



Financial literacy in India: Insights from national financial literacy and inclusion survey (NCFE-FLIS) 2019 report

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Abstract

The article tries to highlight the state of financial literacy (FL) in India from the National Financial Literacy and Inclusion Survey 2019 Report. The analysis of the report unfolds the poor level of FL amongst the people in India in general. Merely 27% of individuals were found to be financially literate in India and a major portion of Indian people were found financially illiterate. Socioeconomic and demographic factor-wise variation in FL was very much prominent in the survey data. Goa ranked first among the states in India in terms of FL, whereas Chhattisgarh stood least among the states in India in terms of FL. The average FL level of the people of the western part of India was found to be high compared to other parts of India. Males were found to be more financially literate than females. The FL of aged people was found to be low compared to younger. The financial literacy level of government employees was found to be high, whereas the average financial literacy level among agricultural labourers was found to be low. Education and income both have a positive effect on FL, this study found that financial literacy increases with higher levels of education and income.

Keywords: Financial literacy, national financial literacy and inclusion survey

Introduction

Financial decision-making has become extremely difficult in the current situation due to the availability of various financial products and the increased volatility of the global economy (Goyal and Kumar, 2020). Due to this complexity, customers often face difficulties in making financial and economic decisions. In addition, the stability of the world economy has also deteriorated remarkably over the last decade, and the recession has resulted in rising prices, unemployment and above all reduction in income (Traft *et al.*, 2013). Such an adverse financial situation has posed serious challenges towards the quality of life and work, prompting academics to look at possible solutions. Financial literacy (FL) is considered a potential remedy to mitigate the challenges emanating from the complexity of the modern financial system (Lusardi *et al.*, 2014) ^[12]. FL is often considered an important life skill that is essential on a day-to-day basis. Extant scholarship clearly suggests that financially literate people can better manage their finances, save for emergencies, plan for their children's education, and plan for their post-retirement years (Goyal and Kumar, 2020) ^[7].

Various researchers, government, and non-government organizations are engaged in assessing the level of FL amongst individuals around the world. The level of FL in both developed and developing economies is observed to be poor in general (Klapper *et al.*, 2014). A very limited number of studies have found a high level of FL among respondents (Guiso and Viviano, 2015) ^[8]. For instance, Brown and Graf (2013) ^[4] noticed a high level of FL among the individuals in Switzerland. Similarly, Guiso and Viviano (2015) ^[8] observed a high level of FL among bank clients in Italy. No micro-empirical studies in the Indian context have been able to find a high level of FL. In this prelude, the present study attempts to highlight the insights on the FL amongst Indian citizens and from the National Financial Literacy and Inclusion Survey (NCFE-FLIS) of 2019 carried out by the National Centre for Financial Education (NCFE).

Objective of the study:

the objectives of the study were to unfold the level of FL amongst Indian individuals and observe various demographic and socioeconomic variables wise FL level amongst Indians, based on the NCFE report 2019.

Literature review

Several studies have highlighted significant disparities in financial literacy across various demographic groups in India. For instance, Agarwal *et al.* (2020) ^[1] observed that urban residents have a higher level of financial literacy than rural ones. Among the different occupational categories, government employees reveal greater financial literacy than agricultural labourers due to their source of knowledge and awareness (Sharma & Singh 2019) ^[20]. This two-tier challenge manifests itself as a gender issue too, where men generally have higher financial literacy than women. These reasons include differential access to education and resources (Bhushan & Medury, 2013) ^[3]. Furthermore, age is a determining factor, with younger individuals often showing lower financial literacy, potentially due to less exposure to financial responsibilities and decisions (Lusardi & Mitchell, 2011) ^[11]. Since education gives people the ability to think critically and understand finances, there is a substantial correlation between higher levels of education and better financial literacy (Garg & Singh, 2018) ^[6]. Furthermore, as people with more financial resources typically have more possibilities and motivations to participate in financial planning and investing activities, higher income levels are also linked to increased financial literacy (Chakrabarty, 2012) ^[5]. According to the study of Sinha and Gupta (2016) ^[21], those who have completed their higher education and hold high-paying positions are more likely to engage in sophisticated financial activities, such as investing in mutual funds, stocks etc. On the other hand, people with lower incomes and educational levels are more likely to be excluded from the financial system and to rely on informal financial systems. People's financial outcomes

and behaviours are greatly influenced by their level of financial literacy. People that are financially literate are more likely to follow sensible financial habits, such as budgeting, saving, and careful borrowing (Klapper *et al.*, 2015) [10]. Additionally, they frequently make better-informed investing choices, which improves their financial security and promotes financial well-being. On the other hand, insufficient financial literacy is linked to making unwise financial choices, like taking on excessive debt, not saving enough money, and not adequately investing for retirement. These actions can cause financial hardship and have wider effects on the stability and growth of the economy (Atkinson & Messy, 2012) [2].

