

# An Insight to financial literacy in India –A review of literature.

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## ABSTRACT

Economic growth and development of any country depends upon the strong financial system. Individual's financial well being result in the good financial system of any country. Financial literacy is the key component for the development of any individual's financial stability. Government of India has taken several measures to develop the financial inclusion and financial literacy among the citizen of the country. This paper throws light on various measures taken by the regulatory bodies of India for the improvement of financial inclusion and financial literacy among the individuals and also to understand the importance of financial literacy among the individuals in the country. The paper is based on various reviews of research articles, newspaper articles, and documents from various regulatory bodies and books, etc.

*Key words: Financial inclusion, financial literacy, and Regulatory bodies.*

## INTRODUCTION

Economic growth and development of any country depends upon a well –knit financial system. Financial system comprises, a set of sub system of financial institution, financial markets, financial instruments, and services, which help the formation of capital. It provides a mechanism through which saving are transformed to investment.

For centuries India has been a “saving” country that conventionally or unconventionally invest in cash or kind. However this saving may not be in formal manner. It could have been in the household “Hundis”(piggy bank). The most preferred Investment Avenue for the people of our country from generations are in gold and land. One of the reasons for the investment in gold and land compared to other financial products could be financial exclusion and lack of financial knowledge.

However a conscious effort has been made by the government of India for financial inclusion through informal approach which have been started since 1950, a real momentum started gathering since 2005 onwards with RBI giving direction and guideline support by NABARD and commercial banks the financial literacy effort have been started<sup>1</sup>.

Financial inclusion and financial literacy are two important keys for the economic development of any country. Financial literacy is the road map for the success of efforts put forward by government for the financial inclusion in the country.

<sup>1</sup> Financial literacy as a tool for financial inclusion and client protection – report on the studies undertaken under financial inclusion project of UNDP in 7 UN focused states and discussion on UNDP supported microfinance community of practice, solution exchange, Nov 2012

In an article on financial inclusion published in economic times, Rajat Gandhi rightly said “ No matter how many banks you open and how many boots you have on the ground, if a person does not know about the financial options that are open to him, policies, schemes and Financial instruments will mean little. It is important for a person to first know how to look for and only then think of the benefits that he can obtain from it.”

Meera Santoshi (2016) in her article Financial literacy in India: Statistics and solution analyzed the survey conducted by standard and poor's rating service (2015) on financial literacy. The analysis shows over 76% Indian adult lack in basic financial literacy and they don't understand the most basic and key financial concepts. The number is much lower than the worldwide financial literacy rate, it's roughly in line with BRIC and South Asian nations.

## GAPS IN LEARNING

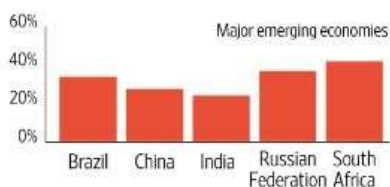
A Standard and Poor's survey found that three-fourth of Indians are not financially literate. Here are some more findings from the survey.

% of adults answering correctly

Topic	India	BRICS	South Asia*	World
Risk diversification	14	28	18	35
Inflation	56	46	46	50
Interest	48	48	46	49
Compound interest	44	44	39	45
Financially literate %	24	28	23	33

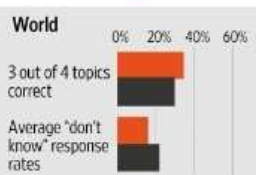
\*excluding India

There is a wide variation in financial literacy around the world (% of adults)



Women trail men in financial literacy (% of adults)

Men Women



Major advanced economies

Men Women



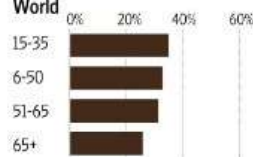
Major emerging economies

Men Women



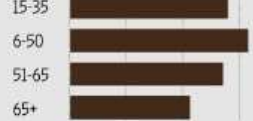
Financial literacy lowest among adults age 65+ (% of adults)

Age



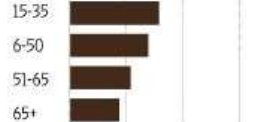
Major advanced economies

Age



Major emerging economies

Age



Source: S&P Global Fin. Lit. Survey

According to another survey on Global financial literacy in 2012 conducted by VISA, only 35% of Indians were financially literate and India was among the least financially literate countries.

