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# CHAPTER - 8

## FINANCIAL LITERACY AND CONSUMERISM

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Ch.Id:-NSP/EB/CRRISE/2025/Ch-08

DOI: <https://doi.org/10.52458/9789349381636.nsp.2025.eb.ch-08>

### 8.1 FINANCIAL PLANNING AND BUDGETING

#### 8.1.1 Importance of Financial Planning

Money makes the mare go' is a very common saying. Financial planning is important to an individual and greater still to a government. The importance of public finance arises from the increasing functions of the state. Financial planning supports and encourages all activities related to consumption, production, exchange, and distribution in the economy. It allows the consumers to optimize their contentment. It gauges the level of desire and the usefulness of a product for the household. It serves as a pivotal social tool that significantly enhances the prosperity and well-being of families through wealth accumulation. It guarantees the seamless operation of the family's economic structure. Financial planning plays a significant role in the process of building capital and driving the economic growth of a family. It guarantees the seamless operation of the family's economic structure. Financial planning entails clarifying the objectives of consumers by grasping their financial situation. It implements strategies to make progress toward achieving objectives. Financial planning experts are available to assist consumers with a range of requirements, such as budgeting, managing investments, and planning for retirement.

**When compared with Public finance, private finance shares some resemblances.**

- Both need to manage their income and expenses effectively
- Both aim to optimize benefits while minimizing resource usage
- Both parties need to take out loans to cover the differences between their existing income and expenditures
- Both have the opportunity to enhance their income by expanding their investment spending

#### **Distinction between Public Finance Private Finance**

- **Adjustment of income and outflow:** The adjustment of income and outflow can be equated to adhering to the budget that aligns with the current financial situation. Where for an individual, it means tailoring expenses to income. Conversely, for a Government, it involves determining the necessary size of the metaphorical coat before organizing the cloth needed to make it. Put simply, individuals need to live within their means that is consumers need to align their expenses with their earnings. Conversely, the Government initially formulates a

budget outlining expenditures before exploring strategies to generate the necessary funds. It adapts its earnings to match its spending.

- **No internal borrowing for an individual:** Consumers cannot borrow from internal sources, while the Government has the option to borrow from both domestic and international markets in difficult situations. It has the option to borrow an internal loan, an external loan, or both. However, only an individual can borrow an external loan.
- **Budgeting and emergency fund-raising:** These are crucial tasks for public authorities, who typically operate on an annual budget cycle. An individual does not have to meet specific timing requirements when managing their budget. A private individual does not possess the same coercive authority as a government. The government has the authority to enact legislation requiring citizens to pay taxes or participate in mandatory deposits, whereas individuals do not possess such powers.
- **Family Finance:** Money is vital support for every household. Nevertheless, financial resources are consistently constrained. However, wants are constantly limitless. Hence it is crucial for a family to effectively handle their finances. The fundamental principles of management guide the financial management within the family. Family financial management involves the thoughtful organization, coordination, supervision, and moderation of financial endeavours within the family, encompassing the acquisition and allocation of resources. It involves implementing common management principles to handle the financial assets of the household.

The concept of family financial management may be referred to as planning, organizing, controlling, and evaluating the use of available financial resources to attain the greatest satisfaction along with high-quality living.

**The financial management should result in the following-**

- Development of individuals in the family.
- Enhancement of quality of life of the family as a whole.
- Opportunity to contribute to civic well-being.

Financial management is the operational activity of a business a family or an individual that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations. Financial management is the activity concerned with planning, raising, controlling, and administering of funds used in the business, or in a family.

**There are three important decisions involved in family financial management which are as follows-**

- Financing or where families get money from.
- Allocation of funds
- Disbursement and saving/investment i.e. how much to spend and what to retain.

Family financial management is a complicated process that involves careful planning concerning identified family goals, allocation of the appropriate amount of funds for the same beside the knowledge to select the quality goods and services for family needs. It further involves the identification and appropriate use of alternative human and material resources rather than money to attain the same family goals.

## Different aspects of family finance

Planning a family's financial future may seem to be a complex and challenging task but there are certain simple steps through which a family can take to achieve its aim. Basic principles like living within their means, saving for both short and long-term goals, paying down debts, and thinking ahead will all help them to secure their family's future financial status.

**Budgeting:** One of the most effective tools that are useful for managing family finances is to set a household budget. This is a very simple method of keeping on top of all the income and the outgoings of the household. Family can use a spreadsheet as a record and a planner or can just keep a written record. Keeping a diary of exactly what is spent is another good tool and this will give the family a complete picture of spending habits especially if the family keeps the record for a year or more.