Methodology

Data source

Data has been extracted from the NCFE report 2019 to fulfil the objectives of the study. NCFE is a not-for-profit company established in 2013 by the Reserve Bank of India, the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority of India and the Pension Fund Regulatory and Development Authority with the objective of promoting financial education around India. The socio-economic and demographic variation in FL is

also presented in this analysis. The analysis is based on the secondary data of 75140 samples from the NCFE-FLIS survey 2019 conducted in India.

Measurement of FL

The FL in this survey is measured using a set of 22 questions in line with the OECD toolkit for measuring FL. Out of these 22 questions, 5 were related to financial attitude, 8 were related to financial behavior and 9 were related to financial knowledge respectively. Respondents who have given correct responses to at least 3 financial attitude questions, 6 financial behavior questions and 6 financial knowledge questions were treated as financially literate, otherwise financially illiterate.

Data Analysis

Data from different demographic groups (e.g., by demographics, and socioeconomic status) were compared to identify disparities and patterns of FL amongst the people of India.

Findings of the Study

Region-wise FL in India

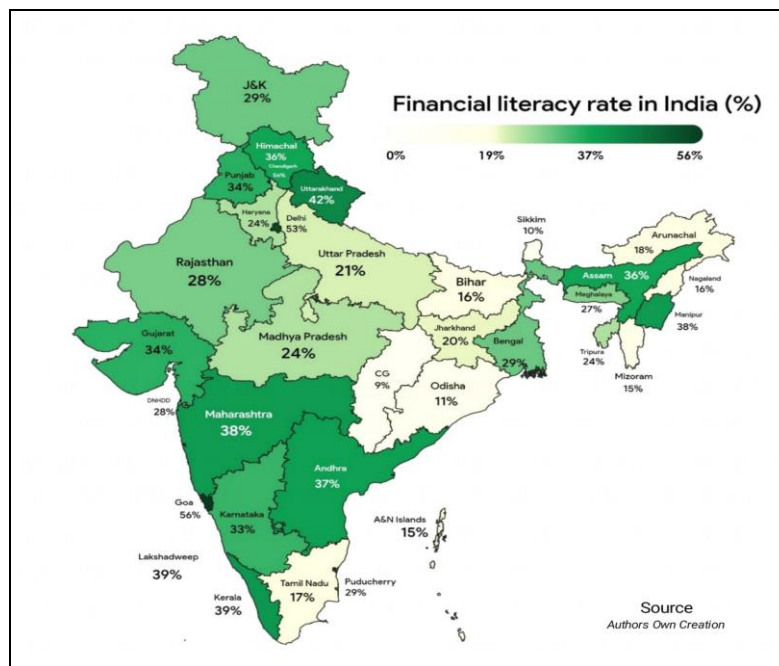


Fig1: Regional Disparity in FL

Various research studies have highlighted the prevalence of regional variation in FL within different economies (Monticone, 2010) [14]. The analysis of the NCFE-FLIS 2019 data also indicates the presence of regional disparities in the levels of FL across the India. In the Western part of India, 37% of the respondents were found to be financially literate followed by North-East part of India where 33% of the respondents were financially literate. FL rate of Eastern and Central regions of India was very poor with FL rates merely 20% and 21% respectively. 32% and 30% of the respondents belonging to Northern and Southern India were observed to be financially literate respectively.

State-wise data showed that the average FL level amongst the people of Goa is highest compared to other states of India. In Goa, 56% of people found financially literate. Delhi, the capital of India comes in second position in terms

of average FL level. 53% people of Delhi were found financially literate in this study. Goa and Delhi were the only two states in India where the average FL level amongst people was found more than 50% in this study. Uttarakhand the “land of the gods” comes in third position regarding the average level of FL. In Uttarakhand, 42% of people were found financially literate in this study. The average FL level of Himachal Pradesh, Punjab, Gujarat, Maharashtra, Andhra Pradesh, Karnataka, Lakshadweep, Kerala, Assam and Manipur lies between 30 to 40 percent, which seems better compared to the average FL of India. The average FL level of Jammu & Kashmir, Haryana, Rajasthan, Uttar Pradesh, Madhya Pradesh, Dadra and Nagar Haveli and Daman and Diu, Pondicherry, Jharkhand, West Bengal, Meghalaya and Tripura lies between 20 to 30 percent. The deplorable condition was found in the states of Bihar, Tamilnadu,

Odisha, Chhattisgarh, Arunachal Pradesh, Sikkim, Nagaland, Mizoram, Andaman and Nicobar Island, compared to the average FL level of India. The average FL level of this state lies below 20 percent, which is very worrying.

