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Research Article

Fostering Financial Resilience: A Pathway Through Financial Wellness

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ARTICLE INFO **ABSTRACT**

This research paper looks into the critical concept of financial resilience and its implications for individuals and households in the face of economic uncertainty. With the global financial landscape marked by increasing volatility, the ability of individuals to withstand and recover from financial shocks has become a paramount concern. The study employs a comprehensive empirical approach, drawing on extensive survey data and financial indicators to explore the factors influencing financial resilience. The research identifies key determinants of financial resilience, including income stability, savings behavior, and access to financial resources. It also examines the role of financial literacy and behavioral factors in shaping individuals' responses to economic challenges. By analyzing data from diverse demographic groups and economic backgrounds, the study aims to provide detailed insights into the differential impact of economic stressors on various segments of the population. Furthermore, the paper investigates the effectiveness of various financial coping mechanisms and protective strategies employed by individuals to enhance their financial resilience. Insights derived from this research can inform policymakers, financial institutions, and individuals alike on the design and implementation of targeted interventions to bolster financial resilience in times of economic turbulence. The findings contribute to the growing body of literature on financial well-being and offer practical implications for developing strategies to enhance individual and household financial resilience, ultimately fostering economic stability at both the micro and macro levels.

Keywords: Responsible Finance, Behavioral Finance, Financial Health, Personal Finance, Finance.

Introduction

The COVID-19 pandemic situation negatively impacted personal finances; job conditions and employee-employer relations are changing dramatically, forcing an individual to make financial decisions on their own; financial services are undergoing a rapid change, and the component of digitalization has added a new chapter in the financial dealings, leading to enormous access to the financial services. All these situations are leading to extensive research in the area of personal finance thriving for continuous improvement in the economic condition of an individual. The reports published by the Organization of Economic Cooperation and Development (OECD) also highlighted the worrying trends in managing personal finances.

Personal financial decisions and money management have been highly valued in the present economic scenario (Sinha et al. 2021). Personal finance and management are crucial for one's financial wellness. Inflationary and liquidity pressures, wrong buying behavior, and the impact of social factors on the same financial wellness of an individual.

The term financial inclusion is one of the key areas that can lead to financial wellness yet it is being used differently by the stakeholders of the financial system; the most commonly misunderstood concept is having only access to financial services limited to banking, but it is way more than this and only having this much of the understanding is not enough for the financial wellbeing or financial resilience. 71 percent of adults in developing economies have financial accounts, yet more work is to be done in the case of financial well-being.

Further, it is read that 55 percent of adults in developing economies are resilient to financial shocks, in that women and the poor are less likely than men and richer individuals to be resilient. (World Bank, 2022). It is notable here that more than two-thirds of adults are highly worried about one or more common sources of financial stress (Global Findex, 2021).
The literature explored observes that large numbers of individuals within many economies have limited ability to face financial challenges (Fazelina Sahul Hamid, et al, 2023). It can be seen from the financial data extracted from the official websites of the governments that large amounts of expenditures are being made on public goods, where individuals are less resilient, which in turn shows the positive relationship between individual resilience and economic prosperity.
The success of any financial system can be measured through the opportunities created by the system for attaining financial resilience. In turn, financial wellness is the result of financial resilience (Russel et. al, 2020). An individual may face uncertainties or financial shocks due to health issues, job loss, natural calamities, or some other reasons; financial resilience in this regard is the ability of an individual to cope up with these uncertainties or recover from these financial shocks.
Financial resilience and financial vulnerabilities are the two sides of the same coin (Jacobson, et. al, 2009). Building financial resilience starts by understanding the vulnerabilities that result from exposure to risk and lack of access to appropriate resources (Salignac et al. 2019) that can be correctly identified by the mixture of Figure 2.
Developing countries are greatly focusing on the inclusivity of an individual yet the gap can be observed due to less financial literacy, and right financial behavior, in the developing nations, because it is not only the inclusion but awareness, knowledge, skills, attitude, and financial behavior leading to financial resilience.
This research paper tries to examine and relate the multiple factors with financial resilience for one's financial well-being. The study also tries to correlate the accessibility of financial services, and financial literacy that to with financial resilience. To investigate into financial resilience, this paper considers Income, Savings, Expenditures, Investments, and Insurance as the independent variables and tries to find their association with the financial resilience leading to the financial well-being of an individual.
Definitions:
Financial well-being is a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and can make choices that allow them to enjoy life (CFPB 2018).
Financial wellness is the extent to which a person or family can smoothly manage their current and future obligations (UNSGSA 2021).
A planned state of safe, burden-free current and future financial dealings.
Financial resilience is the ability to withstand life events that impact one's income and/or assets (Barbara O'Neill, 2011).
Timely recovery from the financial stressors.
Avoiding and preparedness for financial vulnerabilities in the different phases of life.

