Financial Literacy in India: Long Way to Go

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ABSTRACT

Though government, banks and many regulatory bodies in India are taking various steps to make people aware about the alternatives available for investment; still more than 50% of our population depends on traditional methods of investment. This leads to the requirement of financial literacy among the citizens of India. Financial literacy means the ability to use skills and knowledge to take effective decisions for managing money. For a country like India, this acts a greater task as it is considered a significant appendage to promotion of financial inclusion and eventually financial stability. Today, digital technology and mobile phones offer unprecedented opportunity to connect poor people to services such as savings, loans, insurance and payments but possessing a phone or even opening a digital account does not ensure the account is used. Approx two-thirds of world's 300 million mobile money accounts are inactive. India remains among the most cash-intensive economies in the world, with a cash-to-GDP ratio of 12%. Around 97% of all transactions in the country are carried out in cash, which explains why India remains among nations with the lowest access to digital payments. The objective of the study is to study the level of financial literacy in India by using literature based analysis. Data collected from secondary sources like websites, journals, research papers and articles. It is found that financial literacy in India is very low and necessitates exertion to mend level of literacy.

Keywords

Financial literacy, economy, financial inclusion, technology

INTRODUCTION

Financial literacy and financial stability are two important facets of an efficient economy of any country. Financial literacy ensures economic security for individual's families by enhancing their ability to earn and invest. In India, on one hand, there is a need to reach out to lower earning groups and economically weaker segments, and on the other, to millennial who are hyper-connected and require tailor-made financial products but have limited awareness of the possible financial solutions.

As per world survey by Standard & Poor's Financial Services LLC (S&P) about one fourth of adults are financially literate in South Asian countries. For an average Indian, financial literacy is still a matter to become a priority. India is providing home to 17.5% of the world's population but almost 76% of its youth population does not aware about even the fundamental financial knowledge.

The survey affirms that the status of financial literacy in India has constantly been poor compared to the other countries in the world. Financial illiteracy puts a load on the country in the form of higher cost of financial safety and minor prosperity. We can take an example, like this is the fact that people prefer to invest more in physical assets and short-term investments, which limits with the larger requirement for long-term investments in our country. This limits both, the home makers to meet up their life objectives and for achieving the country's funds requirements for infrastructure.

It has been discovered that financial education related programs concentrated on simply bestowing information once in a while convey affect unless they are sponsored by a reasonable item, including the help to utilize the item. A current UNDP review on financial related proficiency programs in India uncovered that in territories where a service provider was associated with the projects, the members would be advised to comprehension of items and they had been utilizing the items frequently. A few banks utilize a decision tree to enable clients to open the saving accounts that match their necessities. The way toward experiencing the decision tree in itself prompts comprehension of enhanced item features by clients.

To utilize financial services to their maximum capacity, the low income individuals require items appropriate to their necessities and suitable training and instruction for adjusting to these financial services. Realizing this expects thoughtfulness regarding human and institutional issues, for example, quality of access, reasonableness of items, recognition and soothe being used, sustainability for the supplier of these administrations, appropriate training and effort to the most rejected populaces.

India is far behind developed countries in financial literacy endeavors. In US, financial education advancement was begun in 1908 by the American Credit Union Movement. In 1957, education related to financial system was made obligatory by the territory of Nevada, and different states took after. Australia gives financial education instruction through modified projects, while Asian nations, for example, Indonesia and Singapore have effective points of reference in financial education drives. It is a myth that financial related education is more vital for youths. We can accomplish the desired outcomes from financial proficiency only when we begin educating our kids. In the same way as other challenging points, money is something that children find out about outside homes also, which opens them to assimilation of wrong insight about money management many times resulting in development of awful money propensities from the establishment stage itself.

According to Organization for Economic Co-operation and Development (OECD) "financial literacy as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual wellbeing"

LITERATURE REVIEW

Meier and Sprenger (2010) with the assistance of a field contemplate gave the confirmations to the connection between's individual choices with financial data. The study revealed that people which had obtained financial education instruction have higher discount factors than the individuals who don't have accomplished.

Ramaswamy (2013) surveyed the level of attentiveness to financial education among management graduates. The examination considered four key parts of finance related education viz. level and significance, definition and theories, constraints and measures. In view of the study performed, it was investigated that there was no effect of age, sexual orientation, dialect, race and earning level on financial education.

