

# Financial Literacy Definition | Define Financial Literacy



SAPNA NEGI NOVEMBER 2, 2021 FINANCIAL LITERACY

**Financial Literacy : Introduction, Top 8 Industry Definitions, Meaning, Understanding, Components of Financial Literacy, The Importance of Financial Literacy, Financial Literacy Skills, Financial Literacy Essay, Financial Literacy Examples, Conclusion.**

**B**efore coming to the **financial literacy definition**, we would like to give an overview of financial literacy. Financial literacy is not a term it's a broad topic, As the name suggests financial literacy means financial education.

We all hear the famous quote "**Education is the root of success.**" So here we describe that "**Financial Literacy is the root of financial success.**" Now the question is what is financial success? Here I want to make it's very clear that the means of financial success are different for different people, One considers achieving financial freedom as financial success, the other considers the good financial decisions are taken in a lifetime as financial success and another one achieving a target like a certain amount of USD 1 million considered as financial success.

The main thing we've seen is that not only in America but all over the world. People want to be rich but have no idea about financial literacy. They don't know what is financial literacy and why it is important. why should we learn financial literacy? Financial literacy sharpens our financial skills Likes Budgeting, Saving, Planning, Investing etc. Here we try to answer all the above questions in one place.



## Top 8 Industry Definitions

What's the best definition of financial literacy?

Everyone wants the best content and keeping this in mind, we have tried to give some selected definitions below in one place. All the definitions say almost the same thing about how we understand finance and make decisions related to finance in our life for financial well-being.

**#1** This *financial literacy definition* is developed by the National Financial Educators Council.

" Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual's personal, family and global community goals. "

The-financial-literacy-definition-by-the-National-Financial-Educators-Council

**#2** The Organization for Economic Co-operation and Development (OECD) describes the *financial literacy definition* as follows.

" The process by which financial consumers/investors improve their understanding of financial products and concepts and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial wellbeing. "

The-financial-literacy-definition-by-Organization-for-Economic-Co-operation-and-Development-OECD

**#3** The President's Advisory Council on Financial Literacy (PACFL-USA) defines the **financial literacy definition** as follows.

" The ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. "

**INVEST TO BRAIN**  
A key to financial freedom

The President's Advisory Council on Financial Literacy (PACFL-USA) defines the financial literacy definition

**#4** The Canadian Foundation for Advancement of Investor Rights (FAIR) defines the (2009) financial literacy definition as follows.

" Having the knowledge, skills and confidence to successfully carry out the financial transactions encountered in everyday life. "

**INVEST TO BRAIN**  
A Step To Financial Freedom

The-Canadian-Foundation-for-Advancement-of-Investor-Rights-FAIR-defines-the-2009-financial-literacy-definition

**#5** Wikipedia's definition the Financial Literacy is very simple words as follows.

Financial Literacy is the ability to understand finance. "

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Wikipedia-definition-the-Financial-Literacy

**#6** The Government Accounting Office (GAO) also describes the *financial literacy definition* as follows.

" The ability to make informed judgments and to take effective actions regarding the current and future use and management of money. It includes the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges associated with life events such as a job loss, saving for retirement, or paying for a child's education. "

The logo for "INVEST TO BRAIN" is located in the bottom left corner of the quote. It features the words "INVEST TO BRAIN" in a bold, sans-serif font, with "TO" in a smaller font size. Below the main text, the tagline "A Step To Financial Freedom" is written in a smaller, lighter font.

The-Government-Accounting-Office-GAO-also-describes-the-financial-literacy-definition

#7 The Center for Financial Inclusion also defines the *financial literacy definition* as follows.

The combination of knowledge, skills, attitudes and ultimately behaviors that translate into sound financial decisions and appropriate use of financial services.

The logo for "INVEST TO BRAIN" is located in the bottom left corner of the quote. It features the words "INVEST TO BRAIN" in a bold, sans-serif font, with "TO" in a smaller font size. Below the main text, the tagline "A Step To Financial Freedom" is written in a smaller, lighter font.

The-Center-for-Financial-Inclusion-also-defines-the-financial-literacy-definition

#8 The Jump\$tart a leading financial education website for students gives the views of **financial literacy definition** as follows.

**Financial literacy is the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security.**

**INVEST TO BRAIN**  
A Step To Financial Freedom

The-Jump\$tart-a-leading-financial-education-website-for-students-gives-the-views-of-financial-literacy-definition

## **Meaning of Financial Literacy**

In a very simple word, a person is financially literate if he is a financial subject matter expert so what is the financial subject matter expert. It means a person who has the ability to use the knowledge and skills to manage financial resources like financial products and services, saving, investing, budgeting, personal finance along with taking the right decisions on financial matters for his lifetime financial wellbeing.

## **Understanding of Financial Literacy**

It is very important to understand financial literacy, for example, the latest study shows that when the US adopted financial literacy in its country since then America's financial system has strengthened. It is a matter of the whole country where financial literacy is very difficult to implement as it requires time but you can improve your financial life from today by becoming financial literate.

## **The 8 Key Components of Financial Literacy**

Before knowing about what is financial literacy, firstly we need to know what are the major components of financial literacy. As everyone knows, if your basics are clear in any subject then you will easily understand the advanced learning of that subject therefore below are the basic building blocks of financial literacy.

## . **The Basics of Budgeting**

Budgeting is one of the basic components of financial literacy and basically, ” **budgeting is a process where we plan to spend our money and this plan is called a budget.** ” budgeting helps us to map money how much we spend to do all the things in a month. You can budget your retirement fund, emergency fund etc. Budget is like in estimate how much we earn and spend in a fixed time period in a month, in a year. Budget can be a person, a family, a company, a country and a project.