Research Methodology

The main aim of this study is to assess the financial wellness of individuals on various parameters like, income groups, and other demographic classifications. To ascertain the level of understanding of financial well-being was also the objective undertaken for the study. Examining perceived parameters leading to financial well-being, and suggesting a feasible model that will help an individual in building a personalized model for reaching financial resilience.
To reach the results and conclusion, a mixed research method is followed by the researcher. A comprehensive desk study was conducted to explore the branch of study. The majority of the attributes are drawn from the research works carried out earlier. A structured questionnaire was floated among the different income class groups and their responses were recorded to find out the results. It is also the limitation that due to time constraints only 150 responses were collected and analysed. Previous studies referred for the conduct of this research established a relationship between financial literacy, financial knowledge, financial behavior, on financial decisions, etc. yet they failed to come up with a sound way through which financial resilience can be achieved through financial wellness.

Review of Literature

Many adults across the world are confused about rising costs, their expenses have risen creating an additional burden on their financial situations due to which individuals are losing their confidence in their future financial well-being, further, four out of ten adults consider personal finances are a major source of stress (Jennifer Benz, et. al. 2023). Insufficient emergency savings is one of the financial concerns negatively impacting individual health, women as compared to the men are highly worried about their finances, thirty out of 100 worry about this daily, Low-income and middle-aged generations are more likely to experience financial stress impacting the overall health of the individual (Rene Bennet, et. al. 2023). Financial stressor adversely impacts individual life. People fail to manage personal finances due to inadequate knowledge and education, guidance, lack of clear financial goals, spending more than income, creating a cushion for emergencies, emotional decisions, and lack of financial discipline (Mark Sweeney, 2023) are the key factors leading to financial stress. Avoidance, the reward for efforts, financial experiences, financial attitude, time preferences, and financial socialization efforts (Muzammil Khurshid et. al 2023) also impact personal finances.

People see others investing and follow them, the personal differences lead to failure in attaining desired results, also having only access to the services due to penetration of technology will not lead to financial resilience (H S Kakde et. al 2021, 2022). Responsible financial practices reduce the burden on regulatory bodies, increase trust in the financial system, and enable individuals to make informed financial decisions that promote financial well-being (H S Kakde et. al. 2023).

Lack of financial resilience in the same connection does not just affect the households but the economy at large (Fazelina Sahul Hamid et. al 2023) but focusing on individual ability in managing personal finances is not sufficient as it considers context, structure, and support, economic resources, financial products, and services and the reliance on internal and external resources leading to financial resilience (Salignac et al 2019, Goyal et. al. 2021).

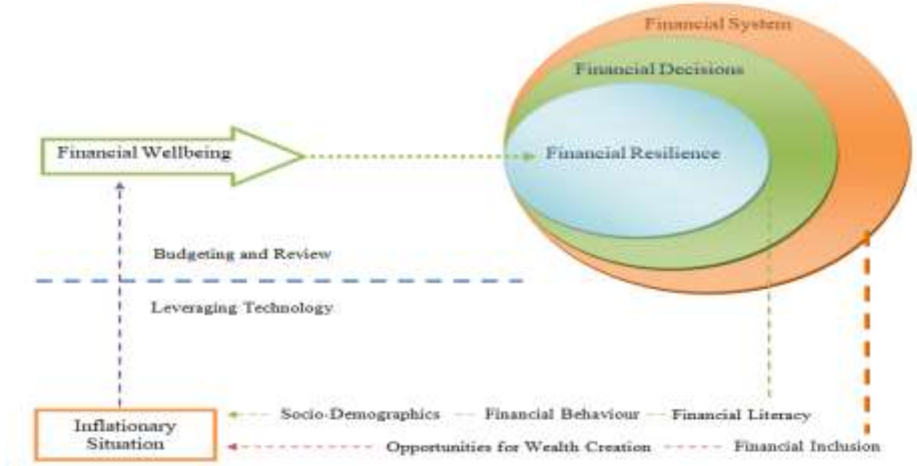
Financial resilience incorporates control of money, taking care of expenditures, having a financial cushion, handling financial shortfalls and stress, and having financial planning and conceptualized areas of financial resilience (OECD 2020a, 2020b). Maintaining financial resilience is at the heart of financial services regulation (Michelle Adcock et. al 2023) that we can link to the financial system at large. Further, weak financial institutions, inadequate regulation and supervision, and lack of transparency led to the financial crisis; the financial system at large provides a framework to conduct economic transactions, and ways to channelizing savings and investments and economic growth; a sound financial system leads to financial stability (IMF 2023) which in turn helps an individual in attaining resilience through a formal mechanism.