Lavanya Rekha Bahadur (2015), studies two pillars of the economy: financial literacy and financial inclusion and its present situation and also ordinary citizens point of view about financial instruments. Information was gathered from 202 Mumbai and thane locale people. It is discovered that level of financial related education is low and proposed to empower financial education from school level, national level projects and leak effort to the grass root level.

Jason West (2012) demonstrates that the activities of people who are financially educated don't really mean they will show good financial attitude. With a specific end goal to enhance the financial attitude of customers, two basic zones should be tended to. Right off the bat, the objective of financial education projects ought to be not exclusively to teach customers about financial markets and products yet feature to people the psychological inclinations and confinements that they as humans cannot easily avoid. Besides, the control of financial products sold to customer's needs change to meet the point of shielding retail buyers from complex financial products that are befuddling, equivocal and improper.

Stephen Agnew and Trudi Cameron-Agnew (2015) "The Influence of Gender and Household Culture on Financial Literacy Knowledge; Attitudes and Behavior" suggests in the study on the basis of conclusions drawn that parents need to be aware of how gender stereotypes and the "financial culture" in the home impacts on the financial knowledge, attitudes and behaviors of their children.

Agarwalla Sobhesh Kumar, A.S. et al. (2012) accomplished a study among 3000 individuals, and found that "Financial education among Indians is very little than the International standards. But the financial behaviour and attitude of the employees and retired seems to be positive. The financial knowledge among the women are marginally high than the men. Larger access to utilization credits has influenced the financial behaviour of young workforce".

OBJECTIVES OF THE STUDY

- To access the level of financial literacy in India by using literature review based study.
- To study the initiatives taken by regulatory authorities for financial literacy in India.

To meet the objective of the study, a descriptive research has been carried out. The data was collected from secondary sources which comprise research articles, websites, newspaper articles, reports and Journal articles.

DISCUSSION

The financial system of a nation assumes a key part in the development and advancement of a country. India experiences low retail investment, principally because of absence of financial literacy among the majority. In the motivation of financial education, it has properly been stated, "financial literacy should be installed in our way of life. Everybody who earns money is a potential saver, each saver is a potential investor and each financial specialist should be economically literate." Indians are experiencing financial infections like underinsurance, debt entrap, lacking retirement finances and low ROI – which is all caused because of absence of financial education. The customers should be financially educated to have the capacity to comprehend the financial world and settle on all around educated choices that will be gainful. When looking at and assessing financial products, the buyer ought to be very much aware of the fundamental terms of financial markets and the most recent patterns to deal with their savings.

The survey was carried out in 140 countries, with over 150,000 adults tested on their knowledge of four basic financial concepts - numeracy, risk diversification, inflation, compound interest (saving and debt). The extensive survey highlights that India's financial literacy is lower than the worldwide average, but 'roughly in line with other BRICS and South Asian nations'.

The initiate of digital wallets, Universal Payments Interface (UPI) and new-age business and payments banks have cleared new routes for a cashless economy. As per RBI, the aggregate number of electronic transactions has developed from more than 419 million in November 2015 to 692 million in March 2017.

Another review by Standard and Poor found that 76% of Indian youths don't comprehend fundamental, key financial conception.

The study was done in 140 nations, with more than 150,000 youths tried on their insight into four fundamental financial concepts - numeracy, inflation, risk diversification, compound interest. The broad overview features that India's financial education is lower than the overall worldwide, however 'generally in accordance with different BRICS and South Asian countries'.

Other key findings from India were:-

1) About 39% of the adults who had borrowed formal loans are financially literate, while about 27% of formal loan borrowing adults were not.

2) 26% of the adults in the richest 60% of households are financially literate, while 20% of the poorest 40% of households are financially literate.

3) The income gap is evident when the survey is broken down by concept - Poor adults are 21 percentage points less likely than richer adults to correctly answer the compound interest topic correctly. With regard to interest, the gap is 11 percentage points.

4) 38 percent of adults with tertiary education are financially literate; compared to 30 percent of adults with secondary education, and 18 percent of adults with primary education.