### 8.1.2 Budgeting techniques and investment options

#### Budgeting techniques

The main purpose of budgeting is to help a family derive maximum benefit from the family's income for that period. A budget is a thoughtful strategy for managing expenses and setting aside funds from a specified income over a specific timeframe, such as a week, a month, or a year. **According to Bigelow**, "Budget is a tool whose value lies chiefly in the process of thinking through goals, estimating costs and making choices among alternative uses of money. Consequently, a budget aids in the prudent management of payments.

Budget means "An estimate of future expenditures and distribution of expenses on various items over a definite period"

- a) **Basic Budget technique:** It is to map out simple expenses and income. A basic budget can be created in a spreadsheet or using a template. The advantages of the basic budget technique are simple, flexible, and can be used by most people with ease.
- b) **Short-term budget technique:** a short-term budget is designed to help an individual plan for short-term expenses and manage funds in a shorter period. This can be anywhere from a week to a few months. It provides a more focused look into short-term expenses, budgeting goals, and short-term income sources. These are useful for upcoming large purchases or paying down short-term debt.
- c) **Fixed budget technique:** The purpose of a fixed budget is to control costs when income and expenses are not expected to change in the short term. This budget has the advantage of providing a simple picture of fixed expenses and incomes. It can be used for everyday expense and income tracking when the consumer is not expecting any changes in either.
- d) **Cash Budget technique:** The purpose of a cash budget is to plan for cash inflow and outflow for a specific period, usually in the short term. It has the advantage of focusing solely on cash inflows or outflows for a more specific financial picture. The cash budget technique can be used when the consumer is expecting a larger volume in cash inflow or outflow.
- e) **Flexible budget technique:** The purpose of a flexible budget is to plan for different levels of activity in expenses or income in the short or long term. It gives more flexibility to the budgeting process, planning for varying activity

levels in the individual's finances. It can be generally used when the consumer is expecting different volumes for income and expenses. For example, an individual is switching jobs and reducing debt.

- f) **Functional or operational budget technique:** It applies to one specific operation of a business and is part of the master budget. The advantage of a functional budget is that it only applies to a specific department, operation, or function of a business instead of a business as a whole. This is a good option for when the consumer is renovating a specific function of the business or household task.
- g) **Master Budget technique:** The purpose of the master budget is to encompass smaller operation budgets and provide a larger picture of individual expenses and incomes. It provides a generalized picture of expenses as a whole. Consumers can utilize a master budget to plan for general expenses and identify costs at a glance.
- h) **Performance budget technique:** It is designed to analyze the performance of an assignment and determine whether the cost is worth the output. A performance budget has the advantage of being focused on a specific aspect of a business or a household assignment and can help determine if what's being put in is creating an ROI (Return On Investment). This technique can be used to identify costly methods of production and determine if certain functions are creating an ROI.
- i) **Static budget technique:** The purpose of a static budget is to account for static expenses that won't change. Static budgets allow for a focused look at fixed expenses that remain constant despite fluctuations in sales volume and revenue. For example, during COVID, the sales were not there in business but need to pay shop rent every month regularly.
- j) **Labour budget technique:** It is a part of the master budget. The labour budget focuses solely on labour for a more specific view of an individual expense. During events in the family, labour requirement is there. So using this technique families can track general labour costs or plan for upcoming reductions or increases in labour needs.

### Investment options

An investment refers to an asset or item that is acquired to generate income or appreciation. From an economic perspective, an investment entails acquiring goods that are not consumed immediately but rather utilized in the future to generate wealth. The majority of families rely on a sole income, yet they encounter various immediate, medium-term, and long-term needs. If a family continues to achieve one goal after another using their accumulated savings, they may soon find that no savings are remaining to fulfill their long-term goals.

### Savings = Income – Consumption

This equation illustrates savings as the balance left after subtracting total expenses from the total earnings. From a mathematical perspective, the equation assigns greater significance to consumption initially. In practical terms, experts advise prioritizing investing or saving for the future before allocating the remaining funds for family expenses. If someone aims to save more money to achieve their goals, there are just two choices available: cut down on expenses or boost household earnings. Frequently, the first option proves to be simpler compared to the second.

