

Financial Planning and Advisory: Study the Effects of Financial Literacy on Individual Financial Decision-Making

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Abstract: *This study explores the impact of financial literacy on individual financial decision-making. Financial literacy, defined as the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing, is crucial for making informed financial decisions. The research examines how financial literacy influences key financial behaviors such as saving, investing, and managing debt. Through a comprehensive review of existing literature and analysis of survey data, the study finds that individuals with higher financial literacy are more likely to make sound financial decisions, leading to improved financial well-being and stability. The findings suggest that enhancing financial literacy through targeted educational programs can significantly benefit individuals by empowering them to make better financial choices, ultimately contributing to broader economic stability. This study underscores the importance of financial education as a tool for promoting financial health and reducing economic disparities.*

Keywords: Financial Literacy, Financial Decision-Making, Personal Financial Management, Budgeting, Investing, Debt Management, Financial Well-Being, Economic Stability, Financial Education, Savings Behavior, Investment Behavior, Risk Management, Financial Outcomes, Financial Health

I. INTRODUCTION

Understanding how to manage money is a vital skill that helps people make smart financial choices, use their resources wisely, and improve their overall quality of life. Financial literacy involves knowing about different financial products, and how to budget, save, and invest. These skills are fundamental in today's complicated financial world.

According to the Census report, urban areas are seeing a bigger population increase than rural areas. People's financial well-being largely depends on the decisions they make, which are influenced by external factors like the economy and government and private sector policies. However, the ultimate choices lie with individuals.

The World Bank defines financial inclusion as ensuring that everyone, including individuals and businesses, can access financial products and services that are both useful and affordable. These services should meet their needs and be provided responsibly and sustainably. Financial Literacy (FL) is an important adjunct in effectively promoting FI, tacitly protecting consumers and eventually ensuring financial stability. Financial literacy is quickly becoming recognized as a crucial skill for everyone, especially as our financial world gets more complicated. It's no wonder governments globally are keen on finding effective ways to boost financial literacy among their citizens. Many are actively developing or leading national strategies for financial education, aiming to provide learning opportunities throughout a person's life.

Despite its pressing need, financial literacy levels remain surprisingly low, even in countries with advanced financial markets where people are actively involved in economic activities. India's financial literacy rate is on the rise, especially among young and adult populations. This growth can be attributed to advancements in technology and increased media coverage. The Indian government and various regulatory bodies actively promote financial literacy through courses, workshops, and schemes. There are various advisories of the government working on improving the financial literacy of India.

This research paper aims to delve into how financial literacy profoundly impacts the financial decisions people make. By looking at existing research and analyzing survey data, we hope to uncover how understanding financial concepts

influences important financial behaviors and outcomes. The results will emphasize the importance of financial education in promoting financial well-being and reducing economic inequalities.

1.1 Importance of financial literacy in the modern economy

In today's fast-paced and ever-changing financial world, understanding money matters is more important than ever. Financial literacy is quickly being recognized as a crucial skill for everyone. It's no surprise that governments around the globe are keen on finding effective ways to boost financial literacy among their citizens. Many are actively developing or leading national strategies for financial education, aiming to provide learning opportunities throughout a person's life.

Despite this urgency, financial literacy levels remain surprisingly low, even in countries with advanced financial markets where people are actively involved in financial activities. This study aims to delve into how financial literacy profoundly impacts the financial decisions people make. By looking at existing research and analyzing survey data, we hope to uncover how understanding financial concepts influences important financial behaviors and outcomes. The results will emphasize the importance of financial education in promoting financial well-being and reducing economic inequalities.

In today's increasingly complex financial markets, the need for effective financial planning has never been more critical. Here are some key reasons why financial planning is essential in this environment:

Navigating Market Volatility

Financial markets are more volatile than ever, influenced by global events, economic policies, and technological advancements. Effective financial planning helps individuals and businesses navigate this volatility by creating strategies that can adapt to changing market conditions. This includes diversifying investments, managing risks, and setting realistic financial goals.