Additionally, the survey also found that only 14% of Indian adults save at a formal institution indicating at a weak financial base for most Indians.

Interestingly, the survey also found a gender divide - 73% Indian men are not financially literate while 80% Indian women are not financially literate. India beats the 5 point worldwide gender gap. Among other countries, 57% of the adults in the US are financially literate; while in the UK 67% of the adults are financially literate.

ROLE OF REGULATORY AUTHORITIES TOWARDS IMPROVEMENT OF FINANCIAL EDUCATION

(1) Reserve Bank of India. The push to improve financial education in India in the course of the most recent decade has additionally been given a catalyst by the nation's national investor, the Reserve Bank of India that has commanded that banks step up with regards to upgrade financial education and financial literacy in the nation. A draft national strategy for financial education was prepared and released in July 2012 by RBI. The methodology incorporates the surveillance on role of banks as well as the requirement for financial education in schools. Financial inclusion is vital for the improvement of regional economic development. As income and employment creating plans lead the general population to be more dynamic, mindful, interested towards banking activities, which contributes towards financial inclusion. In the perspective of financial education the foundation of RRB, NABARD, and Nationalizations' of Banks has been over and done with. Promotion of different schemes like self Help Group (SHG) etc are done through microfinance institutions.

RBI has additionally exhorted every one of the banks to set up Financial Literacy Centers (FLCs) to encourage financial inclusion through two basics Financial Literacy and simple Financial Access. 718 FICs has been set up and 2.2 million individuals have been taught till March, 2015.

(2) **SEBI-** "Sanchayan" has been perceived as an investor relationship by SEBI for leading financial literacy programs. Huge endeavors are taken by SEBI to spread financial education and disperse false data related to the financial sectors so that more Indians take an interest in India's development story. SEBI conducts a great many events each year for school children, undergrads, distraught youths and grown-ups, and professional from all divisions to meet its goals of Investor Awareness. It also issue study materials in more than six dialects targeting different clusters, for example, youthful financial specialists, home makers, retired citizens, school youngsters, administrators and middle level income group for free. It has likewise stepped up with regards to the National Institute of Securities Market where it conducts classes in schools and has secured 256 schools with an aggregate support of 5,783 students. In rural areas, NISM has prepared 238 instructors crosswise over 197 schools by partner with a NGO called MelJol.

(3) **Commercial Banks-** After the nationalization, banks have contributed a considerable measure to financial inclusion. Under banking reforms, , nationalization of banks, setting up of rural banks, Grameen Mahila Bank, opening of SHG-bank linkage program, and so on., this has prompted improving the degree of financial inclusion in India. As of late, banks have participated at a larger scale in accomplishing financial inclusion to a vast degree. Banks have embraced different policy measures or activities for making individuals financially included and thus, the degree of financial inclusion has upgraded.

CONCLUSION

From this study it was assessed that in India the level of financial education level is low. The whole structure of economic system framework in our nation is reliant on the levels of financial education among the citizens. Along these lines, providing financial education ought to be on the main concerned list of policy formulators, government offices, trainers and so on. The strategy formulating ought to be founded on bottom-up approach where field overviews, evaluation reports, audit reports and so forth can be made and execution ought to be based on the lines of top-down approach. The chain of importance of focal government-state government-nearby bodies ought to be stuck to in activating the strategy decisions.

There is a need of conducting various massive financial education and awareness campaigns across the country targeting all sections of the people which must equally incorporate the well learned financially illiterate and uneducated financially illiterate. The main objective is to train individuals to manage personal finance more effectively & efficiently and to attain financial security by letting them access to suitable financial products and services. This has to be done through regulatory bodies in fair and translucent way. There should be a well distinct mechanism which shall guarantee consumer safety and grievance redressal. Thus, advancement in knowledge, understanding ability and competency will enhance their financial status by taking informed decision.

Rapid growth of Indian economy and complex financial market leads to improper financial decisions. To achieve the financial objectives one has to possess basic financial skills, awareness, knowledge, attitude and good demonstrated behaviour. Various studies reveal that the financial literacy level in India is very low, especially women and youngsters who are struggling with their basic financial knowledge. Although many initiatives from RBI and government on financial literacy improvement; financial literacy level is still low. It is necessary to mend level of literacy through new initiatives.

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