# Research Article

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### FINANCIAL LITERACY IN INDIA: AN OVERVIEW

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#### Abstract

*Access to finance, especially by the poor people, is an essential requisite for employment generation, poverty alleviation, economic growth and social upliftment. India is one of the fastest growing economies of the world. India has tremendous growth in financial sector. The major concern is that financial institutions have not able to include all sections of the population; especially rural household’s i.e. called financial exclusion. Even though there are people who desire the use of financial services, but are denied access to the same. In this scenario financial literacy becomes more important, as financial literacy improves financial inclusion among the rural people. Through this paper the author shows that the position of financial literacy in India. And need for financial literacy, suggestions to improve financial literacy. This paper exhibit that India has low level of financial literacy than other countries and Kerala hold second position among other states of India. This is a difficult problem. Financial illiteracy may prevent ability to save, invest and well being of the people.*

*Key words: - financial literacy, financial inclusion, financial exclusion financial stability, poverty and poor people*

### Introduction

Access to finance, especially by the poor, is an essential requisite for employment generation, poverty alleviation and social upliftment. As per the Human Development Report (2006) India has the largest poor in the world i.e. about 70-80 million families are poor, which is due to financial exclusion. Financial exclusion means ‘the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from main stream providers’. In this scenario, India has implemented a wide range of reforms as in the war against poverty, financial inclusion has emerged as a priority for policy makers of India. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by weaker sections and low income groups in the society at an affordable cost in a fair and transparent manner. As a nation

like India, with huge amount of financial excluded population there arises a compulsory need to include them and bring them into the main stream. And to this the first and most important action is to tell and teach them about basic financial concepts like bank deposit, credit, saving, insurance ,payment and remittance of security etc. this is called financial literacy. Simply financial literacy means the ability of a person to understand financial matters. Financial inclusion and financial literacy are twin pillars. While financial literacy stimulates the demand side, and make people aware of what they can demand. Financial inclusion acts from supply side providing the financial markets or services what people demand. Thus financial literacy becomes prerequisite for achieving the objectives of financial inclusion and inclusive growth. In India need for financial literacy is greater because large sections of population are financially excluded. With a view to increase financial literacy RBI and Govt. of India has adopted many programs like project financial literacy, Pradhan Mantra Jan DhanYojana and demonetization etc. in this paper discusses about the condition of financial literacy in India.

### Review of literature

Chen and Volpe (1998) conducted a financial literacy survey ‘An Analysis Of Personal Financial Literacy Among College Students’ involving 924 college students from thirteen colleges in U S and found that the overall mean percentage of correct score was just 52.87 percent. The survey examined literacy across four main areas and investigated the relationship between literacy and students characteristics.

Planning Commission of India (2007) reveals that accessibility to institutional credit to rural women is very limited and there is sex bias in extending the credit to them. However, women from the non-farm sector have better access to banks than the women working in the farm sector. Male members have greater influence on accessibility to credit utilization and its repayment.

Hussein A. Hussan Al-Tamimi Al Anood Bin Kalli (2009) states that financial literacy has secured a vital role in the recent scenario due to factors including the development of the new financial products, complexity of the financial markets, information asymmetry and the changes in the other economic factors

Bahl and Sarita (2012) opined that 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 wellbeing and avoid distress, in financial matters thus improve their financial status.

Gathergood.J. (2014) results shoes that individuals with low level of financial literacy and with impulsive buying decision were significantly more likely to hold alternative non-amortizing, mortgage products.

Ramya Krishnan (2014) through her minor project report “A Study of Financial Inclusion and Financial Literacy among the Tribal People in Wayanad District in Kerala” found that the tribal people are poorly informed about various financial products and practices. This is troubling because financial illiteracy may stunt their ability to save and invest for retirement, undermining their wellbeing in old age.

Wagner and Jamie (2015) through their paper ‘An analysis of the effects of financial education on financial literacy and financial behavior’. The result of this survey showed that most of the participants of the survey were in favor of importance of financial literacy and financial literacy curriculum was also important. The conclusion of this study was financial education is advantageous and that the concepts taught in that type of curriculum were appreciated.

Jayanth Sinha-led panel (2016), ‘Financial Literacy Way Forward Financial Inclusion’ says that for financial inclusion through promoting financial literacy. The people’s participation and use of technology are central for the successful implementation of financial inclusion scheme like PradhanMantrhi Jan DhanYojana (PMJDY).

Definition of Financial Inclusion and Financial Literacy

Dr. C Rangarajan committee on financial inclusion (2008) appointed by the government of India to study financial inclusion defined ‘financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by the vulnerable group such as weaker sections and low income groups at an

affordable cost’. Nair (2012) financial inclusion can be described as the delivery of banking and other financial services at affordable costs to the vast sections of disadvantaged and low income groups.

Financial literacy can be interpreted broadly or narrowly. In a broader perspective, financial literacy can be stated as “understanding of economics and how economic conditions and circumstances affect household decisions” (Worthington, 2006). A narrow definition of financial literacy focuses on “basic money management tools such as budgeting, saving, investing and insurance” (Natalie, Newton and Chrisann, 2010).

### Why we need financial literacy?

Need for financial literacy in India is ever greater considering low level of financial literacy and a large population particularly rural population remaining out of the formal financial setup. People need to be aware of advantages of access to formal financial system, saving, credit, repayment of loans to help them make informed choices. As Financial literacy and financial inclusion are twin pillars. While financial literacy stimulates the demand side, making people aware of what they can demand. Financial inclusion acts from supply side providing the financial markets or services what people demand. Financial literacy programs are tailored to be relevant for each group of the society. It spans the formal and informal financial sectors assisting clients in the usage of varied financial services. Financial literacy creates awareness in common men regarding the financial products and services offered by banks and accelerate the pace of financial inclusion (RBI, 2013).