Managing Inflation and Interest Rates

Rising inflation and fluctuating interest rates add layers of complexity to financial planning. Higher inflation erodes purchasing power while changing interest rates impact borrowing costs and investment returns. Financial planning helps individuals and businesses manage these factors by adjusting their budgets, savings, and investment strategies accordingly.

Embracing Technological Advancements

The financial landscape is rapidly evolving with the advent of new technologies such as robo-advisors, blockchain, and digital currencies. These technologies offer new opportunities but also require a solid understanding to leverage them effectively. Financial planning ensures that individuals and businesses can integrate these technologies into their financial strategies to maximize benefits and minimize risks.

Holistic Financial Management

Modern financial planning takes a holistic approach, considering all aspects of an individual's or business's financial situation. This includes not just investments, but also estate planning, tax strategies, retirement planning, and more. A comprehensive financial plan helps ensure that all financial decisions are aligned with long-term goals and values.

Adapting to Life Changes

Life is full of unexpected changes, whether it's a job loss, a health crisis, or a significant life event like marriage or retirement. Financial planning provides a framework for adapting to these changes, ensuring that individuals and businesses can maintain financial stability and achieve their goals despite unforeseen circumstances.

Promoting Economic Stability

On a broader scale, effective financial planning contributes to economic stability. When individuals and businesses make sound financial decisions, they are more likely to save and invest, which drives economic growth. Additionally, financial planning helps reduce economic disparities by providing tools and strategies for financial empowerment.

1.2 The Rising Importance of Financial Planning in Today's Complex Markets

In today's world, financial markets are more intricate than ever. With globalization, technological breakthroughs, and a constantly evolving range of financial products, individuals and businesses are facing once-unthinkable challenges. Economic uncertainties add an extra layer of complexity. In this environment, effective financial planning is no longer optional; it's essential for staying ahead, making informed decisions, and securing financial well-being.

Here are the key reasons why financial planning has become crucial in this complex landscape:

Navigating an Increasingly Complex Array of Financial Products

Today, the sheer number of investment options is overwhelming. From stocks and bonds to cryptocurrencies, the choices are vast, but they all come with different risks, returns, and levels of liquidity. Without guidance, picking the right investments can feel like guesswork. Moreover, sophisticated financial instruments like derivatives and hedge funds add another layer of complexity. Understanding these products requires in-depth financial knowledge, making expert financial planning invaluable for avoiding costly mistakes.

Coping with Economic Uncertainty and Market Volatility

In an interconnected world, global events like trade disputes, geopolitical tensions, and pandemics can cause financial markets to swing dramatically. Think of the COVID-19 pandemic markets crashed, then quickly rebounded, leaving investors scrambling to adjust. Inflation and fluctuating interest rates only add to the unpredictability. A strong financial plan helps individuals and businesses navigate these storms by adjusting strategies to keep investments safe and maximize returns, no matter the market conditions.

Preparing for Demographic Shifts and Longer Lifespans

People are living longer, and with that comes the need for longer-term financial security. Retirement planning has become more important than ever. Ensuring that savings will last through decades of retirement, while also accounting for rising healthcare costs, requires careful planning. Meanwhile, younger generations face their challenges—fewer traditional pension plans, growing student loan debt, and more gig economy work. For them, a well-thought-out financial plan is key to managing their unique financial realities.

Addressing Rising Debt Levels

Debt has become an inescapable part of life for many, whether through mortgages, student loans, or credit cards. For individuals, without proper financial planning, these debts can snowball, making it harder to save and invest for the future. For businesses, managing corporate debt while maintaining profitability can be even more challenging. A strategic financial plan can help both individuals and businesses manage their debt effectively, minimizing stress and ensuring financial stability.

Keeping Up with Financial Innovation and Technology

Technology has revolutionized the financial industry, bringing with it both opportunities and new complexities. Fintech platforms have made investing and financial management more accessible, but they've also increased the amount of decision-making involved. From managing portfolios through apps to integrating new assets like cryptocurrencies, these innovations demand a more thorough understanding of financial markets. Without proper planning, it's easy to get lost in this digital jungle. Financial planning helps individuals make the most of these tools while managing the risks they bring.