### Best Financial Security Plans in India 2024

Investment	Risk	Suitable for	Returns	Tax Benefits
Capital Guarantee Plan	Low	All	8 – 12%	Section 80C
Unit Linked Insurance Plan	Medium	All	9 – 15%	Section 80C and

(ULIP)				10(10D)
Life Insurance	Medium	All	Sum Assured + Bonuses	Section 80C and 10(10D)
Public Provident Fund (PPF)	Nil	Risk-averse investors	7.1%	Section 80C; Tax-free interest
Bank Fixed Deposit (FD)	Nil	Risk-averse investors	5 – 9%	Section 80C for Tax-Saving FD
National Pension Scheme (NPS)	Medium	All	9 – 15%	Section 80C and 80CCD(1B)
Post Office Savings Schemes	Low	Risk-averse investors	4 – 8.20% p.a.	Tax benefits on some schemes under Section 80C
Recurring Deposits (RD)	Low	All	5 – 7% p.a.	N.A.
National Savings Certificate (NSC)	Low	Risk-averse investors	7.7% p.a.	Section 80C
Post Office Monthly Income Schemes (POMIS)	Low	All	7.4% p.a.	Taxable interest
Senior Citizen Savings Scheme (SCSS)	Low	All	8.2% p.a.	Section 80C
Atal Pension Yojana (APY)	Low	All	Up to ₹5,000 per month pension	Section 80C
Debt Mutual Funds	Low-Medium	All	6 – 8% p.a.	Taxed based on holding period (STCG/LTCG)
Gold	Low	Risk-averse investors	Market-dependent	Tax benefits on Sovereign Gold Bonds (SGBs)
RBI Bonds	Low	Risk-averse investors	7.35% p.a.	Taxable interest

- a) **Capital Guarantee Plan:** A capital guarantee plan is an investment plan that guarantees to return your capital, making it solitary of the safest ways to invest money in India.
- b) **Unit Linked Insurance Plans (ULIPs):** These are safe investments with high returns in India as they combine the double benefits of life insurance coverage with investments in units linked to the market.
- c) **Public Provident Fund (PPF):** It is a government-backed savings scheme that is the safest investment in India, offering guaranteed returns and tax benefits.
- d) **Life Insurance:** Life insurance is unique of the safest ways to invest money, designed to provide financial protection to the individual and family in the event of the insured's death.
- e) **Bank Fixed Deposit (FD):** It ensures security and reliability, offering Fixed Deposit interest rates over a specified period.
- f) **National Pension Scheme (NPS):** It is a government retirement savings scheme in India that offers safe investments with high returns.

g) **Post Office Savings Schemes:** These are savings schemes offered by the post office that offer secure investments with attractive returns.

**The current interest rates for some of the most popular schemes are as follows:**

- **Post Office Savings Account:** 4.00% p.a.
- **Post Office Time Deposit Account:** 6.90% to 7.50% p.a.
- **Post Office Recurring Deposit Account:** 6.70% p.a.
- **Sukanya Samriddhi Yojana (SSY):** 8.20% p.a.
- **Senior Citizen Savings Scheme (SCSS):** 8.20% p.a.
- **Mahila Samman Savings Certificate:** 7.50% p.a.
- **Kisan Vikas Patra (KVP):** 7.50% p.a.

h) **Recurring Deposit (RD):** It is a safe investment option in India that allows consumers to regularly deposit a fixed amount of money into their accounts over a predetermined period and fixed RD interest rates.

i) **National Savings Certificate (NSC):** It is a government-backed savings instrument in India that offers a secure investment option with guaranteed returns.

j) **Post Office Monthly Income Scheme (POMIS):** It offers consumers a regular monthly income and is considered a reliable option for safe investments with high returns in India.

k) **Senior Citizen Savings Scheme (SCSS):** It is one of the safest ways for senior citizens in India to invest money.

l) **Atal Pension Yojana (APY):** It is a government-linked pension scheme in India. It offers a safe investment avenue for individuals seeking a secure retirement future.

m) **Debt Mutual Funds:** These are considered relatively safe investments compared to equities because they primarily invest in fixed-income securities like bonds.

n) **Sovereign Gold Bonds (SGBs):** Sovereign Gold Bonds (SGBs) are government-backed securities that provide regular interest payments and allow you to benefit from gold price appreciation.

o) **RBI Bonds:** These are government securities issued by the Reserve Bank of India. They offer fixed interest rates and are considered safe investments due to their government backing.

