



Financial Literacy in India

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Abstract

The financial system of a country plays a key role in economic development. Since independence Indian leaders are aiming to eradicate poverty and turn India into vibrant, self-reliant global economy and embedded financial literacy needs in every citizen's life. India is traditionally a country of enthusiastic savers. Indians are suffering from financial diseases like under insurance, debt trap, insufficient retirement fund and low return on investment due to low financial literacy. Financial literacy has secured a vital role in the recent scenario due to many reasons viz. development of the new financial products, complexity of the financial markets, information asymmetry and the changes in the other economic factors in the economy. To understand, explore and to make use of the sophisticated financial products in the emerging financial markets, there is a need for every individual to have an adequate level of financial literacy in India. The level of financial literacy in India is very low (24 percent) as compared to BRICS Nations (28 percent) and European Nations (52 percent) in the year 2017. Lack of financial literacy leads to the ill-informed financial decisions and these decisions in turn, have tremendous negative impact on the financial system as a whole. The present study aims to study the need and significance for financial literacy and also throws light on channels to improve and to analyze the various initiatives taken by Government (Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority) to improve the level of financial literacy in India. Further, the present status of financial literacy in India has also been studied. Some suggestions have been made to strengthen up the financial literacy which will lead to the overall growth of the economy.

Keywords: financial literacy, initiatives, financial markets, financial products, financial system

Introduction

The term financial literacy has evolved over the years and has become a focus area for researchers and policymakers across the world. Financial Literacy has gained importance with the development of a variety of financial products, drastic changes in other economic factors, amplified complications of the markets, information overload etc. The dream of making India a cashless and digital economy cannot be fulfilled without making the people financially educated. Due to rapid growth in Indian economy over the last decade and expansion of financial markets through liberalization, privatization and globalization have given a way to overabundance of financial products in both banking, investment and loan products. The term financial literacy has evolved over the years and has become a focus area for researchers and policymakers across the world. Financial Literacy has gained importance with the development of a variety of financial products, drastic changes in other economic factors, amplified complications of the markets, information overload etc. The dream of making India a cashless and digital economy cannot be fulfilled without making the people financially educated. Low level of financial literacy thwarts individuals from creating veracious choices of financial decision. It affects the awareness regarding financial products as well as investment preferences towards financial products. Financial literacy is a way by which individuals can enhance their understanding about the financial concepts, markets, and products to take effective action to improve overall well-being and avoid distress in financial matters thus

improve their financial status. Organization for Economic Co-operation and Development (OECD) defined financial literacy as "the process by which financial Consumers/investors improve their understanding about the financial products, concepts, risk and through information, instructions 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 the help, and to take other effective actions to improve their financial well-being". Thus Financial Literacy is differentiated among the various products and services available in the financial system and beating the inflation and thereby earning the positive returns. It is not only concerned with making investments in stock markets and financial markets but also about saving, budgeting, financial planning, basics of banking and most importantly about being "Financially Smart".

Review of Literature

Kamal Gupta *et al.* (2014) [6], assessed the level of financial literacy amongst 87 micro Entrepreneurs of Kangra district of Himalaya Pradesh based on record keeping, various institutional awareness, savings, investment plans, savings management and various loan products. It is found that most of respondents are responsive of bank loans, less awareness about other financial institutions. Overall possess low financial skills which reflected in deficient record keeping, poor cash management, improper savings habits, less awareness on financial products. Research suggested that to

create more awareness and financial alternatives for well-being of micro Entrepreneurs. Lavanya Rekha Bahadur (2015)^[7], analysed two pillar of the economy: financial literacy and financial inclusion and its current scenario as well as common people perspective about financial instruments. Data collected from 200 Mumbai and thane district individuals. It is found that level of financial literacy is very low and suggested to encourage financial literacy from school level, national level programs and seep effort to the grass root level. K N Narendra (2014)^[8], discussed the role of Financial Planner in the era of overloaded information. Study suggested that the persistent and prolonged efforts by all stake holders to educate and bring down revolution in India. Sumit Agarwal *et al.* (2010)^[9], examined investment behavior, liability choice, risk tolerance and insurance usage of 1,694 Hyderabad respondents who are interested in personal finance. Data for analysis provided by Investment Yogi Financial Advisory Services. Majority of respondents are financially literate they answered the numeracy, inflation and diversification questions correctly. Study found that majority of males with higher education level and aggressive investors are more literate than females and less educated. Ratna Achuta Paluri (2016)^[10], analysed factors influencing financial attitudes of Indian women to classify Indian women based on attitude with 9 variables: anxiety, interest in financial issues, intuitive decisions, precautionary savings, free spending, materialistic and fatalistic attitude, propensity to plan for long and short term financial goals.