Along with the financial system, literature depicts that lacking to access the financial tools, risk-mitigating practices, and serving through financial products reduces financial vulnerabilities (Angela C Lyons 2020), which is the result of being financially included, which in turn conceptualized as a first pillar for financial decision. Financial literacy can be considered as a pillar leading to sound financial decisions. A strong relationship between financial literacy and financial behavior can be seen (Fernandes et. al 2019), it is the need for an individual to possess the knowledge and skills to be able to apply one's knowledge to make well-informed financial decisions and develop sound financial practices (Angela C Lyons 2020). Financial decisions are greatly impacted by the behavior of an individual, resilience-building financial behavior focuses on saving behavior and investment behavior, expressed in the variable money management behavior, individual's positive behavior can serve as a shield against overspending and personal debt, which includes savings, spending, budgeting, and investing (Sri Mangesti Ralayu et. al 2023). With this, socio-demographic variables like gender, education level specialization, skills and knowledge, and consumption spending, impact financial literacy (Vera Intanie Dewi 2022) and so financial wellness.

Preparing and staying within the budget is one of the key indicators of financial well-being (Rivest, Nicole 2018). Technology usage leads to lower the burden of tedious processes, and enhances the key indicators of financial wellness; investment and budgeting also become easy with the leveraging the technology (H S Kakde et. al. 2020).

The overall review suggests that a conceptualized model may fit an individual for managing their own finances; financial advisors in choosing the perfect plan for the client, personalized AI tool can be developed with a conceptualized model, also which will enable the policymakers to bring stability in the financial system, hence the overall financial resilience.

Figure 1. Conceptual Framework of the Paper – Way to Financial Resilience



Financial resilience is the robust outcome of a dynamic financial system that fosters inclusivity and creates opportunities for individuals. Rooted in accessibility and availability, financial inclusion ensures that a broader population can access essential financial services, contributing to their overall economic well-being.
At the core of financial resilience are the decisions individuals make, shaped by their level of financial literacy, behavioral patterns, and socio-demographic influences. Effectively navigating an inflationary environment requires informed financial choices, and leveraging technology becomes instrumental in enhancing financial processes.
The proactive practice of budgeting and regular reviews further strengthens financial foundations. As individuals actively engage in managing their financial resources through these practices, they pave the way for sustained financial well-being. The synergy of a well-functioning financial system, inclusive opportunities, informed decisions, technological advancements, and diligent financial management collectively fosters financial resilience. This holistic approach equips individuals to withstand economic challenges, adapt to evolving circumstances, and ultimately thrive in their financial journey.