The general education level of India’s different parts is not equal, this unequal level of education can be attributed to the regional variation in FL of India. The average level of FL in the western part, southern part and north-east part was found much higher compared to other parts of India, similarly, the average general literacy rate is also high in this zone compared to other zones in India. This relationship justifies the role of education in improving FL.

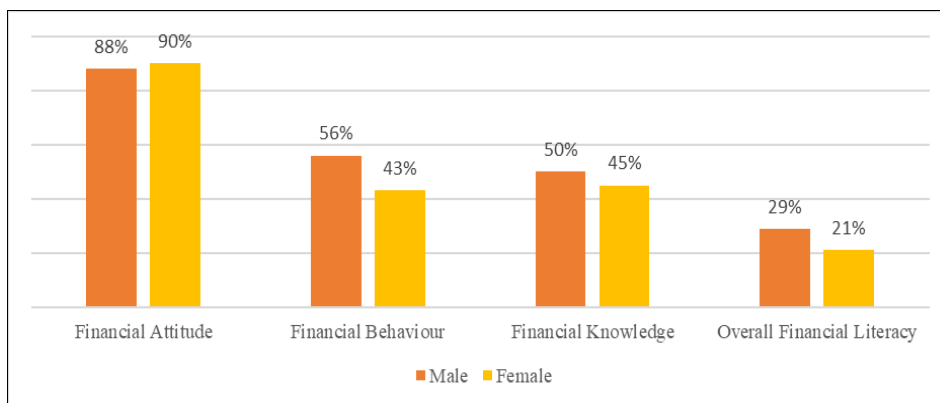
Rural-Urban Gap in FL in India

Rural-urban gap in various socio-economic parameters is very common. Such a divide in FL is also found to be

prominent in different parts of the globe. People living in urban areas possess relatively higher levels of FL than those living in rural areas which may be because of the prevalence of greater educational attainments, peer effect, greater social communication, abundance of financial information and greater financial inclusion etc. The analysis of the data of NCFE-FLIS 2019 indicates the same scenario in India, 33% of urban people were found as financially literate against only 24% of rural people.

To decrease this gap, it is crucial to take some customized steps based on the merits of the rural people. Moreover, policies should be based on the learning by doing method, so that rural people can accordance with the various financial concept, moreover financial products and service very easily.

Gender Gap in FL in India



Source: Author's own presentation

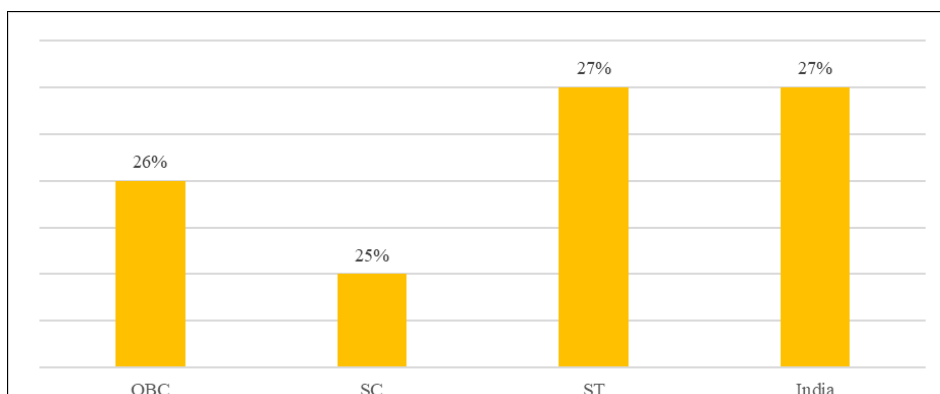
Fig 2: Gender wise FL in India

The gender gap in the level of FL is a common phenomenon around the world. Most of studies carried out throughout the world indicate the low level of FL amongst the women (Roy & Jain, 2018) [19]. Analysis of the NCFE-FLIS 2019 data reveals that 29% of males were found financially literate, whereas the FL rate of females was found only 21%. This is a matter of great concern as the gender disparity in the level of FL in India is much higher than the other developing countries in the world. From the assessment of Figure 2, it was found that the financial attitude of women is slightly better as compared to men but when it comes to financial behaviour and financial knowledge, women lag far behind their male counterparts. Gender roles and stereotypes,

educational gap, income disparity, confidence and cultural factors have been identified by the researchers as the key factors for low levels of FL amongst females.