### 8.1.3 Risk Management and Debt Strategies

Risk management, in the context of personal finance, refers to the potential for events to negatively impact consumers' ability to achieve financial goals. These events can be diverse, ranging from market volatility that wears away investment returns to job loss that interrupts income streams. Health issues and the increasing life expectancy (longevity risk) can also significantly impact financial plans, requiring greater healthcare expenditures in later years. Risks can be categorized based on their impact and predictability. Systematic risks, like economic downturns or market crashes, affect everyone in the market and are difficult to control. Unsystematic risks, on the other hand, are specific to an individual or company, such as a job loss or a disability. Similarly, we can categorize risks based on their timeframe. Short-term risks, like unexpected car repairs, require immediate attention, while long-term risks, like healthcare costs in retirement, necessitate long-term planning and mitigation strategies.

One key principle is the precautionary principle, guiding the creation of an emergency fund to mitigate unforeseen events. Insurance provides a further layer of security by transferring risk. This aligns with the risk transfer principle, especially for pure risks like death, disability, or property damage. Different types of insurance, such as life, health, or disability, cater to specific needs and vulnerabilities, requiring individual risk tolerance assessments to tailor coverage effectively. The foundation of any investment strategy lies in asset allocation. This pertains to the strategy of allocating investment portfolios among different asset classes, each presenting its distinct risk-return profile. Stocks (equities) offer the potential for high returns but also carry higher volatility. Bonds, instead, generally offer lower returns but provide greater stability. Investing in Real estate has the potential to provide a consistent source of income over time, along with the possibility of long-term growth in value. However, it is important to be aware that real estate investment carries risks such as lack of liquidity. Alternative investments like private equity or hedge funds can offer diversification benefits but often involve higher fees and complex structures.

The survey by Home Credit India highlights that a significant majority of Indians are open to borrowing, underscoring the need for effective debt management to repay loans and ensure strong financial well-being. It is certainly true that debt tends to accumulate more quickly than most individuals realize. For instance, it could seem impossible to get out of debt if you have a high-interest student loan or credit card debt.

According to a survey by Home Credit India, two out of three Indians are receptive to taking loans. This emphasizes the importance of a robust debt management strategy to settle debts while maintaining sound financial health. Contrary to a 'one for all' solution, debt management combines a variety of methods and techniques to efficiently pay off outstanding debts. The ideal plan of action, however, is specific to each person's situation and level of debt, successfully navigating a way out of heavy debt and providing peace of mind in exchange.

**The following are the top techniques for managing debt effectively:**

- a) **Build a budget:** The key to successfully paying off all of the debt is to stick to a budget. A budget will provide an individual insight into their earnings versus their expenses, allowing successful future planning. When fixed expenses are deducted from income, one tends to gain a better understanding of their free cash flow, allowing them to save more. After gaining an understanding of these savings, it will become simple to identify areas where expenses can be reduced, and decide on a course of action to repay the outstanding debts.
- b) **Adopt debt avalanche strategy:** After locating the additional funds to pay off the debts, the next step is to choose how to put them to best use. The debt avalanche method calls for making minimum payments on all other debts while paying off the loan with the highest interest rate first. After paying off the loan with the highest interest rate, the following step is to transfer to the account with the second-highest interest rate. By doing so, debts will be paid off more quickly, and overall interest costs will be reduced.
- c) **Choose debt consolidation:** When it comes to high-interest debt, debt consolidation could be the right strategy to adopt. This approach entails acquiring a personal loan and repaying other debts to end up with only one loan to manage. Furthermore, with strong credit, one might obtain a debt consolidation loan with a cheaper interest rate than other outstanding loans. As a result, those with big debts will be able to shrink their total debt and restructure it to settle it off faster and save money in the long term.

## 8.2 CONSUMER CREDIT AND DEBT MANAGEMENT

### 8.2.1 Types of Credit and Interest Rates

The word “credit” originates from the Latin word “credo” translating to “I believe” or “I trust”, indicating reliance and confidence placed in someone else. The concept of credit refers to placing trust or confidence in someone. In the realm of economics, the concept revolves around entrusting someone’s financial stability. This involves making payments with the expectation of receiving them back at a later date, engaging in lending activities, and managing deposits, among other financial actions. Credit is essentially a mutual agreement where a borrower acquires a valuable item or service immediately but commits to reimburse the lender at a future date. The sum of money that an individual can access from the banking system as credit or a loan is known as borrowing capacity.