The statistics are disappointing. The financial literacy is very important tool for the household as well as for country. Financial literacy results in improvement of financial planning of individual, which in turn helps in the economic development of the country. However Government of India has taken various efforts to improve financial literacy and financial inclusion in the country. The regulatory bodies RBI, SEBI, IRDA and PFRDA working together for the improvement of financial literacy and inclusion in the country.

## OBJECTIVES:

1. To provide an insight towards concept of financial literacy and its importance.
2. To summarize various initiatives taken by RBI and SEBI for the improvement of financial literacy.

## RESEARCH METHODOLOGY:

This study is completely based on secondary data. An extensive study is done on previous research articles, newspapers, reports, journals, books and official websites of regulatory bodies.

## CONCEPT OF FINANCIAL LITERACY

Meera Santoshi (2016) indicates financial literacy and financial inclusion are two aspects of financial stability in a country. When people are financially literate, they are most likely to explore the product and services offered by bank and use them their benefit. This accelerate the pace of financial inclusion where everyone can access the basic banking facilities rather than relying on the orthodox system of money market such as borrowing money from money lenders. The lack of knowledge on financial matters and inability to manage personal finance not only affect a household, but makes an economy as a whole suffer too. Financial literacy can accelerate financial inclusion.

OECD INFE has defined financial literacy as “A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”.

Swetha kumari point out financial literacy gives twin benefits of protecting from fraud as well as planning for financially secure future. The three pillar of financial stability are financial inclusion, financial literacy and consumer protection.

There is correlation between financial inclusion and financial literacy. As financial literacy increases the financial inclusion decreases.

It's important to understand the difference between financial inclusion and financial literacy. Financial inclusion focuses on volume or quantity whereas financial literacy is more about quality.

While financial inclusion emphasis on creating more accounts in order to make common banking facilities easily accessible to all, financial literacy emphasis on expanding he knowledge on financial matters and product so that one can:

- Understand how to use and mange money and minimize financial risk.
- Manage personal finance quite efficiently.
- Identify the benefit and facilities offered by bank and boycott the moneylender.
- Derive the long-term benefit of saving.

Financial literacy stimulate the demand side that is making people aware of what they can demand on the other side financial inclusion act from supply side providing the financial market/service what people demand.

## COMPONENTS OF FINANCIAL LITERACY:

Financial literacy has three components:

- Personal financial management.
- Information about various financial services, product and its source.
- Operational knowledge.<sup>2</sup>

<sup>2</sup> Financial inclusion and financial literacy- BI OECD SEMINAR – Roundtable on the updates on financial education and inclusion programmes in India by Dr. Deepali pant Joshi (2011)

## NEED FOR FINANCIAL LITERACY

- a) **Knowledge and skill:** Increasing range and complexity of financial products has made it very difficult for an ordinary person to take an informed decision. Financial literacy imparts knowledge and skills and, thereby, confidence to the ordinary person to manage financial products and services and enabling him to have more control over his/her present and future financial well being.
- b) **Freedom from exploitation:** Financial literacy helps protect the society and individuals against exploitative financial schemes and exorbitant interest rates charged by moneylenders.
- c) **Avoidance of over-indebtedness:** Financial education will help avoid over-indebtedness, improve quality of services and promote wise financial decisions.
- d) **Promoting entrepreneurship:** Awareness about financial products will help small entrepreneurs, who are educated and who already have business sense, understand dynamics of market mechanism and improve their business dealings.
- e) **Positive spillover effects:** Financial education can lead to multiplier effects in the economy. A household that is well educated in financial matters would resort to regular savings, which, in turn, would lead to investments in right channels and greater income generation. The financial well being of individuals will, in turn, increase the welfare of the society.
- f) **Reducing strain on social programmes:** A financially aware person would be in a better position to assess his/her own requirements and make savings in appropriate schemes. It reduces strain on social programmes and pension plans and fosters a more resilient economy.
- g) **Behavioral change:** The proliferation of financial products has led to its indiscriminate usage without users realizing their financial implications. In fact, the recent global financial crisis has raised the question whether individual's lack of financial knowledge led them to take out adjustable rate mortgages or incur credit card debt they could not afford. Financial education can become an agent of behavioral change.
- h) **Deeper participation in financial markets:** India needs to convert savers into investors. Greater participation of domestic retail investors in securities market will make securities market deeper. Domestic savers will also reap the benefits of corporate growth.<sup>3</sup>