## . **Understanding Interest Rates**

Interest rate is one of the most important components of financial literacy, ” **Interest rate is a cost in percentage that a borrower gives to the lender on their borrowing amount.** ” For Example, If you borrow USD 1 Lakh from the bank for a home loan at the rate of 9% then you have to pay USD 9000 interest at end of the Year.

## . **Debt Management.**

Debt management is a strategy to lower down all types of loans, like credit cards bills, personal loans, home loans and car loans etc by planning and budgeting. The main aim of debt management is to lower your all loans amount and finally eliminate all your loans and keep your debt under control.

## . **Credit-Debt Cycle Traps**

In today’s time, big companies and banks ask us to apply for a credit card by calling us every day, By telling us lucrative schemes of credit cards. Do you know why they are doing this because it benefits the banks and big companies a lot?

Now another question will come to your mind that how is the profit? So I will be clear to you that Banks earn money by charging credit cards and also earn money on interest by crediting some money and on the other hand, big companies give some discount on buying goods with a credit card. Their goods can be sold and they can make a good profit.

In this way, big companies and banks make us a habit of credit cards and we get caught in their trap while paying interest. We apply and get credit cards from many companies and banks and wonder how easy it is to live, We can buy what we want today without hard work, for this, we have to work hard in the future which leads us to financial ignorance and we can never be financially free.

## . **Prioritizing Saving**

Saving is one of the very important components of financial literacy, we prioritize saving for the future, emergency funds for six months, saving for retirements and financial goals. Saving is a

very important component to learn financial literacy because it leads us to financial freedom.

### **. Determining your financial goals**

Determining financial goals that are a part of financial literacy, As how much money we will need at the time of our retirement so that we can spend our further life without any difficulty. Similarly, for how much money we will need to get our home, we also have to make a financial goal in advance to buy a home.

Even for our emergency fund for up to 6 months, we have to plan in advance how much money we will need in the coming 6 months. In this way, we will already need a financial goal for everything costly we need to buy.

### **. Smart Investing**

Investing is one of the basic pillars to reach your financial goals, bank FD, RD and government retirement funds give us a small return approx 6 to 8 percent on our savings but if we smartly invest in stocks, mutual funds then we will get good returns on investment (ROI) approx 10 to 20 or even more.

**Note : stock market is subject to risks without learning. First, learn and then earn by investing.**

### **. Protect from Theft Issues and fraud**

Identity theft of any person can prove to be catastrophic for life and all this can happen when any personal information such as a Social Security number, login details of online accounts and debit or card credit card information Steals. That's why you always have to be very careful that you do not share your social security number and login details of online accounts, debit or credit card details with anyone unnecessarily.

In today's changing world, technology also has to change very rapidly, you will always have to use new technology with awareness so your financial future always will be safe.

## **The Importance of Financial Literacy**

To know about the importance of financial literacy. first, we should know that what is financial Literacy? and What does it mean to be financially literate? then we will understand of the real importance of financial literacy.

### **What is Financial Literacy?**

**Financial literacy is an ability along with financial knowledge and skill which manage to budget, save, invest, future goals and loans effective way for future financial well-being. So that in the coming future, by taking the right financial decisions, can avoid financial crisis.**

## **What does it mean to be financially literate?**

**A person is called financial literate if he has the skill financial literacy, skill of financial literacy means that the person has a good knowledge of budgeting, saving, investing, debt management and today all financial subjects, which he can implant his whole life properly and be able to make sound financial decisions.**

## **What Is Financial Literacy and Why Is it Important?**

Now we are on our main question, **Why financial literacy is important?** below are the lists of reasons for the importance of financial literacy.

- . Financial Literacy enhances our financial understanding.**
- . Financial literacy helps us make sound financial decisions.**
- . In today's time, money is very much needed to live life. Financial literacy gives us the understanding and education to use our money properly.**
- . Financial Literacy teaches us how to use Budgeting, Saving, Investing as a professional.**
- . Financial literacy tells us that we should decide our future financial goals in advance so that we can meet that goal in time.**
- . Financial literacy also teaches us that we should always keep some emergency fund with us which can take care of our expenses for at least 6 months such as the fund kept for household expenses after leaving the job.**

## **Financial Literacy Skills**

**Financial literacy skills** are a combination of skills for example skill of saving, the skill of investing, the skill of budgeting, the skill of debt management and the skill of financial decision. A financially literate person knows very well how to save and budget in the best way that he will get wonderful results. He invests professionally and take sound financial decisions. Set the financial goal and achieve these goals on the time.

Financial Literacy is a set of Skills, It is just a way to implement finance for well-being.

## **Financial Literacy Essay**

The way I write this article is completely an essay, you can go through the whole article then if you download this in pdf click below Link.

**Financial Literacy Essay in Pdf**

## **Financial Literacy Examples**

# What is financial literacy example?

The best example of financial literacy is to prepare your retirement planning in the best way, firstly you should know how much money you will need when you will retire so you can easily live your life enjoy fully. After that, you should make preparation and may a small budget plan for retirement fund along with your retirement fund goal and invest in retirement fund from an earlier age.

## Conclusion

Financial literacy is very beneficial for the long run, as we all know that everything changes in this world so rapidly nowadays. Lots of financial products with new technology come in the market, so we have to be fully aware with that financial product which we are using.

Financial Literacy makes people financially literate and strong their financial system in long run. Everyone should get a financial education, it is interesting and gives lots of financial benefit in whole life.

## FAQ

How do you define financial literacy?

Financial literacy is the knowledge, ability and skill to understand finance for lifelong financial well-being.

What is financial literacy in your own words?

In my point of view, financial literacy is an ability along with a skill which manages to budget, save, invest, future goals and loans effective way for future financial well-being.