

An Emprical Study on Financial Literacy in India

Sree Nagalakshmi. P¹, Kaviya. P²

¹Senior Analyst, State Street Services

²Bachelor of Business Administration, KG College of Arts and Science

ABSTRACT:

For an individual understanding the financial operations originate from their households. Financial literacy skill is a vital element just in the discipline to achieve a quality of life as rural household India. It is an effective way of managing money. Each person has their own expenditure, savings, investment, borrowings which is their financial movement. To eradicate the financial problems from their life there should be a concept of financial literacy involved. This research investigates the meaning, importance, comparison of financial literacy of India with other Countries and financial program initiated by Government.

Keyword: Financial literacy, Government Initiatives, Definition, Training Program

INTRODUCTION:

According to the standard and poor's global financial literacy survey, which is the world's largest and most comprehensive global measurement of financial literacy, India ranks 73rd out of 144 countries with a financial literacy rate of 24%. The survey defines financial literacy as the ability to understand essential financial concepts in making informed decision about saving, investing, borrowing and morel. The global average financial literacy rate is 33% and the top 10 most financially literate countries are denmark, normay, sweden, canada, isreal, united kingdom, germany, netherlands, australia and finland.

REVIEW OF LITERATURE:

Jyoti Prakash Rath and Samira Patra (2023) from Odisha, India, explored the concept of Financial Literacy, defining it as a blend of awareness, knowledge, skills, attitude, and behavior necessary for sound financial decisions and individual well-being. Their study focuses on India's current economic situation, and financial literacy's importance and highlights diverse financial services, especially from banks and insurance companies. Data is collected from various secondary sources; The authors suggest that financial literacy is an urgent requirement and people need to understand the benefits of financial services provided by Government and Financial Institutions from time to time. Their message is clear: It's not enough to be literate; one must be "Financially Literate."

Hridhya P.K. and Dr. R. Jayaprakash Reddy (2020) from Mysore University and AIMS Centre for Advanced Research, respectively, discuss the crucial role of financial literacy in an individual's financial well-being and a country's economic growth. They highlight that a strong financial system contributes to a nation's development, and the government of India has been actively working on enhancing financial

inclusion and literacy among citizens. Their paper examined the efforts made by regulatory bodies in India to improve financial literacy and inclusion, drawing insights from research articles, newspaper articles, regulatory documents, and books. Their study aimed to understand the significance of financial literacy in the country and its impact on individual and national financial stability.

Dr. Neha Sharma (2015) studied financial literacy programs in India. Her paper aims to explain the significance of financial literacy, a fundamental need for individuals worldwide. The study's findings mention that financial literacy is important, especially in developing countries like India. The paper evaluates government-led financial literacy initiatives, advocating for it to become a central objective for governments worldwide to enhance financial literacy among their citizens.

Toran Lal Verma, Dr. D. K. Nema, and Rahul Pandagre (2017) discuss the evolution and importance of financial literacy. Their paper examined India's current financial education level, government-initiated financial literacy programs, and their success in enhancing financial awareness. Their study also proposed policy measures for effective scheme implementation.

SCOPE OF STUDY:

1. To study on how financial literacy is important for individuals and our society.
2. To study on the financial literacy of India compared to other neighboring countries.
3. To determine the growth of financial literacy rates compared to previous reports.
4. To study on the impact created on financial literacy through Government initiatives.

Research Methodology:

The research paper is based on a descriptive study. The data was collected from the secondary sources which are taken from the global reports, NFCE reports, articles, Journals, websites and research papers.

Meaning of Financial Literacy:

“Financial literacy is a combination of financial knowledge, skills, attitudes and behaviors necessary to make sound financial decisions, based on personal circumstances, to improve financial wellbeing”. Financial literacy is the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing. When you are financially literate, you have the essential foundation of an intelligent relationship with money, and it will serve you as a starting point to a lifelong journey of learning about financial matters that are more advanced. The earlier you start, the better off you will be financially, because education is the key to success when it comes to money.

