized communities. Overcoming these barriers requires tailored educational programs and targeted outreach efforts. Education and training are very important for the Indian population because continued investment in financial literacy programs is essential to empower individuals and improve financial management practices. This includes integrating financial education into school curricula and providing accessible resources for adults. Understanding the regulatory framework is also important in strengthening consumer protection laws and regulations can safeguard individuals from predatory financial practices and enhance trust in financial institutions. Technological advancements and leveraging technology, such as mobile banking and digital payment systems, can improve financial inclusion and accessibility, particularly in rural areas.

Therefore, it can be concluded that the relationship between financial literacy and financial management in India is multifaceted. While progress has been made in promoting financial literacy, more efforts are needed to address existing disparities and empower all segments of the population to effectively manage their finances. This not only benefits individuals but also contributes to broader economic development and stability. The future of financial literacy and financial management in India is poised for significant growth and transformation, driven by several key trends and developments. There is a growing recognition of the importance of early financial education. Integrating financial literacy into school curricula at the primary and secondary levels can foster a generation of financially savvy individuals who are better prepared to manage their finances from a young age. As digital financial services continue to expand, particularly in rural and underserved areas, there will be a greater emphasis on digital financial literacy (Barik, D., & Sharma, 2019). Educating individuals on how to use mobile banking, digital wallets, and online investment platforms safely and effectively will be crucial. Tailored financial literacy programs that consider regional languages, cultural contexts, and demographic characteristics will become more prevalent. These programs will aim to bridge existing knowledge gaps and empower diverse populations to make informed financial decisions. Collaborations between government agencies, financial institutions, fintech companies, and non-profit organizations will play a key role in scaling financial literacy initiatives. Such partnerships can leverage expertise, resources, and networks to reach a broader audience effectively.

Future Trends in Financial Management is the main route with goes through Technological Advancements. The adoption of fintech solutions for financial management, including robo-advisors, AI-driven investment tools, and block chain-based financial services, will streamline processes, enhance accessibility, and improve efficiency in managing finances. There is a growing need to focus on sustainable finance (N. P. A. Azeez & Akhtar, 2021). There will be a growing emphasis on integrating environmental, social, and governance (ESG) factors into financial management practices. Businesses and investors will increasingly prioritize sustainable investments and ethical financial practices. Continued regulatory reforms aimed at enhancing transparency, investor protection, and financial stability will shape financial management practices. These reforms will influence capital market activities, corporate governance standards, and risk management frameworks. Efforts to promote financial inclusion will remain a priority, with initiatives aimed at expanding access to formal financial services, reducing the gender gap in financial access, and empowering marginalized communities through tailored financial management solutions. The challenges and considerations will be mainly related to linguistic and cultural diversity. India's linguistic and cultural diversity presents challenges in delivering uniform financial literacy and management programs. Strategies that account for regional nuances and preferences will be essential. While digital financial services offer opportunities, disparities in internet access, digital literacy, and technological infrastructure in rural and remote areas may hinder widespread adoption and effective use (N. P. A. Azeez & Akhtar, 2022). Ensuring robust consumer protection frameworks will be critical to building trust in financial institutions and products. Clear and transparent communication, fair practices, and effective grievance redressal mechanisms are essential.

It is very important to understand that the future of financial literacy and financial management in India holds promise with advancements in education, technology, and regulatory frameworks. By addressing existing challenges and leveraging emerging opportunities, India can empower its population with the knowledge and skills needed to navigate increasingly complex financial landscapes, contribute to economic growth, and achieve financial well-being on a broader scale. Continued collaboration between stakeholders across sectors will be pivotal in driving these efforts forward effectively.