Thus financial literacy is a very broad term, it not only includes the mere knowledge of various financial products but it also includes monitoring and efficiently utilizing one's resources for economic well-being and welfare of an individual and his/her family. The OECD1 (March 2015) defined financial literacy as "A combination of awareness, acquaintance, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being individuals the end they pay unnecessary charges. The problem of lack of financial literacy is not only with developing countries but also with developed countries. Today individuals are not able to gulp financial principles easily and thus are not able to manage financial risks related effectively and suffer from financial downfalls. Financial literacy is better decision making and is also related with better planning of retirement and gradual wealth accumulation. Even it is more worrisome that many individuals believe that they are adequately financially literate but sadly they are not today don't have knowledge of various financial products

Objectives

- i) To study the need and requirement of financial literacy in today's era.
- ii) To identify the channels through which financial literacy can be imparted to the masses
- iii) To assess the role of regulatory bodies and to study the impact of various steps taken by them.

Research Methodology

The nature of study carried out here is necessarily exploratory/descriptive and qualitative in nature. It is based on extensive use of secondary data. The secondary data used in

the study has been sourced from various leading journals, websites and other major published sources in public domain.

Need and requirement of Financial Literacy

- **For financial inclusion and inclusive growth:** Financial literacy and financial inclusion are twin pillars where financial inclusion act as supply side of providing financial services and financial literacy act as demand side making people acquainted that what they should buy. As the main motto of financial inclusion is to provide access to financial services to the masses at an affordable cost, so it is imminent that the masses be financial literate to avail much benefits and augment the process of inclusive growth. Financial inclusion mainly aims at providing the basic financial services and also the ancillary financial services like insurance, mutual funds etc, which can only be done by making improving financial literacy.
- **For improvements in Knowledge and skill:** As we have seen in this competitive era there exist wide range of various financial products and services, so it becomes very difficult for investors to choose what suits him best. Sometimes he/she gets misguided and is not able to make appropriate choices. So here financial literacy plays crucial role in imparting knowledge to investor so that he can make informed choices. So financial literacy develops a skill set among individuals which develops confidence to manage their personal finances and handle unforeseen contingencies more wisely.
- **Freedom from vicious circle:** Financial literacy will create awareness among individuals regarding various financial tools. This will help them to save themselves from vicious trap of moneylenders who charge them high interest rates. Financial literacy will help them to overcome such serious issues by making aware of various facilities and government schemes available to them.
- **Over indebtedness will be reduced:** Financial literacy helps individual to make informed and wise financial decisions so by this over indebtedness will decrease and quality of services will also be improved. They are now overburdened with high debts and knowledge of financial tools will help them to do better financial planning.
- **Empowers Entrepreneurship:** Financial literacy promotes entrepreneurship and helps to be a small entrepreneur to generate business, as it gives knowledge and also develops skills in an individual. It helps in effective understanding of finance and making effective decisions for business. It is dire need of the hour to improve financial literacy especially in business sector.
- **Multiplier positive effects:** Financial education can initiate a plethora of effects in a countries' economy. A financially literate family has knowledge of various financial products so they will promote savings and even channelize these savings into investments ultimately leading to welfare of society.
- **Change in behavior:** The knowledge of financial products acts an agent to do the behavioral change in an individual. Various campaigns, programs and other initiatives will lead to behavioral changes and improved financial items.
- **Extreme penetration in Financial Markets:** In India, there is a need to channelize savings and covert savers into

investors that can only be done through financial literacy. Basic savings, mortgage and investments options demands financial literacy. So if financial literacy increases participation in financial markets will also increase leading to paramount success of economy

Financial Literacy in India

The level of financial literacy varies across globe due to variations in the socio-demographic variables like age, sex, religion, education level. The level of financial literacy among different nations in the year 2015 is shown in Figure 1

The state-wise and union-territories wise level of financial literacy in India in the year 2015 is shown in Table 1 and 2.