Improvement of FL amongst women has an immense important for a household as well as society broadly. Various study showed that there has an impact of parents FL level on their children (). So women’s FL level is not only important for the current situation, but also for the future generation. Some customized policies should be taken by targeting the women specially housewives. Special financial awareness program should be run on continuous basis until the improving in FL amongst women.

Caste-wise FL in India



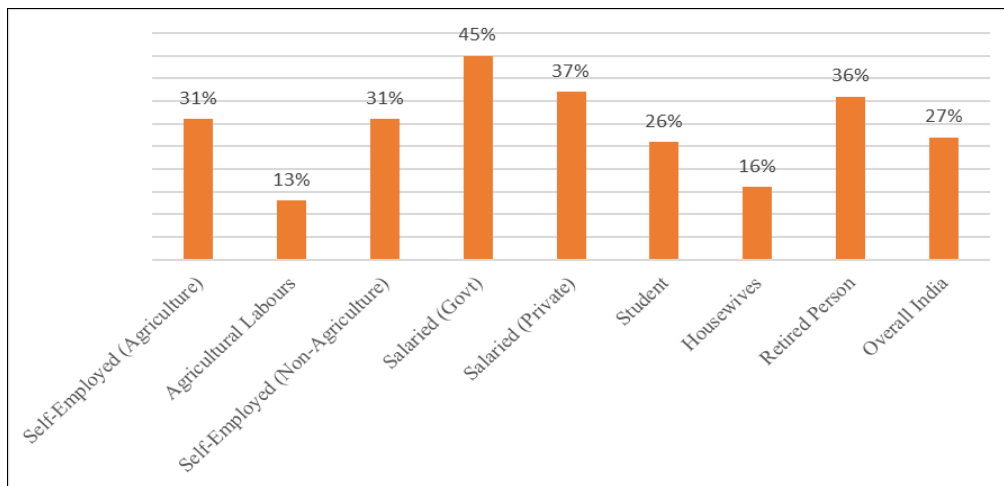
Source: Authors own presentation

Fig 3: Caste-wise FL

Caste-wise variation in the level of FL was not found to be stark as per the NCFE-FLIS 2019 data. As expected, the FL rate of the respondents belonging to the general caste was found to be comparatively higher than the respondents from other castes in India. People belonging to the ST community were noticed to outperform respondents from SC and OBC castes in terms of their FL. The FL of people belonging to OBC (26%) and SC (25%) was found to be lower than the all-India average of 27%. A long history of social stratification, caste-based discrimination and caste-based educational gap can be cited as the prominent reasons for the variation in FL among different castes in India.

India is home of various religions and most of the religions have more than one caste. Cast-wise observation of FL is important as different castes may have different social norms, values, and beliefs, which can have a contradictory view with general financial concepts and existing financial products and services. So cast-based deep analysis is important for the overall improvement in the level of FL otherwise, some cast may lag in the race of financial literacy.