Various Definitions of Financial literacy:

The OECD's Programme for International Student Assessment (PISA) in 2018 published a definition in two parts. The first part refers to kinds of thinking and behaviour, while the second part refers to the purposes for developing the particular literacy. "Financial literacy is the knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life"

The Financial Literacy and Education Commission (2020) includes a notion of personal capability in its definition as "the skills, knowledge and tools that equip people to make individual financial decisions and actions to attain their goals; this may also be known as financial capability, especially when paired with access to financial products and services."

The Government Accountability Office definition (2010) is "the ability to make informed judgments and to take effective actions regarding the current and future use and management of money. It includes the challenges associated with life events such as a job loss, saving for retirement, or paying for a child's education."

FINANCIAL LITERACY IN INDIA:

There has been a steady increase in foreign investments and many Indian companies have expanded their operations to other countries. India is quickly emerging as one of the fastest-growing economies in the world. However, many small producers, companies and Indian firms aren't able to succeed. We have developed ourselves in technology and to some extent in production capacity, but most of the Indian businesses fail because of financial mismanagement. According to the 2011 census, 74.04% of the total population is literate, but only a few understand the importance of financial literacy.

The National Centre for Financial Education (NCFE) is a Section 8 (Not for Profit) Company promoted by Reserve Bank of India. The National Centre for Financial Education (NCFE) aims to promote financial education across India for all sections of the population as per the National Strategy for Financial Education of Financial Stability and Development Council. NCFE creates financial awareness and empowerment through financial education campaigns across the country for all sections of the population through seminars, workshops, conclaves, trainings, programmes, campaigns, discussion forums with/without fees by itself or with help of institutions, organisations and provide training in financial education and create financial education material in electronic or non-electronic formats, workbooks, worksheets, literature, pamphlets, booklets, flyers, technical aids and to prepare appropriate financial literature for target-based audience on financial markets and financial digital modes for improving financial literacy so as to improve their knowledge, understanding, skills and competence in finance.

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

Name of the State	General Literacy	Financial Literacy
Andhra Pradesh	60	23
Arunachal Pradesh	55	10
Assam	61	20
Bihar	50	8
Chhattisgarh	60	4
Goa	80	50
Gujarat	68	83
Haryana	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
Uttarkhand	68	23
West Bengal	67	21

Source: Data Compiled from the national Centre for financial Education Report, 2015

National strategy for financial education report 2020-2025:

The Reserve Bank of India has released a document titled “National strategy for financial education report 2020-2025”. The prime strategy includes a “5 C’s approach for increasing financial education in the country. The approach focuses on Content, Capacity, Community, Communication and Collaboration. The report focuses on creating financially aware and empowered Indians. The Technical group of financial inclusion and financial literacy and financial stability and development council work in coordination to ensure the implementation of the same. These policies are in the right direction to make India financially literate country.

Financial Education Training Programme (FETP)

The Financial Education Training Programme (FETP) is an initiative of the NCFE for providing unbiased personal financial education to people and organizations for improving financial literacy in the country. The program, based on two pillars; education and awareness, aims to establish a sustainable financial literacy campaign that can empower people’s lives. NCFE is conducting FETP for school teachers of classes VIII to X across India. After completion of the training, these teachers will be certified as “Money Smart Teacher” and would facilitate conducting financial education classes in schools and encourage students to obtain basic financial skills.

Money Smart School Program (MSSP)

The Money Smart School Program (MSSP) of NCFE invites schools to voluntarily introduce financial literacy as a part of their existing curriculum for students of class VI to X. NCFE and CBSE had jointly developed the study material for students of class VI to X, a set of five Financial Education Workbooks.