Table 1: State-wise level of Financial Literacy in India (2015)

Name of the State	General Literacy (in Percentage)	Financial Literacy (in Percentage)
Andhra Pradesh	60	23
Arunachal Pradesh	55	10
Assam	61	20
Bihar	50	8
Chhattisgarh	60	4
Goa	80	50
Gujarat	68	83
Harayana	65	21
Himachal Pradesh	73	16
Jharkhand	56	15
Karnataka	67	25
Kerala	84	36
Madhya Pradesh	59	23
Maharashtra	73	17
Manipur	69	36
Meghalaya	60	24
Mizoram	77	6
Nagaland	68	8
Odisha	64	9
Punjab	67	13
Rajasthan	56	20
Sikkim	73	8
Tamil Nadu	72	22
Tripura	67	21
Uttar Pradesh	57	10
Uttarakhand	68	23
West Bengal	67	21

Source: Data Compiled from the National Centre for Financial Education Report, 2015

Table 1 show that Kerala being the highly literate state in India, has the second highest level of financial literacy i.e. 36 percent. States like Goa, Manipur and Gujarat stands the highest level of financial literacy at 50 percent, 36 percent, 33 percent respectively, which is still considered very low. Whereas states like Chhatisgarh, Mizoram, Bihar, Nagaland, Sikkim, Odisha, Arunachal Pradesh, Uttar Pradesh, Punjab, Jharkhand, Himachal Pradesh Maharashtra has the lowest level of financial literacy i.e. below 20 percent.

Table 2: Union -Territories wise level of Financial Literacy in 2015

Name of the Union Territory	General Literacy (in Percentage)	Level of Financial Literacy (in Percentage)
Andaman and Nicobar Island	82.43	14
Chandigarh	81.19	38
Daman And Dui	79.55	29
Dadra And Nagar Haveli	64.32	31
Delhi	80.76	32
Puducherry	80.67	21
Lakshwadeep	87.95	22

Source: Data Compiled from the National Centre for Financial Education Report

Table 2 shows the level of financial literacy among Union-Territories in India. Chandigarh has the highest level of financial literacy with the 38 percent followed by Delhi, Dadra and Nagar Haveli with 32 percent and 31 percent respectively. Whereas Andaman and Nicobar Island shows the lowest level of financial literacy.

Channels through which financial education can be imparted

- **Media Marketing:** Various Government ministries are targeting multiple forms of media to spread the words of financial education. Many financial literacy campaigns are on its way through all forms of media available today in the country. Government of India is in the process of integrating financial awareness messages and messages of general social and economic concerns. Particularly the mode of Social Media Marketing has seen great awareness campaigns in present times which are guiding masses through various forums and activities. Major Media marketing sources include Newspapers, Radio, TV, Financial education websites, Books and magazines (through cartoon mode), and use of social networking sites like twitter, face book etc.
- **Adult Education:** Adult education should be an integral part of financial education. National financial educational council has designed adult personal finance curriculum which is practical and provides hands on learning. These programs are designed to fulfill variety of financial goals for adults like debt mitigation, investment planning, residential house planning, retirement planning, financial recovery, insurance etc. Overall, the main motto is to impart practical financial education to majority of adults across the country.
- **Self Help Groups and Microcredit Institutions:** According to RBI Self Help Groups are registered or unregistered group of people having homogeneity in socioeconomic background that join hands together to contribute regular savings to a common fund and meet their emergency needs on mutual help basis. In India, SHGs are related to various banks so that they can deliver micro-credit to poor women. Micro-credit refers to small

loans that is given to individual who don't have collateral to meet their immediate credit needs which are short term in nature. With various initiatives of central and state Governments, the National Bank for Agriculture and Rural Development (NABARD), is lending the financial assistance for rural women of India. This kind of initiatives expected to reduce gender inequalities and also growth of marginalized sections of the country. Self Help Groups have successfully contributed in enhancing financial literacy as SHGs provide financial exposure by collecting, investing, spending, accounting and managing common funds. They have learned the art of smart budgeting.