Adapting to Regulatory and Taxation Changes

Tax laws and regulations are always changing, and staying up to date can be overwhelming. For example, shifting rules about capital gains or retirement contributions can impact how you save or invest. Good financial planning isn't just about accumulating wealth; it's about doing so in a tax-efficient way. Financial planners help individuals and businesses adapt to new regulations by staying informed, minimizing tax burdens, and ensuring compliance with changing laws.

II. RESEARCH METHODOLOGY

1. Introduction

This section outlines how we approached the research for the study titled "Financial Planning and Advisory: Study the Effects of Financial Literacy on Individual Financial Decision-Making." The research is based on secondary data, meaning we used information that has already been gathered by other researchers, organizations, or institutions to help answer the key questions of our study.

2. Research Design

The study uses a descriptive research design that helps us describe and analyze existing data to explore how financial literacy impacts people's financial decisions. This approach is ideal for understanding the characteristics and behavior of individuals when it comes to managing their money.

3. Data Sources

For this research, we relied on secondary data from various trusted sources, including:

- Academic Journals and Research Papers: We drew insights from peer-reviewed journals like the Journal of Finance and Behavioral Finance, which provided detailed studies on financial literacy and decision-making.
- Government Reports and Surveys: National surveys and reports from entities like the Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI) offered valuable data on how financial education influences consumer behavior in India.
- Reports from Financial Institutions: Data from financial institutions and regulators such as PFRDA (Pension Fund Regulatory and Development Authority) provided detailed statistics on how financially literate individuals manage savings, investments, and retirement planning.
- Market Research Reports: Market research firms such as McKinsey & Company, BCG, and KPMG published reports that gave us insight into current trends in financial planning and advisory services.
- Online Databases and Financial Reports: We also used databases like Statista, World Bank, and IMF to gather global and regional statistics on financial literacy and financial behaviors.

4. Data Collection Process

To gather the secondary data, we followed a systematic process:

- Keyword Search: We identified key search terms like "financial literacy," "financial decision-making," and "financial planning" to search through journals, reports, and databases.
- Selection of Reliable Sources: We carefully chose sources that were credible, relevant to the topic, and updated within the last 10 years.
- Data Organization: Once we had the data, we organized it into categories such as financial literacy rates, decision-making behaviors, and trends in financial advisory services.

5. Data Analysis

To make sense of the data, we used two main techniques:

- Content Analysis: We looked at the qualitative aspects, examining recurring themes and ideas in the literature on financial literacy and decision-making. This helped us understand the main factors influencing financial behavior.
- Trend Analysis: We analyzed trends over time for quantitative data to see how financial literacy and decision-making patterns have evolved.

III. THEORETICAL FRAMEWORK

Financial literacy is all about having the know-how and confidence to manage your money wisely. It means understanding how to budget, save, invest, and handle debt effectively. When you're financially literate, you can make smart decisions that improve your financial health and help you reach your goals.

Here are some key parts of financial literacy:

- **Budgeting:** Knowing how to create and stick to a budget so you can manage your income and expenses without stress.
- **Saving:** Understanding the importance of putting money aside for emergencies, plans, and retirement.
- **Investing:** Being aware of different ways to invest your money and understanding the risks and rewards involved.
- **Debt Management:** Knowing how to handle debt responsibly, so it doesn't become overwhelming.
- **Financial Planning:** Setting financial goals and making a plan to achieve them, whether it's buying a house, starting a business, or planning for retirement.

Being financially literate empowers you to make informed choices, avoid common financial mistakes, and build a secure financial future. It's a crucial skill in today's world, helping you navigate the complexities of the financial landscape with confidence. As per the OECD framework for measuring financial literacy, three variables:

-knowledge and skills, - Behaviour, -Attitude

These variables also affect the financial planning and decision-making of an individual. Individual knowledge of personnel finance, financial products, and services, Money Management Savings & Investment, Risk Management, and saving & investment decisions, and portfolio management. Attitude towards money and economic responsibility.

Financial literacy affects the economic decisions of an individual in which they can make informed choices about various financial products or services and avoid making common financial mistakes. This will help them to secure their future.

India is on the path to becoming one of the world's most financially literate countries. A significant 27.6% of people aged 25 to 44 are actively participating in financial inclusion programs through financial education. This growing engagement is helping to boost financial literacy rates among both young people and adults.