Results and Discussions

The question about understanding financial wellness was asked to the respondents, it was found that the perceived meaning of financial wellness varies from respondent to respondent based on the demographics, age groups, financial experiences, and education levels. Respondents pursuing their graduation understood financial wellness as the ability to meet the expenditure. Respondents pursuing their post-graduation considered financial wellness as stress-free financial dealings. Working-class respondents consider financial wellness as the ability to meet financial obligations. In the opinion of investors financial wellness is achieved when you don't chase the money but money works for you. Respondents were also of the opinion that lagging financial wellness leads to the selection of such types of jobs that may not give you satisfaction out of it. When an individual attains financial wellness, he/she need not worry continuously about the income or means through which the financial obligations are to be met.
The respondents with sound income levels believed that financial wellness is when they need not worry about the prices of the commodity they intend to buy.
With the empirical analysis, it was found that the degree of financial resilience differs significantly depending on age, gender, race/ethnicity, and educational level. Personal finances are impacted by economic downturns mostly because of a reduction in income and work hours. The findings of our study indicate that certain subgroups had distinct patterns of employment and income during and following the COVID-19 situation.
Being financially included is the primary concern for being financially resilient. Financial inclusion is very less understood by respondents, 'having access to the bank account only is misunderstood with financial inclusion. Data further shows that in the total inclusion concept, the female respondents are still vulnerable in this regard. Over 75% of Indian adults do not fully comprehend basic financial concepts, according to an S&P survey. For women, it's considerably worse. Over 80% of women lack basic financial literacy. Because of this, millions of Indians make horrible financial decisions, which have devastating implications for those who suffer the most as well as driving away other people who could otherwise use financial products and services. Therefore, a focus on financial education is crucial to giving financial inclusion greater significance and facilitating citizens' access to economic well-being. Out of the data collected from the respondents it was found that 47% of the respondent's financial behavior was not sound. A few of them consider money to be spent completely, the reason put forth by them was that, they love spending rather than holding it for the long run. Due to the lack of financial knowledge and the lenient tendency of the respondents towards exploring personal finances the behavior of the respondents was found to be inadequate to reach the financial wellness and resilience ultimately.
75% of the respondents failed to answer the questions related to budgeting. Out of all the respondents 36% of respondents even not considered budgeting in managing their finances, to simply put they were even not bothered about personal finances. 12% of the respondents were found to be using technological tools for their financial management.
The model proposes that by following certain processes an individual can reach financial resilience. With a systematic review, the researchers have identified the following attributes, combining them followed by the form of a flowchart an individual may arrive at financial resilience.

Table 1. Economic Trend-Specific Database

Sr. No.	Attributes	Database
1	Educational Standards	Economic Trend-Specific Database
2	Health Infrastructure	
3	Political Stability	
4	Sector Analysis	
5	Inflationary Situations	

Concerning Figure 1, to reach the financial resilient state, the researchers have identified certain attributes, clubbing these attributes altogether the domain-specific databases will be created and fed into the system, which will be reviewed from time to time for the real-time personalized financial plans. Table 1 clubs economic standards which mean the state of economic affairs of a nation. Health infrastructure measures the life expectancy and trust in the healthcare practices of the nation along with the macro planning of the nation. Political stability is crucial for investment decisions, concerning the investments researcher has identified ten sectors that can be put together for the selection of investment avenues, finally, inflationary situations have to be considered to ensure healthy returns on the investment keeping the value of money at par even better off.

Table 2. Financial Product/Services Specific Database

Sr. No.	Attributes	Database
1	Financial Regulations	Financial Product/Services Specific Database
2	Ease of access to financial products/services	
3	Dissemination of information	
4	Opportunities for wealth creation	

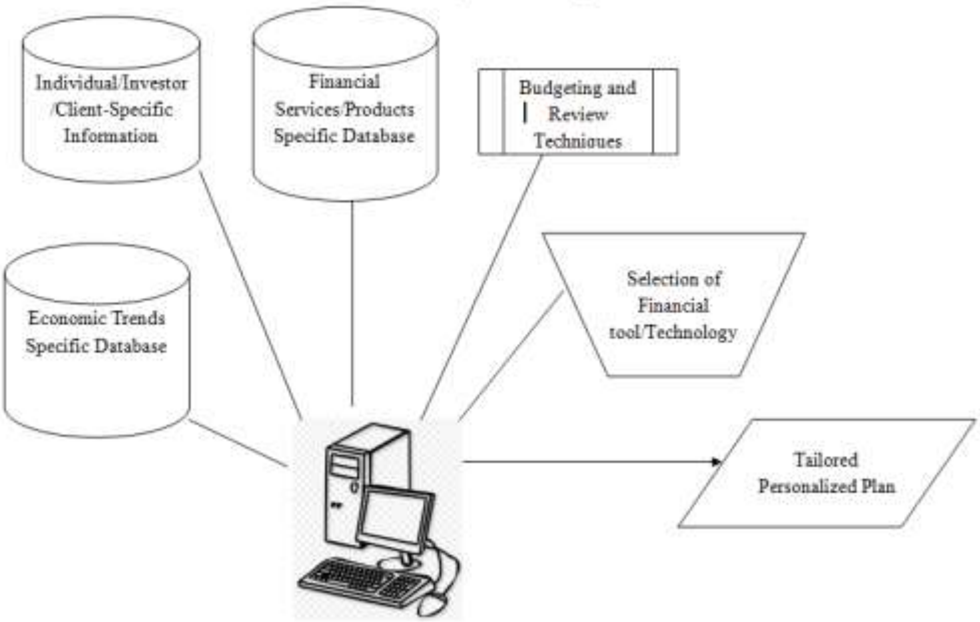
The second database that will be created is a financial product/Services-specific database, which will incorporate information on financial regulations, Ease of access to the product/services, information on the financial affairs, and opportunities that are being created by the financial system for wealth creation, clubbing all together the database will be created and fed into the system.