Occupation-wise Variation in FL



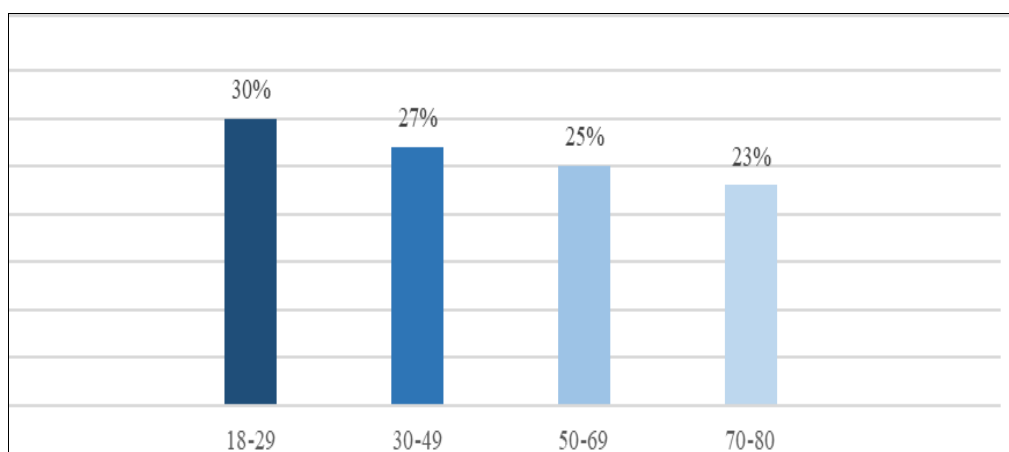
Source: Authors own presentation

Fig 4: Occupational Choice and FL

Occupation has been cited as a significant determinant of FL by various scholars across the globe. The analysis of the NCFE-FLIS 2019 data clearly indicates a significant variation in FL amongst the respondents pertaining to different types of occupations. The average FL level of salaried, self-employed and retired respondents was found relatively higher compared to housewives, students and agriculture labours, due to their educational advancement,

steady income, and access to financial services. FL of farmers and housewives was found to be in a very alarming situation in India. Lack of financial exposure, low level of income, and less use of financial products and services can be attributed to the low level of FL amongst them.

Age-wise Variation in FL



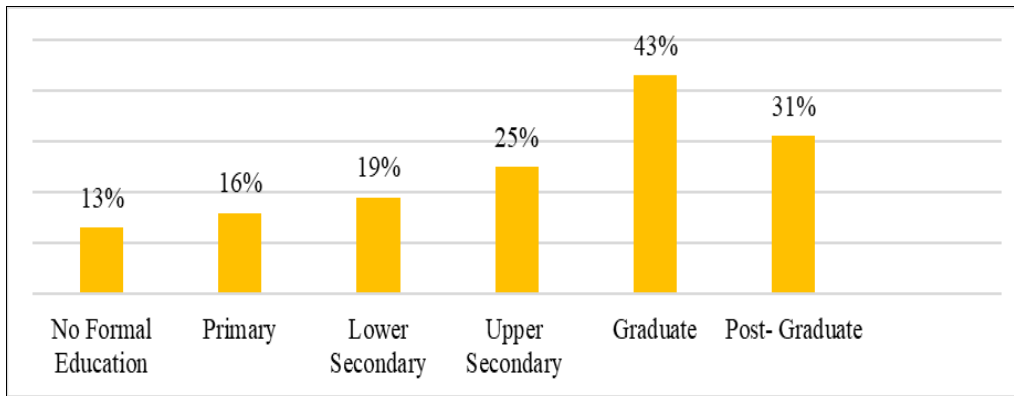
Source: Authors own representation

Fig 5: Age-wise Variation in FL

It is well established in the extant literature that age is considered to be the significant determinant of FL of individuals. Generally, a hump shape relationship is observed between age and the level of FL (Maji & Laha, 2022) [13]. Analysis of the NCFE-FLIS 2019 data depicts a

negative relation between age and FL which implies that as level of FL decreases when age increases. Morgan and Trinh (2019) [15] identified a low level of general education amongst older people in developing countries as a reason for the low level of FL.