<sup>3</sup> <https://investor.sebi.gov.in/pdf/FinalNSFE.pdf>

## **INITIATIVE TAKEN BY RBI AND SEBI FOR THE IMPROVEMENT OF FINANCIAL LITERACY**

### **NATIONAL COUNCIL OF FINANCIAL EDUCATION**

A collective effort of RBI, SEBI, IRDA National Centre for Financial Education (NCFE) is established with the support of financial sector regulators i.e. Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) along with additional support from Pension Fund Regulatory and Development Authority (PFRDA) and Forward Markets Commission (FMC), to enhance financial literacy and financial inclusion in India. NCFE conducts National Financial Literacy Assessment Test (NFLAT) every year targeted towards students of Classes VIII to X. This test helps students to acquire financial knowledge during schooling itself. NCFE has initiated FETP (Financial Education Training Program) for providing unbiased personal financial education to people and organizations for improving financial literacy in the country. The program is based on two pillars; education and awareness, the major objective of which is to establish a sustainable financial literacy movement that can endow people's lives. NCFE is also conducting FETP for school teachers of class 8 to 10 across India. After completion of the training, these teachers are certified as "Money Smart Teacher" and facilitate guiding financial education classes in schools and inspire students to obtain basic financial skills. (Verma, Nema, & Padagre, 2017).

### **RESERVE BANK OF INDIA INITIATIVE ON FINANCIAL LITERACY**

The Reserve Bank of India (RBI), India's oldest and most experienced financial Supervisory body is working aggressively towards financial literacy. Commercial Banks, various Non Government Organizations (NGOs) and Self Help Groups (SHGs) have joined hands with the Reserve Bank and the Government in spreading financial Literacy among the masses (Kamboj, 2014).

- The Reserve Bank of India has undertaken a project titled "**Project Financial Literacy**". The objective of this project is to disseminate information regarding the central bank and general banking concepts to various target groups, including school and college students, women, rural and urban poor, defense personnel and senior citizens. The project envisages a multi pronged approach. The project has been designed to implement in two modules - one module focusing on the economy, RBI and its activities, and the other module on general banking. The material is created in English and other vernacular languages. It is disseminated to the target audience with the help of its own offices, banks, local government machinery, schools and colleges, NGOs and other voluntary groups through presentations pamphlets, brochures, films and also through RBI's website.
- RBI organizes town hall and outreach visits in which all the top executives participate and disseminate information about economy, banking and RBI. It also arranges visits of school and college students to RBI.
- RBI had started an annual quiz Programme for students of classes VII to XI to generate their interest in economy, banking and RBI.

- Financial Inclusion and Education are two important elements in the Reserve Bank of India's developmental role. Towards this, it has created critical volume of literature and has uploaded on its website in 13 languages for banks and other stakeholders to download and use. The aim of this initiative is to create awareness about financial products and services, good financial practices, going digital and consumer protection.
- The Financial Literacy Week is an initiative by RBI to promote awareness on key topics every year through a focused campaign. (Reserve bank of India, 2020).
- In a move to provide elementary financial literacy information to general public RBI has designed the booklet FAME (Financial Awareness Messages). FAME Contains financial awareness messages, such as, documents needed to be submitted while opening a bank account (KYC), importance of budgeting, saving and responsible borrowing, maintaining creditworthiness, a credit score and by repaying loans on time, doorstep banking and localized banking, process of lodging complaints at the bank and the Banking Ombudsman, usage of electronic transfers, capitalizing money in registered entities etc.
- Audiovisuals have also been produced to create awareness on the topics like “Basic Financial Literacy”, “Unified Payments Interface” and “Going Digital”. The pictorial booklet series of Reserve Bank named ‘Raju’ and ‘Money Kumar’ were also effective ones. The booklets ‘Raju’ taught about banking concepts and savings habits and The ‘Money Kumar’ clarified the role and functions of the Reserve Bank of India. (Verma, Nema, & Padagre, 2017)
- In order to improve financial capability of the people In India and to make them more confident regarding their financial affairs, 718 Financial Literacy Centers have been set up as at the end of March 2013 and these centers have educated 2.2 million people from April 2012 to March 2013.
- To bring consistency in international studies related to financial literacy and providing guidance about concept, scope and measurement of financial literacy researches, there is a need to develop financial literacy framework. In India, National Strategy for Financial Education has been prepared with the objectives of creating awareness and educating consumers on access to financial services, availability of various types of products and their features; changing attitudes to translate knowledge into behaviour and making consumers understand their rights and responsibilities as clients of financial services (Kamboj, 2014).
- Financial Literacy Centres (FLCs) has been opened by various banks with focus on the spread of Financial Literacy, to create awareness about financial products and provision of counseling facilities for customers of banks.
- Financial literacy guide The Reserve Bank has released on its website on January 31, 2013, a comprehensive Financial Literacy Guide, which, banks have been advised to use as a standard curriculum to impart basic conceptual understanding of financial products and services. The financial literacy guide consists of Guidance Note for trainers, Operational guidelines for conduct of financial literacy camps, and