Future Directions

A holistic approach is needed that combines regulatory reforms, educational initiatives, and technological advancements to enhance financial literacy across all segments of society. Public-private partnerships are key to development. Collaborations between government agencies, financial institutions, and civil society organizations can amplify efforts to promote financial literacy. Evaluation and impact assessment are very necessary to have transparency. Continuous evaluation of financial literacy programs is necessary to measure their effectiveness and identify areas for improvement. Financial literacy in India is pivotal for inclusive economic growth and individual empowerment. While progress has been made through various initiatives, sustained efforts are required to bridge existing gaps and ensure that all Indians have the knowledge and skills to make sound financial decisions in a rapidly evolving financial landscape.

References :

1. Agarwal, M., Kureel, R. C., & Yadav, D. (2017). A Study on Future Plan for Increasing Financial Literacy Among People. *Global Journal of Finance and Management*, 2(1), 29–38.
2. Agarwal, S., Amromin, G., Ben-David, I., Chomsisengphet, S., & Evanoff, D. D. (2012). Financial Literacy and Financial Planning: Evidence from India. *SSRN Electronic Journal*, December. <https://doi.org/10.2139/ssrn.1728831>
3. Azeez, A. N. P., Akhtar, S. M. J., & Banu, N. M. (2021). Role of education on financial literacy of rural India. *Asian Journal of Research in Banking and Finance*, 11(5), 1–11. <https://doi.org/10.5958/2249-7323.2021.00007.9>
4. Azeez, N. P. A., & Akhtar, S. M. J. (2021). Digital Financial Literacy and Its Determinants: An Empirical Evidences from Rural India. *South Asian Journal of Social Studies and Economics*, 11(2), 8–22. <https://doi.org/10.9734/sajsse/2021/v11i230279>
5. Azeez, N. P. A., & Akhtar, S. M. J. (2022). Determinants of financial literacy in rural India: A study of Aligarh district. *International Journal of Financial Engineering*, 09(02), 17. <https://doi.org/10.1142/S2424786321500092>
6. Barik, D., & Sharma, S. (2019). Financial inclusion in India: Do microfinance institutions address access barriers. *Journal of Development Policy and Practice*, 4(2), 141–157.
7. Chauhan, S., & Indapurkar, K. (2017). Financial literacy in India: A review and road map ahead in the times of digitalization and demonetization. *International Journal of Economic Research*, 14(16), 165–173.
8. Dixit, N., & Dixit, G. (2021). a Review of Financial Literacy in India. *Vidyabharati International Interdisciplinary Research Journal*, 12(1), 303–305. www.viirj.org
9. Finance, B., & Kumar, M. (2021). REVIEW ON FINANCIAL LITERACY: A TOOL FOR SUSTAINABLE FINANCIAL INCLUSION IN INDIA. *Sambodhi*, 44(1), 97–104.
10. Garman, E. T., & Fogue, R. E. (2000). Personal finance: the human resource manager: Caught in the middle. *CUPA Journal*, 45(1), 33–35.
11. Hridhya, P., & Reddy, J. R. (2020). An Insight to financial literacy in India –A review of literature. *Journal of Emerging Technologies and Innovative Research*, 7(9), 1442–1450. <https://www.jetir.org/view?paper=JETIR2009194%0Ahttps://www.jetir.org/papers/JETIR2009194.pdf%0Ahttps://lens.org/055-092-571-716-405>
12. Maheria, S. D. (2023). a Theoretical Study of Financial Literacy in India. *GAP INTERDISCIPLINARITIES - A GLOBAL JOURNAL OF INTERDISCIPLINARY STUDIES*, 6(3), 86–90. <https://doi.org/10.47968/gapin.630013>
13. Sethi, A., & Singh, A. (2024). *Digital Financial Literacy In India : A Review And Need Analysis*. 12(6), 729–735.
14. Sukenti, S. (2023). Financial Management Concepts: A Review. *Journal of Contemporary Administration and Management (ADMAN)*, 1(1), 13–16. <https://doi.org/10.61100/adman.v1i1.4>
15. V. Grozdanovska, K. Bojkovska, and N. J. (2017). Financial Management and Financial Planning in the Organizations. *European Journal of Business and Management*, 9(2), 120–125.