Table 3. Investor-Specific Information Database

Sr. No.	Attributes	Database
1	Financial Literacy	Investor-Specific Information Database
2	Financial Behaviour	
3	Socio-Demographics	
4	Financial Attitude	

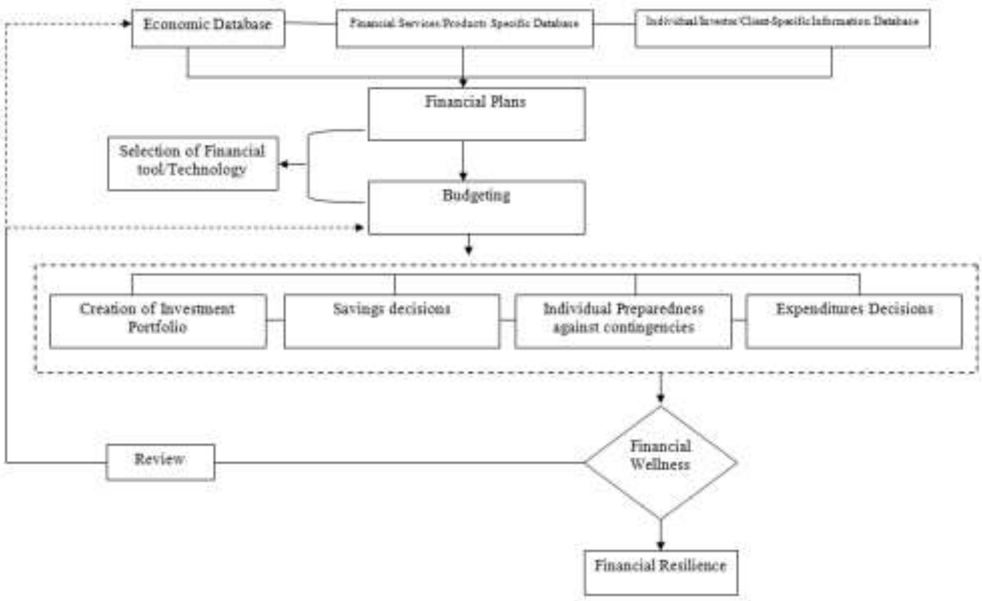
Table 3 is specific to an investor, this database shall assess the financial literacy of an individual, his/her behavior, socio-demographics, and financial attitude. These are attributes that make the investment process very specific.
Based on the attributes finalized following technical specifications can be derived: the process lays down the methodology for the personalized financial plan to help reach a financially resilient state for an individual

Fig. 2 Technical Specifications of the Process



This process can be better understood with the following flowchart:

Fig. 4 Technical aspects of the process model



This process lays down how an individual can reach the financially resilient stage.

Conclusion

To sum it up, this research paper looks at how people can bounce back when they face money problems, especially during uncertain economic times. We studied lots of data to figure out what helps people stay financially strong, like having a steady income, saving money, and having access to financial help when needed. We also looked at how knowing about money and our behaviors can affect how we handle tough times.

We found out that different people are affected differently by money troubles, and we also looked at what tricks people use to stay financially secure.

Our findings can help governments, banks, and people themselves make better plans to stay strong financially when times get tough. This research adds to what we already know about money and offers some real-life ways to help people and families stay financially stable, even when things are uncertain.

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