Several factors are driving this positive trend. Recent technological advancements have made financial tools and resources more accessible to a broader audience. Additionally, increased media coverage is raising awareness about the importance of financial literacy, encouraging more people to take control of their financial futures.

According to Forbes Advisor, some of the major financial investment avenues in India in 2024 are:

- PPF
- Mutual funds
- Stocks
- IPOs
- NPS
- Government or Corporate bonds
- Insurance Plans
- SGBs
- Physical Gold
- Real Estates
- Post Office schemes

These investment ranges between moderate to low-risk categories with good returns.

Investment Opportunities	<20	20-30	31-40	41-60	>60
Equity/Mutual Funds	25	24	27	28	15
Bank & Corporate FD's	18	18	17	16	20
Insurance	20	24	22	21	14
Gold	9	15	15	12	17
Real Estate	10	12	14	18	13
PPF	3	5	7	7	8
Other	2	4	2	4	4

From this, we can say that the population aged between 20 to 60 mostly prefers investing in mutual funds due to professional management and investment in a diversified portfolio of profitable shares & other securities and insurance, rather than those aged above 60 as they prefer FDs and Golds for investment as they consider this investment option more safe and profitable. This investment pattern shows that financially literate people have different financial behaviors and attitudes. Financial Literate people are well-known for the calculation of risk & returns, portfolio management, risk management, and many more financial terms necessary for them to make decisions regarding their investments. In India, buying gold and land are considered two of the best investment options. These assets tend to offer good returns and appreciate over time. This trend shows that even high-income, well-educated, salaried, and independent Indian investors prefer to play it safe and opt for more conservative investments.

Financial literacy significantly impacts an individual's financial planning. Financial planning is all about setting your financial goals, figuring out how to achieve them, and managing your money to stay on track. It's a comprehensive approach that covers everything from budgeting and saving to investing and planning for future needs. When done right, financial planning helps individuals and families achieve financial stability and security, allowing them to meet both their short-term and long-term goals.

Planning helps to create budgets, emergency funds, tax planning, estate planning, risk management, debt management, insurance planning, retirement planning, etc. To improve Financial Planning, financial advisors can help individuals or firms manage their investment portfolio in a risk-free manner. Financial advisors play a crucial role in helping individuals and businesses navigate the complexities of personal finance, investment, and wealth management. They provide professional guidance on a wide range of financial matters, helping clients make informed decisions to achieve their short-term and long-term financial goals.

"Empowering India: Government's Drive to Boost Financial Literacy"

Understanding financial concepts and being knowledgeable about money matters is essential for effectively planning personal finances and making informed decisions. Governments around the world, including India, have recognized the importance of financial literacy in empowering citizens to make informed financial decisions, manage risks, and enhance their economic well-being. To bridge the financial literacy gap, a variety of initiatives and programs have been introduced. These efforts focus on educating people, especially those in underserved communities, about essential financial concepts like budgeting, saving, investing, managing credit, and planning for retirement.

Here are some of the key government initiatives in India aimed at improving financial literacy:

National Center of Financial Education

The National Centre for Financial Education (NCFE) is a government-led organization aimed at promoting financial education across India. Established in collaboration with key financial regulators like the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), and Pension Fund Regulatory and Development Authority (PFRDA), the NCFE's mission is to raise financial awareness among the population.

Programs and Initiatives:

The Financial Education Awareness Program (FEAP) reaches out to different groups, including school students, teachers, and rural communities, providing basic financial education.

Financial literacy has been incorporated into school curricula, ensuring that young people learn the importance of saving, investing, and managing money from an early age.

National Strategy for Financial Education (NSFE)

The National Strategy for Financial Education (NSFE), developed by the NCFE, is a comprehensive roadmap for enhancing financial literacy in India. The strategy aims to educate individuals across all income levels, particularly focusing on women, rural populations, and other underserved groups.

Key Objectives:

Foster a financially aware and empowered population. Help individuals make well-informed financial decisions and improve financial inclusion. Implement financial education in schools and through targeted programs for various demographic groups, including farmers and youth.