Common forms of consumer credit include credit cards, store cards, motor vehicle finance, personal loans (installment loans), consumer lines of credit, payday loans, retail loans (retail installment loans), and mortgages. This is a broad definition of consumer credit and corresponds with the Bank of England's definition of "Lending to individuals".

A credit card in its intangible state, serves as a means of payment that enables smooth transactions for individuals and businesses, facilitating purchases and cash withdrawals. A credit card typically functions as a convenient alternative to cash or cheque, offering users an unsecured revolving credit line in most cases. The borrower must make a payment towards the card’s outstanding balance each billing cycle, following the terms outlined in the cardholder agreement. As the debt decreases, the available credit grows for accounts in good standing. The intricate financial agreements feature terms and prices that are constantly changing. In contrast to a credit card, a debit card requires full payment each month.

In its physical form, a credit card typically appears as a sleek, rectangular plastic card. The numbers on the front of the card symbolize different elements like the network, bank, and account. Typically, these numbers are collectively known as the account number or card number. Smoothly put, a magstripe, known as a magnetic stripe, spans the rear side of the card and stores certain account details electronically. Additionally, the card’s back features a designated area for the cardholder’s signature. Numerous other physical characteristics define a credit card, yet with the advancements in technology, their physical appearance is evolving.

For instance, multi-application cards, also known as smart cards, utilize cryptography techniques for security measures and replace traditional magstripes with an embedded microprocessor or chip, within the card. The improved memory and processing capabilities far surpass those of the conventional magstripe card, allowing multi-application cards to grant consumers access to multiple financial accounts and various services or data (such as merchant loyalty programs) all through a single card. New payment methods such as contactless and biometric options are also becoming more popular.

Cards are gently tapped on readers at the point of sale when using the contactless payment format, rather than being swiped. This particular format is commonly referred to as proximity, tap and go, or blink technology. The biometric format utilizes the physical or biological characteristics of a cardholder through identification methods such as fingerprint verification, iris scans, and voice scans. The advancements in electronic payment methods might just be at the beginning stages.

There is a wide array of credit card options accessible to consumers, with the selection constantly expanding. The terms and conditions for every credit card product, including the Annual Percentage Rate (APR), the formula for the monthly minimum payment, and specific fees are outlined in a cardholder agreement mandated by regulations. The following sections offer an overview of several common categories of credit card products.

- a) **General Purpose Credit Cards:** These are also known as Universal credit cards, and are accepted at a wide range of stores and businesses for consumer convenience. They come in various types such as standard, premium, affinity, co-branded, corporate, home equity, and cash-secured programs.
- b) **Standard Credit Card Programs:** Standard credit card programs represent the conventional method of issuing credit cards. These programs are typically aimed at consumers who meet or surpass the institution's minimum credit requirement but may have limited credit history or not fully meet some of the institution's other credit requirements. As a result of increased credit risk and loss rates, these programs typically feature higher interest rates, elevated fees, and reduced credit limits compared to premium credit card programs. Unsecured standard credit programs are commonly utilized to offer credit to subprime borrowers, alongside the cash secured credit cards.
- c) **Premium Credit Card Programs:** Premium credit card programs are typically targeted toward individuals with higher incomes and/or superior credit scores compared to those targeted for standard credit cards. Historically, premium programs have typically featured gold and platinum credit cards. Nevertheless, certain companies have started employing these sophisticated titles even for their conventional products in response to fierce competition, aiming to attract consumers to select their cards. Premium credit card programs typically offer reduced interest rates waived annual fees, and increased credit limits. The potential concern associated with this particular program involves a significant number of accounts with high balances. Dependence on the premium sector could lead to increased losses if significant outstanding balances are present during an economic decline.
- d) **Affinity Credit Card Programs:** These programs involve partnerships between financial institutions and unaffiliated groups, such as non-profit organizations like alumni associations, professional groups, and fan clubs. These relationships are designed to benefit both parties involved. A mutually agreed upon contract guides the affiliation with the partner, and the affinity cards typically feature the partner's logo. Compensation levels can vary, with the affiliate partner promoting the card typically receiving financial rewards determined by the anticipated level of acceptance and usage among its members. Compensation is frequently provided through the sharing of annual fees, renewal fees, interchange income, and interest income. Issuers are interested in obtaining affinity to boost response rates, usage levels, and customer retention.
- e) **Co-branded Credit Card Programs:** These involve partnerships established between financial institutions and unrelated organizations, typically businesses operating for-profit like airlines, automobile manufacturers, and retailers. Just like the affinity program, a contractual agreement oversees the co-branded partnership, and the co-branded card typically displays the logo of the partnering entity. Compensation for the co-branding partner typically involves sharing interchange fees and/or providing rebates to its customers.
- f) **Corporate Credit Card Programs:** These are offered in various forms to cater to a range of business requirements. Typically, these contractual agreements involve a sponsoring entity and a financial institution collaborating to provide corporate cards to chosen employees of the sponsoring company. Various forms of

sponsoring entities can be involved such as small businesses, market businesses, local, state, or Federal governments; and large corporations.