- **Microfinance Institutions:** Micro finance is a source for having easy access to financial services and banking related matters. Micro financial institutions create awareness in an individual and grant loans with effective interest rates not like moneylenders who charge exorbitant charges on loan.
- **Integrated communication channels:** Various communication channels like internet, TV, Radio, Print and should be used efficiently in spreading financial knowledge. There is a need to link all campaigns and promotional activities carried out by various ministries to synchronize their activities in such a way that message reaches to the masses.
- **Helpline:** There is a need to establish toll free helpline communication centers which are able to disseminate help in multiple languages, where an individual can contact and get friendly assistance for all finance related issues. This will help them to know where they are lacking and where they to go to solve the query. This helpline mode will educate them by giving them various alternatives of doing things. Helpline desk can bring vital change in society and so forth in financial education.
- **Other Channels:** There are various other channels through which financial education can be imparted are: Registered/Unregistered Associations of consumers, Investors' Associations, Association/Bodies of Policy Holders, Deposit holders' association, Stock Exchanges, AMFI, ANMI and SROs associated with regulators. Financial intermediaries like banks, DPs, brokers, portfolio fund managers; annuity service providers etc. can play important part in making a person financially literate. Consumers / clients / investors need to be made aware of their rights and responsibilities.

Efforts taken by various Regulatory bodies in improving financial literacy

- **Financial Education initiatives by Reserve Bank of India:** Reserve Bank of India has initiated a project titled as "Project Financial Literacy". The objectives of this project were divided into three parts: Role of RBI as reserve bank and how it is linked to common person. It is related to banking i.e. why one should save in banks, what are different types of accounts, how can they take loan and consumer rights and redressal. Finance: that how you can take care of money for a better future. Their target audience was rural people, urban poor, children, students, women, senior citizen. Various other initiatives were taken such as RBI website will be multilingual i.e. it will be

available in 13 languages for common person, multilingual reading material will be made available in the form of comics, educational games, skits, films and also financial literacy centers will opened to improve financial literacy.

- **SEBI's Initiatives on Financial Education:** "Securities Exchange Board of India has constituted "Sanchayan" which is an investor' association to conduct financial literacy programs. SEBI is conducting programs at pan India level to promote financial education through multiple programs, campaigns, activities etc to impart knowledge to school students, college students, employed executives, SHGs, retired personnel, working professionals etc. SEBI has created a panel of various Resource Persons throughout India. These Resource Persons imparts training on various aspects of finance and equips people with the knowledge of financial markets, modus operandi, risks associated, right issues etc. These SEBI Certified Resource Persons organize timely workshops to target intended audience and teach them nuances of savings, investment, financial planning, banking, insurance, retirement planning etc.
- **IRDA'S Initiatives on Financial Education:** Insurance Regulatory and Development Authority (IRDA)⁴ is also making serious efforts to enhance the levels of financial literacy in India. Some of them are:
 - **Programs on awareness:** Mainly through TV and Radio many campaigns are operational. Huge chunks of financial information have been decoded concerning the rights and duties of policyholders. Available channels and help lines which are available for customer grievance redressal are being popularized through various media platforms in more than 11 languages
 - **Annual Seminars:** Annually seminars are conducted by IRDA for policy holder protection and welfare. IRDA also sponsors various seminars partially on insurance with help of various insurance bodies.
 - **Pan Survey:** A pan India survey was conducted by IRDA to check awareness levels about insurance through the NCAER as a motto to work on strategies to improve and crating insurance awareness.
 - **Hand books and comics:** IRDA has come up with many fictional characters depicting real life investors featured in comic books and magazines. IRDA has also brought out many publications of "policyholder handbooks" which are proving tremendously fruitful to the investor communities. Launch of a fully dedicated website for investor education and consumer rights awareness etc.
 - **Integrated Grievance Management System (IGMS):** A central repository of grievances across the country was created on the name of Integrated Grievance Management System (IGMS) which provides for various data analysis to concerned insurance policy holder

Suggestions and Conclusion

Financial literacy is a way by which individuals can enhance their understanding about the financial concepts, markets, and products to take effective action to improve overall well-being and avoid distress in financial matters thus improve their financial status. The various initiatives have been undertaken by the government (Reserve Bank of India, Securities and

Exchange Board of India, Insurance Regulatory and Development Authority) to improve the level of financial literacy in India. However, the level of financial literacy is very poor in India. This level of literacy cannot accelerate the pace of financial inclusion which will further hamper the economic growth of the Indian economy. More capital infusion towards financial literacy workshops, seminars at the school, college, workplaces and the residential areas so as to boost up its effectiveness on the usage of financial products and services and thereby enhancing the financial system of the nation and it is also suggested that the awareness of all seminars, programmes, schemes, workshops and projects should be made among the target group to give the maximum benefit. Small activities on types and importance of the investment avenues should be undertaken at the various schools, colleges, offices and the local level to increase the practical knowledge of the financial aspects. Another need of the hour is to analyze the impact of such programmes from time to time through feedback.

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