The financial literacy curriculum has been developed in such a way that it integrates with the existing subjects for different classes. Schools can send their teachers to NCFE's Financial Education Training Program (FETP) for school teachers for training purposes. Alternatively, training program for interested schools can be arranged separately at their own premises. These NCFE certified Money Smart Teachers would facilitate in conducting financial education sessions for students in their respective schools. For evaluation of its students, schools can encourage them to participate in NCFE's National Financial Literacy

Financial Awareness and Consumer Training (FACT)

Many youths have limited knowledge of even basic financial topics and, as a result, are unaware of how to make the most of their resources. The Financial Awareness and Consumer Training (FACT) is a program by NCFE to provide financial education to young graduates and postgraduates, on topics relevant to them, which will positively impact their financial wellbeing. The program is of 2 hours duration and it involves no cost to the students or the college/university.

Before they graduate and join the workforce and take on more financial obligations for the first time, our youth can benefit from learning how to set financial goals, avoid problems and know where to go for help when they need it. They also need to be aware of their rights and responsibilities as financial consumers.

NCFE E-Learning Course (NCFE E-LMS)

NCFE has launched an E-Learning course, NCFE E-LMS, on basic financial education covering topics from Banking, Securities Markets, Insurance and Pension products. The topics are further subdivided into 20 modules like Money & Transactions, Financial records and Contracts, Managing Income & Expenditure, Long Term Planning, Financial Safety Nets & Insurance, Scams & Frauds etc. The course is of 5 hours with each module of around 15-20 mins.

The E-Learning course will be offered free of charge to all the registered users. This course will give users a solid knowledge base on disseminating financial literacy, which helps to address demand side barriers as this makes customers informed and enables better financial decision making and ultimately financial wellbeing. The content of the course is being derived from the book Capacity Building for Financial Literacy Programmes (CABFLIP) primarily based on the core Competencies on the Financial Literacy document of OECD-INFE (International Network on Financial Education).

National Financial Literacy Assessment Test (NFLAT)

Financial literacy is a core life skill that focuses on knowledge, behavior and attitude required to make responsible money management decisions. In 2005, the OECD recommended that financial education start as early as possible and be taught in schools. In line with OECD recommendation, National Financial Literacy Assessment Test (NFLAT) conducted by the NCFE, encourages school students of class VI to XII, to acquire basic financial skills necessary to make informed and effective financial decisions throughout each stage of their lives. NFLAT was launched in the year 2013-14. Globally, it is one of the largest free annual financial literacy tests for school students. Assessment Test. Schools may also decide to conduct their own evaluation in which case NCFE will provide them with all necessary support.

COMPARISON OF FINANCIAL LITERACY WITH NEIGHBORING COUNTRIES:

The study entitled "Financial Literacy across the World: Insights from the S&P Global Fin Lit Survey" furnished extensive data concerning the financial literacy landscape, encompassing a sample size exceeding 150,000 individuals serving as national representatives from over 140 economies. The investigation transpired throughout the 2014 calendar year. The resultant report meticulously delineated financial literacy statistics on a country basis, offering a comprehensive view of the analyzed nations. In the graphical representation shown under, particular emphasis was placed on the neighboring nations to India, in alignment with the website outlined by the Ministry of External Affairs. The financial literacy scores mentioned below for the neighboring countries of India exhibit a range of understanding in financial matters. Bhutan and Myanmar stand out with a high score, indicating effective financial education efforts. Afghanistan, Bangladesh, and Nepal have lower scores, suggesting a need for increased financial education initiatives. The moderate scores of China, India, Pakistan, and Sri Lanka reflect varying degrees of financial literacy, with potential for improvements. Overall, these scores highlight opportunities for targeted education and awareness campaigns to promote better financial decision-making across the region.

SUGGESTION:

The study reveals that various prominent financial sector regulators make collaborative efforts through various initiatives to enhance financial literacy in India. But despite all these efforts financial literacy in India is very low compared to its neighboring Countries. It is required to include financial education in schools' curricula so that from childhood at the primary school level students can understand financial literacy concepts.