- g) Proprietary Credit Cards:** These also known as private label cards, are issued through a contractual agreement between financial institutions and third parties, typically large retailers, to facilitate consumer transactions with that specific entity. Certain gift cards are also distributed by retailers themselves rather than through a financial institution. Private label cards typically possess distinct characteristics compared to general-purpose cards. Normally, private label cards feature lower credit limits, higher interest rates, increased credit risk profiles, and restricted usage (such as being limited to a specific merchant).
- h) Cash Access Credit Cards:** Cash access credit cards are designed for consumers who typically favour cash advances rather than purchases. These cards are typically not utilized for conventional point-of-sale purchases. Individuals who prefer using cash are usually classified as a population with higher risk. On occasions, these borrowers might opt for cash advances to settle outstanding debts, such as balances on the same or other credit cards including those who utilize the cash advance options provided by their general purpose cards.
- i) Interest rates:** Interest rates are the reward paid by a borrower (debtor) to a lender (creditor) for the use of money for a period, and they are expressed in percentage terms per annum (pa), for example, 6.525% pa, to make them comparable. Interest rates are also quite often referred to as the price of money. This is not helpful. One should rather refer to interest rates as being the rates (there are various) payable on debt and deposit obligations (aka instruments and securities) by the borrowers to the lenders, and that the prices of the debt and deposit obligations are derived from the cash flows payable on the obligations in the future - by discounting the cash flows by the rates payable.

### 8.2.2 Credit Score and Its Importance

A credit score is a 3-digit number between 300 to 900 that measures an individual credit worthiness. A higher credit score suggests that you have a healthy credit history and responsible repayment behaviour. Generally, banks and non-banking finance companies (NBFC) consider a credit score of 750 and above as ideal.

**CIBIL or Credit Information Bureau (India) Limited** was established in **August 2000** and is known to be the first credit information company in India. When a consumer applies for any form of credit, like a home loan, personal loan, car loan, or credit card, the banks get the applicant's credit rating from CIBIL to decide whether the person qualifies for a loan or not. This information is mainly about repayment of loans and credit cards. This information is then taken by CIBIL and computed into a number between **300 and 900**. If scores are close to 300 then the credit rating is considered to be bad and in all likelihood loans and cards will be rejected. If the rating is 600 or more, it is considered good and the likelihood of getting the loan or a credit card is high.

#### Understanding the terms and keywords in credit score

Key term	Explanation		
	DPD	Denotes	Explanation
AC (Asset Classification)	STD	Standard	Payments will be made within a 90-day timeframe. Any account overdue by more than 90 days is classified as a

			Non-Performing Asset (NPA) by banks.
	SMA	Special Mention Account	A special account was created for reporting standard accounts, moving towards Sub-Standard.
	SUB	Substandard	An account which has remained an NPA for upto 12months
	DBT	Doubtful	The account has remained a Sub-standard account for a period of 12 months
	LSS	Loss	An account where loss has been identified and remains uncollectible
Actual Payment Amount	This may be more or less than the EMI amount.		
Amount Overdue	Indicates the total amount that has not been paid to the lender in a timely fashion (includes principal and interest amount)		
Cash Limit	Applies to credit cards specifically. It is the amount of cash consumers are permitted to withdraw from their credit.		
CN(Control Number)	This is a report number and is essential if a consumer needs to raise a Dispute Request.		
Collateral	Is provided to the lender as security to protect the lender if the consumer is unable to repay the loan taken. This may be property, shares, gold, etc.		
Credit Limit	Applies to credit card and overdraft facilities. It reflects the total amount of credit that consumers have access to about credit card or overdraft facility.		
Current Balance	It is the amount the consumer still owes to a particular credit facility. Lenders typically take 30-45 days after your payment is received to update this information with CIBIL.		
DPD (Days Past Due)	Days Past Due appear in the account information section of individual CIR. The DPD indicates how many days a payment on that account is late that month. Anything other than STD (refer to Asset Classification) is considered negative by a lender. Up to 36 months of this payment history (with the most recent month displayed first) are provided. On occasion, an individual may see "XXX" reported for his DPD on a certain account which implies that information for these months has not been reported to CIBIL by the bank.		
EMI amount	It is the Equated Monthly Payment that is to be paid on the loan.		
Inquiry	Inquiries are added to a consumer report when a consumer applies for a loan on a credit card and the lender decides to access consumer CIR.		
High Credit	Applies to credit cards and facilities. It reflects the highest amount ever billed for that particular credit card or overdraft.		