financial literacy material, including posters. The guide also contains a financial diary to be distributed to the target audience, so as to enable them to keep a record of their income and expenses, as a first step towards financial planning.

- Association with the World Bank and the OECD As part of its efforts to gain from international perspectives on financial literacy initiatives, the Reserve Bank, organizes Conference on Financial Education association with the World Bank and the OECD (Kumari, 2014).

## **SECURITIES EXCHANGE BOARD OF INDIA INITIATIVES ON FINANCIAL EDUCATION**

- The Securities Exchange Board of India has embarked upon financial education programmes through a nationwide campaign. To impart financial education to various target segments, namely, school and college students, working executives, middle-income group, homemakers, retired personnel, self-help groups, etc.
- SEBI has empanelled Resource Persons throughout India. The Resource Persons are trained on various aspects of finance and equipped with the knowledge of financial markets. These SEBI Certified Resource Persons organize workshops for these target segments on various aspects, namely, savings, investment, financial planning, banking, insurance, retirement planning, etc.
- SEBI also conducts investor education programmes through investor associations all over the country. It also conducts regional seminars through various stakeholders, namely, stock exchanges, depositories, Association of Mutual Funds in India, Association of Merchant Bankers of India, etc.
- SEBI has a dedicated website for investor education in which study material is available on financial markets, products and Frequently Asked Questions (FAQs) on various subjects. SEBI also publishes study material in English and vernacular languages.
- Under ‘Visit SEBI’ programme, school and college students are encouraged to visit SEBI and understand its functioning. SEBI has set up SEBI Helpline such that through a toll free number, investors across the country can access and seek information for redressal of their grievances and guidance on various issues.
- SEBI has also launched an investor education campaign through media. The service is available in 14 Indian languages.
- SEBI’s Complaint Redress System (SCORES) is web-based, centralized grievance redress system where investors can view the action taken and the current status of the grievance online. SCORES has also been integrated with the Centralized Public Grievance Redress and Monitoring System (CPGRAMS).<sup>4</sup>

<sup>4</sup> National Strategy for financial education-SEBI

- The Securities Exchange Board of India has undertaken financial education programmes through a nationwide campaign. SEBI has established National Institute of Securities Market (NISM) which introduced “School for Investor Education and Financial Literacy” to boost financial skill in individuals from all walks of life. NISM also conducts Investors Education programme since 2014. NISM conducts financial literacy quizzes and Pocket money financial literacy programmes in schools every year. (Verma, Nema, & Padagre, 2017)

## CONCLUSION:

Financial literacy is very important component for the economy of any country. Improvement in financial literacy will result in improvement in financial inclusion, which in turn result in financial stability of the country. In India all the main regulatory bodies imposed various commendable efforts for the development of financial literacy in the country. Despite of all efforts the level of financial literacy among the individuals in our country is not that satisfactory. Suggestions that can improve the level of financial literacy can be adding basic concepts relating to financial literacy in the school curriculum so that a child can learn the concept at very young age and teach the parents in case parents are illiterate. Advanced concepts of financial literacy can be added in the higher education curriculum that will make students to have in depth knowledge on financial products that can help to have effective and efficient financial planning. Regulatory bodies can have periodical verification on their initiatives. According to change in the requirement of the economy government can initiate innovative policy regarding financial literacy and financial inclusion that can result in achieving stable economy in our country.

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