It's crucial to increase awareness about the initiatives led by the National Centre for Financial Education (NCFE) among various groups, including school students, teachers, undergraduates, postgraduates, farmers, women's groups, workers, self-help groups, and employees. The promotion of NCFE's E-learning program should be extended to higher education students and the broader online community in India. This way, a wider audience can benefit from these resources and enhance their financial literacy.

An essential step is to compare states with high financial literacy levels to those with low levels. By identifying the factors contributing to high financial literacy, we can apply these strategies in states with lower rates. This approach aims to uplift financial literacy levels across regions and promote better financial understanding and management.

REFERENCES:

1. Rose,S.(2023). The history of financial literacy. Opp Loans. <https://www.opploans.com/oppu/financial-literacy/history-of-financial-literacy/#:~:text=Financial%20literacy%20in%20the%2020th%20century&text=One%20act%20that%20had%20a,of%20topics%2C%20including%20personal%20finance>.
2. Financial Literacy and Financial Education in India: An Assessment. (n.d.). <http://www.casirj.com>
3. Measuring Financial Literacy: Questionnaire and Guidance Notes for Conducting an Internationally Comparable Survey of Financial Literacy. (n.d.).

4. Reserve Bank of India. (n.d.). [https://www.rbi.org.in/commonman/English/Scripts/PressReleases.aspx?Id=2867#:~:text=The%20National%20Centre%20for%20Financial,for%20Financial20Education%20\(NFE\)](https://www.rbi.org.in/commonman/English/Scripts/PressReleases.aspx?Id=2867#:~:text=The%20National%20Centre%20for%20Financial,for%20Financial20Education%20(NFE))
5. NCFE - National Centre for Financial Education (NCFE). (n.d.). <https://www.ncfe.org.in/> Kumar Agarwalla Samir Barua Joshy Jacob Jayanth Varma, S. R. (2012).
6. A Survey of Financial Literacy among Students, Young Employees and the Retired in India Indian Institute of Management Ahmedabad Citi Foundation. www.oecd.org/dataoecd/43/61/49878153.pdf
7. <https://mea.gov.in/india-and-neighbours.htm>
8. Rath, J. P., & Patra, S. (2023). Financial Literacy in India – A New Way Forward. *ComFin Research*, 11(2), 20–27. <https://doi.org/10.34293/commerce.v11i2.6172>
9. Prajakta Joshi, A. (n.d.). The way of Financial Capability is through financial literacy: Indian and Global Scenario.
10. Pk, H., & Reddy, R. J. (2020). An Insight to financial literacy in India-A review of literature (Vol. 7). www.jetir.org
11. Lal Verma, T., Nema, D. K., Pandagre, R., Singh Gour Vishwavidyalaya, H., & India, S. (2007). AN OVERVIEW OF CURRENT FINANCIAL LITERACY EFFORTS IN INDIA. 2.
12. Kumar Agarwalla Samir Barua Joshy Jacob Jayanth Varma, S. R. (2012). A Survey of Financial Literacy among Students, Young Employees and the Retired in India Indian Institute of Management Ahmedabad Citi Foundation. www.oecd.org/dataoecd/43/61/49878153.pdf
13. Kumar, S., & Dr.H.G., J. (2016). Financial Inclusion through Financial Literacy in India: Issues and Challenges. *Bonfring International Journal of Industrial Engineering and Management Science*, 6(1), 200– 203. <https://doi.org/10.9756/bijiems.8341>
14. Klapper, L., Lusardi, A., & van Oudheusden, P. (n.d.). Financial Literacy Around the World. <http://www.FinLit.MHFI.com>.
15. Financial Literacy and Inclusion in India Final Report National Centre for Financial Education (NCFE). (n.d.).
16. A Perspective on Financial Literacy and Inclusion in India. (n.d.). <https://ssrn.com/abstract=3396241>
17. Measuring Financial Literacy: Questionnaire and Guidance Notes for Conducting an Internationally Comparable Survey of Financial Literacy. (n.d.).
18. Financial Literacy and Financial Inclusion. (n.d.).