The Government of India has approved several credit rating agencies to ensure the "Safety" of a saving avenue for an investor. A consumer has to choose only those companies that have "investible-grade" ratings. A rating of "AAA" to any investment option by a company, can assure an investor about the safety of his investments. These

ratings are generally given by credit rating agencies such as CRISIL, ICRA, and CARE. At present, there are four Credit rating agencies in India.

- Credit Rating Information Services of India Limited (CRISIL)
- Investment Information and Credit Rating Agency of India (ICRA)
- Credit Analysis and Research Ltd. (CARE)
- Duff and Phelps Credit Rating India Pvt. Ltd. (DCR India)

Credit rating is used extensively for evaluating debt instruments. These include long-term instruments like bonds and debentures as well as short-term obligations like commercial paper. In addition fixed deposits, certificates of deposits, structured obligations including non-convertible portions of PCDs, and preference shares are rated. Equity shares are not rated.

## **8.3 DIGITAL PAYMENTS AND FINANCIAL INCLUSION**

### **8.3.1 Digital Payment Systems (UPI, Wallets, etc.)**

The demonetization strategy in India had a profound effect on the nation's economy, but it also sped up the rise of digital payments. Before demonetization, digital transactions made up merely around 10% of all transactions in the country; however, that figure has increased to more than 20% in the subsequent years. On November 8th, 2016, the Prime Minister of India, Sh. Narendra Modi declared that the 500- and 1,000-rupee notes, which represented 86% of the cash in circulation, would no longer be valid. This calculated move stimulated the vigorous promotion and acceptance of the digital ecosystem in India.

The growth of the digital ecosystem in India has been driven by multiple factors, including the government's emphasis on digitalization, the increase in internet and smartphone penetration, and the rise of e-commerce. The Indian government has been promoting the adoption of digital technologies through programs like Digital India, Make in India, and Start-up India. These programs aim to improve the application of digital technologies across various sectors such as healthcare, education, and agriculture, while also creating a favorable environment for start-ups to thrive.

The Government aims to achieve 2500 crore digital transactions in the financial year 2017-18 Union Budget by utilizing various means such as UPI, USSD, Aadhar Pay, IMPS, and Debit cards. This initiative marks a crucial milestone in the Government's efforts to boost digital payments and lessen the reliance on cash transactions. In recent years, the significance of digital payments has been on the rise in India, fuelled by the swift growth in smartphone usage and internet availability across the country. The rise in digital payment methods, including mobile wallets, UPI, and Card payment, has shown a noticeable increase.

Nevertheless, a significant portion of the populace still depends on cash transactions, prompting the government to encourage the adoption of digital payments. This will be utilized for a range of endeavours aimed at encouraging digital transactions. A critical initiative will focus on offering incentives to encourage merchants to embrace digital payment methods. This could involve providing subsidies to merchants for acquiring point-of-sale terminals, along with offering tax incentives to businesses that embrace digital payment options. The Government's support for digital payment transactions represents a substantial stride in moving closer to the vision of a cashless society. This distribution aims to boost the adoption of digital payment methods among a larger number of individuals

there by lessening the reliance on cash transactions. Moreover, the government's efforts to offer incentives to retailers and enhance the infrastructure for digital transactions will foster a favourable environment for the growth of digital payments. This step will further enhance financial inclusion nationwide, allowing more individuals to access formal banking and financial services.

As smartphones and internet usage continue to rise, digital payments are becoming increasingly available to wider consumers. This allocation will enhance the utilization of digital payments, diminishing the reliance on cash transactions, thereby forecasting a more efficient and secure financial system for all Indians. In recent years, the digital payments landscape in India has experienced substantial growth, propelled by government efforts, the surge in internet and smartphone adoption, and the expansion of e-commerce. A significant initiative is the introduction of the Unified Payments Interface (UPI), enabling instant interbank transactions, along with the user-friendly Bharat Interface for Money (BHIM) app designed to streamline digital transactions. Since its introduction in 2016 by the National Payments Corporation of India (NPCI), the Unified Payments Interface (UPI) has experienced notable expansion in India.