As financial inclusion is a priority of India. And the government has been done many measures on financial inclusion. When implementing financial inclusion program, India has to face many constraints on the basis of income inequality, poverty, gender gap etc. for example the implementation of Pradhan Mantra Jan Dhan Yojana, a national mission on financial inclusion in 2014, it becomes as a most successful program by making 214 million zero balance accounts were created, which means huge population were financially included. But our financial literacy level remains lowest among the

nations. So we want financial literacy for effective implantation of monetary policies and financial reforms like PMJDY and demonetization etc. and also to access financial products and services, to make saving, investment and wellbeing of rural people of India

### Financial literacy centers (FLC) in India

In 2012, RBI revised guidelines related to Financial Literacy Centers (FLC). The guidelines advised commercial banks and all the rural branches of banks act as FLC. Financial literacy camps should be conducted at least once a month. And by two essential provisions of ‘Financial Literacy’, ‘Financial Access’ should be facilitated by financial inclusion. Besides all, reserve bank have engaged commercial banks, NGOs, government machinery, school, college and other agencies actively to execute the program effectively.

### Financial literacy status of India

The level of financial literacy varies across globe due to variations in the socio- demographic variables like age, sex, religion, education level, etc. The level of financial literacy among different nations in the year 2014 is shown in the table.

Table: 1 The level of financial literacy among different nations

|  |  |
| --- | --- |
| **Nations** | **Financial Literacy** |
| Norway | 71% |
| Sweden | 71% |
| Denmark | 71% |
| United kingdom | 67% |
| Germany | 66% |
| United states | 57% |
| South Africa | 42% |
| Russia | 38% |
| Brazil | 35% |

|  |  |
| --- | --- |
| China | 28% |
| India | 24% |

Source: S&P survey 2014

From the above table it is clear that financial literacy is highest for Norway, Sweden and Denmark with 71% to each nation. While comparing India with other nations, India was least financially literate country among BRICS nations with 24%. According to Standard & Poor’s survey, over 76% Indian adults lack basic financial literacy and they don’t understand the most basic financial concepts. According to a survey on Global Financial Literacy in2012 conducted by VISA, only 35% of Indians were financially literate and India was least financially literate countries.

It can be shown through an figure below



80%

70%

60%

50%

40%

30%

20%

10%

0%

Series1

State wise financial literacy in India

|  |  |
| --- | --- |
| **State** | **Level of financial literacy (in %)** |
| Andrapradesh | 23 |
| Chhattisgarh | 4 |
| Goa | 50 |
| Gujarat | 33 |

|  |  |
| --- | --- |
| Kerala | 36 |
| Manipur | 36 |
| Mizoram | 8 |
| Sikkim | 8 |
| Tamilnadu | 22 |
| Utterpradesh | 10 |

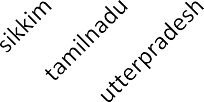
As financial literacy determines success of financial inclusion, it is important to know the level of financial literacy among Indian states to implement any financial inclusion program like Pradhan Mantri Jan DhanYojana. The below table shows financial literacy level of major 10 states in India as per the data compiled from the national centre for financial education report 2015.

Source: Data compiled from the National Centre for Financial

### Education Report 2015

It is clear from the table that Goa hold highest level of financial literacy among states of India, with 50% of financial literacy. Kerala being the highly literate state India, Kerala has the second highest level of financial literacy i.e. 36 percent. Chhattisgarh, Mizoram, Sikkim and utherpradesh have least level of financial literacy.

It can be shown through a figure below



60%

50%

40%

30%

20%

10%

0%

What Should Be Done To Improve Financial Literacy in India?

The major suggestion to increase financial literacy among rural people in India are given bellow

* 1. Government agencies and NGOs may undertake financial awareness programs among the rural people to increase their financial literacy. That will be helpful to bring a practice of recording of incomes and expenditures among them.
  2. Banks, Insurance companies and other financial service providers may concentrate more on the rural area because they are not yet fully financially included. It will help the agencies to increase their customer base.
  3. Authorities may take necessary steps to include financial literacy programs in the school curriculum. It will help to mould a financially educated new generation.
  4. The focus of financial literacy programs should be a mass based approach to include more financially excluded households.
  5. The effectiveness of financial literacy program can be higher when coupled with financial inclusion program as exhibited in the informal case like SHGs.
  6. The policy makers should promote the concept of financial literacy as an integral part of financial inclusion, the policy when implemented will give better result not only inclusion but enhanced frequent usage in future. Second it would catalyze the process in banks towards an integrated approach rather than financial inclusion only.
  7. The public can be made aware about the harmful effects of financial illiteracy. Seminars and discussions can be conducted for this purpose.

### Conclusion

Financial literacy is considered as an important factor for promoting financial inclusion and ultimately financial stability. Because of this reason, government

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authorities are giving much attention to financial literacy programs. But the problem is that these programs are not making any impact among a large segment of the population, especially the rural population of India. .In this paper reveals that need for financial literacy is more acute. Because financial literacy of India is lower than other nations especially among BRICS nations. There are many programs were effectively implemented by the government of India to reach rural people like MGNREGP. So the governmental agencies should have to re-design the financial literacy programs in such a way as to reach the rural people of India.

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