Education-wise Variation in FL



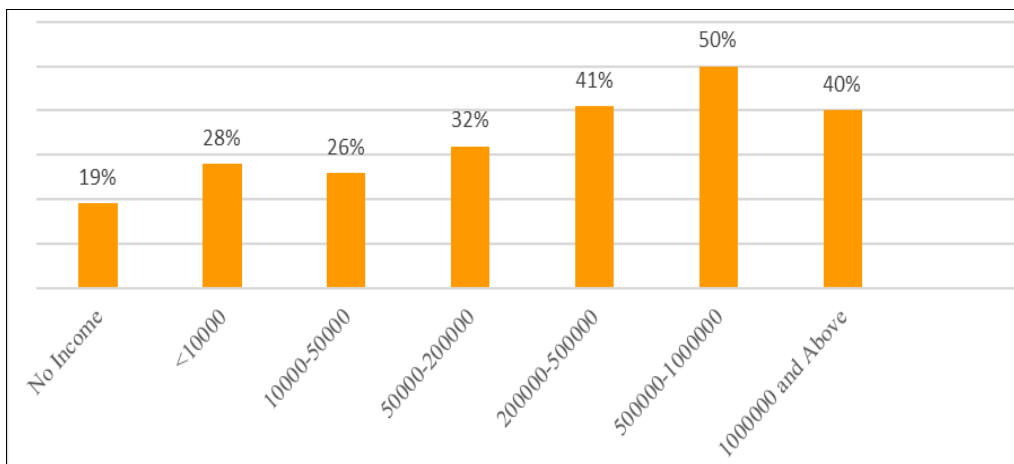
Source: Authors own representation

Fig 6: Education-wise Variation in FL

Educational attainment and level of FL are highly intertwined with each other. Education plays a pivotal role in improving FL by equipping people with the requisite knowledge and skills they need to make sound financial decisions. Several scholars have observed that the level of FL increases with the level of educational attainments. The analysis of Figure 6 projects a similar notion in respect of India. It can be observed that as the educational attainment increase the FL of the respondents in the pool of sample enhances. The highest level of FL was found amongst the Graduate students in India. Interestingly Post-Graduate

students were noticed to lag behind the graduate students in terms of FL in India which may be because of Post-graduate students generally immerse themselves deeply in specific areas of study and maintain focused attention on these specific areas for achieving specific goals of their career. If financial knowledge isn't directly related to their study, this deep focus may restrict their time and motivation to achieve a high level of FL.

Income-wise Variation in FL



Source: Authors own representation

Fig 7: Income-wise Variation in FL

Existing literature reveals that the level of income and the level of FL bear bidirectional causality. Financially literate people can increase their income level by making sound financial decisions (Potrich *et al.*, 2015) [16]. On the other hand, people with high-income levels prioritize the enhancement of their FL levels to improve their financial behaviour and to make effective financial decisions (Kharchenko, 2011) [9]. In this study, a non-linear relationship was found between the level of income and the level of FL. Figure 7 highlights that as the level of income increases, the level of FL also enhances except for respondents in the highest income strata. High net-worth individuals can outsource FL in the form of financial advices from financial experts and therefore their level of FL has emerged to be lesser than the immediately preceding income strata.

Conclusion and Policy Implications

The aim of this analysis was to assess the level of FL and unveiling the different demographic and socioeconomic dimension wise variation in the level of FL amongst Indians as per NCFE-FLIS 2019. The level of FL in India was found to be at a very poor level. Only 27% individuals were found to be financially literate in India. Socioeconomic and demographic factor wise variation in FL is very much prominent in the survey data. Gender wise, women were found lag behind compared to male respondents in terms of FL. Region wise the people represent from north-east, southern, and western part of India have shown higher level of FL compared to the respondents from other parts of India. Occupation-wise the average FL level of salaried, self-employed and retired respondents was found relatively higher compared to housewives, students and agriculture

labours. Government employees were one step ahead in terms of FL compared to others and the average FL of agricultural labours were the least amongst the respondents of several occupations. Age-wise, the FL level of younger respondents were high compared to the different age group of older people. The respondents within the age group of 18-29 were most financially literate. Area of living was also found an important determinant in this study. In terms of FL, the respondents belonging to urban area were ahead compared to the respondents belonging to the rural area. Cast-wise the respondents of the General cast showed a high level of FL compared to other cast in India. The respondents belonging to SC communities were lagging compared to other communities. In terms of educational qualification, the Graduates were the most financially literate amongst others. The respondents who have no formal education were the least in terms of FL in India. Individuals with no income have the lowest level of FL, while those with the highest incomes do not have the highest FL level.

The government of India have taken several steps to enhance the level of FL to a satisfactory level by establishing FL Centers (designed to impart financial education), formulating National Strategy for Financial Education, organizing digital FL campaigns, and creating NCFE (to execute the National Strategy for Financial Education). Despite the multiple efforts, the average level of FL in India has not been uplifted to a satisfactory level.

In this analysis, the level of financial knowledge and financial behaviour were found in alarming situations as compared to financial attitude. So, special emphasize should be given to improving financial behaviour and financial knowledge to ensure overall financial wellbeing. Furthermore, to improve FL in India it is important to include FL education in the school education curriculum and also undertake tailored FL initiatives.

Limitations and further scope of the study

While the NCFE Report 2019 provides comprehensive data, there are certain limitations to consider:

Temporal Scope: The data is limited to the year 2019, and may not reflect recent changes. **Geographic Focus:** The report primarily focuses on the national level, and may not capture regional variations in detail.

Religion focus: India is a home of different cultures and religions. However, there was no religion-wise data in this study for the comparison of religion-wise FL in India. Religion-wise comparison is very important in the Indian context as the financial attitude and behaviour of people belonging to different religions may vary significantly.

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