### 8.3.2 Benefits and Risks of Digital Payments

The statistics depict that the adoption of UPI is a convenient and secure platform for digital transactions in India. The rise in the use of the internet and smartphones in India has played a chief role in the development of digital cashless transactions. E-commerce has been a foremost driver of the progress of the digital payments network in India. The e-commerce bazaar in India is predicted to develop at a Composite Annual Progress Rate of 31% and touch \$200 billion by 2026. The progress of the e-commerce market has led to an intensification in the number of online shoppers in India, which is expected to reach 220 million by 2025. The digital outflow network in India is also supported by several other private companies as well. These companies deal with a range of digital payment services such as mobile wallets, UPI outflows, and QR code-based disbursements.

After a thorough stakeholder consultation, the Ministry of Finance and the Reserve Bank of India identified a total of 15 digital payment modes.

S.No.	Payment Modes
1	Aadhaar Enabled Payment System(AEPS)
2	Bharat Interface for Money (BHIM) Aadhaar
3	Bharat Interface for Money (BHIM) Unified Payments Interface
4	Closed Loop Wallet
5	Credit Card
6	Debit Card
7	Immediate Mobile Payment Service (IMPS)
8	Internet Banking
9	Mobile Banking
10	National Automated Clearing House (NACH)
11	National Electronic Funds Transfer (NEFT)
12	National Electronic Toll Collection (NETC)

13	Prepaid Payment Instrumentation (PPI)
14	Real Time Gross Settlement (RTGS)
15	Unstructured Supplementary Service Data (USSD)
16	Other Payment modes

Digi Dhan Mission created the computerized foundation for monetary exchanges. It also targeted to rise in the number of digital communications in India. The government has initiated numerous initiatives to stimulate the use of digital disbursements in rural areas, like the launch of the Common Service Centres (CSCs) to provide digital services to rural people. DigiDhan Dashboard Application is a platform created by the National Informatics Centre, Ministry of Electronics & Information Technology, Govt. of India to track and monitor the usage of digital payments in the country. The dashboard provides real-time data on the number and value of digital transactions, as well as information on the types of transactions and the platforms being used.

Year on Year growth for Digital Payments in India can be viewed below:



Source: <https://www.npci.org.in/what-we-do/upi/product-statistics>

### 8.3.3 Financial Inclusion and Consumer Protection

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered responsibly and sustainably. Financial access facilitates day-to-day living and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As account holders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives. The COVID-19 emergency has moreover strengthened the requirement for expanded computerized budgetary consideration. Computerized budgetary incorporation includes the arrangement of the cost-saving advanced implies to reach as of now fiscally prohibited and underserved consumers with a spread of formal money-related administrations suited to their needs that are mindfully conveyed at a fetched way realistic to clients and sustainable for suppliers.

#### Consumer protection:

Financial inclusion upgrades the monetary framework of the nation comprehensively. It fortifies the accessibility of financial assets. Most vitally, it toughens the concept of investment funds among destitute consumers

living in both urban and rural areas. This way, it contributes towards the advance of the economy reliably. Numerous destitute consumers tend to be cheated and some of the time indeed misused by wealthy landowners as well as unlicensed moneylenders due to the defenseless condition of the destitute individuals. With the assistance of budgetary incorporation, this genuine and dangerous circumstance can be changed. Money-related consideration locks in counting destitute consumers within the formal keeping money industry with the deliberate of securing their negligible funds for future purposes. There are numerous family units with individual consumers who are farmers or artisans who don't have appropriate offices to spare the cash that they gain after putting in so much exertion.

**End of the chapter questions:**

1. Write in brief about importance of financial planning
2. Differentiate public finance and private finance
3. Identify the important decisions involved in family finance management
4. List the techniques for managing debt effectively
5. Significance of credit and credit cards to manage debts in consumer life
6. Importance of insurance to mitigate risk
7. Significance of credit score for applying credit card
8. Identify the first credit information company in India and its scoring for issuing credit cards
9. Enlist popular credit rating agencies in India
10. Factors responsible for Digital payment system in India
11. Benefits and risks of digital payment
12. Write in brief about financial inclusion and consumer protection

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