Reserve Bank of India (RBI) Financial Literacy Initiatives

The RBI has been a major driver of financial literacy, especially through its Financial Literacy Centers (FLCs). With over 1,500 FLCs established nationwide, the RBI provides free counseling services on debt management, credit usage, and financial planning.

Outreach Programs: The RBI, in partnership with banks and NGOs, conducts financial literacy workshops targeting underbanked populations, particularly in rural areas. Through mobile financial literacy vans and financial literacy camps, the RBI reaches individuals in remote areas who may not have easy access to formal financial services.

Pradhan Mantri Jan Dhan Yojana (PMJDY)

Launched in 2014, Pradhan Mantri Jan Dhan Yojana (PMJDY) is a flagship financial inclusion program aimed at ensuring that every household has access to basic banking services. Alongside opening bank accounts for millions of unbanked citizens, PMJDY includes financial literacy components.

Focus on Education: Local banking correspondents and volunteers help to educate people about the benefits of saving, the use of formal financial systems, and the importance of financial planning

Securities and Exchange Board of India (SEBI)

SEBI has been proactive in educating investors and promoting financial literacy. The board conducts Investor Awareness Programs aimed at educating people about the stock market, mutual funds, and other investment opportunities.

Workshops and Seminars: SEBI runs specialized workshops for students, professionals, and senior citizens, helping them understand the basics of investing, market risks, and the tools needed to make informed decisions.

Insurance Regulatory and Development Authority of India (IRDAI)

To promote awareness about insurance, IRDAI runs a range of educational programs aimed at helping people understand how insurance can protect them against unforeseen risks.

Insurance Awareness Campaigns: Programs like the Bima Bemisaal campaign focus on educating the public about the benefits of life, health, and general insurance products, particularly in rural and low-income areas.

Pension Fund Regulatory and Development Authority (PFRDA)

The PFRDA oversees initiatives that encourage long-term financial planning, particularly for retirement. Through programs like the National Pension System (NPS) and the Atal Pension Yojana (APY), the PFRDA conducts workshops to improve retirement planning awareness.

Educational Programs: These programs target both workers in the informal sector and young professionals, helping them understand the importance of saving for retirement and planning for the future.

National Digital Literacy Mission (NDLM)

Although primarily focused on digital literacy, the National Digital Literacy Mission (NDLM) indirectly supports financial literacy by educating individuals on the use of digital financial services.

Digital Financial Literacy: Through training sessions on mobile banking, digital payments, and online financial tools, the NDLM equips people with the knowledge they need to manage their finances effectively in a digital world.

IV. CONCLUSION

This study highlights the significant influence of financial literacy on individual financial decision making. The results show that individuals with a higher understanding of financial concepts are more capable of making informed and

effective financial choices. These individuals tend to manage their finances with greater confidence, leading to more responsible behaviors such as budgeting, saving, and investing.

Financial literacy equips people with the ability to comprehend and navigate the complexities of financial products and services, encouraging a proactive approach to financial planning. This proactive mindset is crucial for achieving long-term financial stability and security. Additionally, the study indicates that financial literacy is associated with lower financial stress and enhanced overall well-being, underscoring its importance in daily life. However, the research also reveals notable disparities in financial literacy across different demographic groups. These disparities highlight the need for targeted financial education programs to bridge the knowledge gap and ensure equitable access to financial literacy resources. By addressing these gaps, policymakers and educators can empower more individuals to make sound financial decisions and improve their financial health. Recognizing the importance of financial literacy, governments worldwide have initiated various programs to promote financial education. For example, the Indian government has implemented the National Strategy for Financial Education (NSFE) to enhance financial literacy among its citizens. These initiatives aim to equip individuals with the knowledge and skills necessary to make informed financial decisions, ultimately contributing to their financial well-being.

Overall, this research underscores the critical role of financial literacy in shaping financial behaviors and decisions. As financial markets continue to evolve, integrating financial literacy into educational curricula and public policy initiatives is essential. Providing individuals with the necessary knowledge and skills to navigate these changes is crucial for their financial security and well-being. Future research should explore innovative methods to enhance financial literacy and assess the long-term impact of financial education on individual financial behaviors

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