

FINANCIAL LITERACY IN INDIA

Abstract

This chapter aims to know the status of financial literacy in India and the world, state-wise, gender-wise differences and level of difference between general literacy and financial literacy in India, besides the economic importance of financial literacy and the steps taken for improvement in the financial literacy. The study used secondary data from different sources. The data were analyzed and conclusions drawn. The financial literacy rate in India (35 percent) is slightly higher than the world average (33 percent). The financial literacy rate of all the states in India is much lower than the general literacy rate. All India general literacy rate is 77 percent but the financial literacy rate is 35 percent only. Women's financial literacy rate is lower than the male. The study suggested that all the stake-holders, including policy makers, should educate and improve the level of financial literacy for bright financial decision-making, which is needed for economic growth. The study also suggested for developing global guidelines and standards for financial literacy and implements those rules and standards.

Keywords: General Literacy, Financial Literacy, Gender differences, Economic importance, RBI, SEBI, IRDA, Global standards.

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I. INTRODUCTION

Global literacy rates are generally high, with 86.3 percent of individuals aged 15 and above being literate, encompassing both males and females. India performed well in terms of enrollment ratios, achieving a rate of 82.3 percent, which closely aligns with the global average and positions it at the 94th rank. However, the worldwide financial literacy rate remains notably low, standing at just 33 percent. This implies that approximately 3.5 billion adults worldwide, primarily in developing economies, lack a fundamental understanding of financial principles. It's worth noting that financial literacy varies between genders, with 35 percent of men and 30 percent of women demonstrating financial literacy. These global statistics mask significant disparities across different regions [1].

In the case of India, the general literacy rate is 77 percent, but the financial literacy rate is 35 percent [2].

Financial literacy encompasses the assessment of a combination of factors, including awareness, knowledge, skills, attitudes, and behaviors, all of which are essential for making sound financial decisions and ultimately achieving individual financial well-being [3]. Among these components, financial knowledge holds particular importance, as it enables individuals to engage in activities such as staying informed about economic and financial developments, leading to well-informed financial decision-making. A fundamental grasp of financial concepts and the ability to apply numerical skills within financial contexts ensure that consumers can proactively manage their financial affairs and respond to news and events that may impact their financial well-being [4].

It's important to note that financial literacy levels are relatively low across the countries and economies included in the sample. The scores indicate that there is substantial room for improvement across all aspects of financial literacy [5]. In essence, financial literacy entails the capacity to analyze economic information and make informed choices regarding financial planning, wealth accumulation, pensions, and debt management [6]. Additionally, gender disparities in financial literacy [7] and variations in financial literacy among states in India [8] are noteworthy observations.

This study examines the current condition of financial literacy in India and other countries, as well as gender and state-specific disparities in financial literacy. It also offers recommendations for enhancing financial literacy.

II. OBJECTIVES

The specific objectives of this Chapter are to :

- Find out the status of financial literacy in India and other parts of the world
- Know state-wise financial literacy in India
- Know gender differences in financial literacy
- Ascertain the economic importance of financial literacy
- Focus on steps taken for financial literacy in India

III. REVIEW OF LITERATURE

Age, job position and type, education level, income level, number of family members, and financial management experience all influence and are conditioned by people's behavior on the financial market [9]. Financial literacy was measured using behavior, attitude, and financial knowledge; the OECD also utilized this method. In [10]. In order to make effective financial decisions across a range, improve the financial well-being of individuals and the community, and enable participation in economic life, one must possess financial literacy, which is defined as the knowledge and understanding of concepts and risks related to financial matters as well as the skills and confidence to put such knowledge and understanding into practice [11, 12]. The leaders of the G20 have also adopted this definition, which is now widely accepted [13].

There continues to be a lack of widespread awareness among women regarding financial planning tools and techniques. The study's findings indicated that, in comparison to financial knowledge, women exhibit a stronger inclination toward favorable financial attitudes and behaviors [14]. Promoting financial inclusion and enhancing financial literacy represents a significant stride toward empowering women.

[15]. Women were able to make wiser financial decisions and make appropriate use of financial services and products because to the growth of financial literacy. Additionally, it promoted financial security and wealth building, which aided in both societal and personal growth. In [16] Regardless of the degree of growth of the financial markets, there is a severe lack of financial literacy worldwide. Compared to men, women have less financial literacy. To ensure retirement security, one must be financially literate. [17].

IV. METHODOLOGY

The study was based on secondary data. The status of financial literacy in India and the world was collected from VISA [18] and S&P [19] survey reports. The state wise financial literacy in comparison with the general literacy was collected from RBI National Strategy for financial education report [20]. The data on gender differences in financial literacy were taken from Visa world financial literacy survey [21].

V. DATA ANALYSIS AND RESULTS

1. Status of Financial Literacy in India and the World: The Status of financial literacy in India and other parts of the world is shown in the following table (1).

Table 1: Status of Financial Literacy in India and other parts of the World

Rank	Name of Country	Percentage of Population with Financial Literacy
1	Brazil	50.4
2	Mexico	47.8
3	Australia	46.3
4	USA	44.5
5	Canada	43.8

6	New Zealand	43.7
7	Japan	42.3
8	Belarus	41.9
9	Thailand	41.7
10	Malaysia	41.7
23	India	35.0
	World*	33.0

Source: VISA (2012) Survey Report. *S&P Global Fin Lit Survey 2014

Table (1) shows that Brazil and Mexico stood first and second with 50.4 percent and 47.8 percent financial literacy respectively and India was at 23rd rank with 35 percent of the population/. The world financial literacy rate was 33 percent.

2. State-wise Financial Literacy in Comparison with General Literacy in India: Table 2 shows state-wise financial literacy in comparison with general literacy in India.

Table 2 : State-wise Financial Literacy in comparison with the General Literacy in India

Name of the State	General Literacy (in Percentage)	Financial Literacy (in Percentage)
Kerala	84	36
Goa	80	50
Mizoram	77	6
Himachal Pradesh	73	16
Maharashtra	73	17
Sikkim	73	8
Tamil Nadu	72	22
Uttara khand	68	23
Nagaland	68	8
West Bengal	67	21
All India	77	35

Source: RBI National Strategy for Financial Education Report 2020-2025

Table2) shows that there exists gap between general literacy and financial literacy in India. In India the general literacy rate is higher, which is 77 percent, but the financial literacy rate is very less, i.e. 35 percent only. The financial literacy rate in the top ten general literacy states is very much lower. In Kerala the general literacy rate is 84 percent, the financial literacy rate is 36 percent only.

3. Gender Differences in Financial Literacy: Table 3 shows women’s overall ranking by country

Table 3: Women’s overall Ranking by country

Rank	Name of the country	Women’s Financial Literacy Rate
1	Brazil	50.2
2	Australia	48.8
3	Mexico	47.8
4	USA	44.8
5	New Zealand	44.4
6	Canada	44.3
7	Malaysia	43.3
8	Belarus	42.9
9	Thailand	42.8
10	UAE	42.6
19	India	36.8

Source: Visa World Financial Literacy Survey (2012)

Table (3) illustrates that Brazil achieved the highest level of financial literacy, reaching 50.2 percent, followed by Australia at 48.8 percent, Mexico at 47.8 percent, and the USA at 44.8 percent. In contrast, India was positioned 19th in the rankings, with only 36.8 percent of Indian women demonstrating financial literacy. Brazil secured the top position in the overall rankings, with Australia, Mexico, the United States, and New Zealand comprising the top five.

4. Economic Importance of Financial Literacy: There is a direct correlation between conduct and financial literacy. A fully rational and well-informed individual will, in times of high income, consume less than his income and save to support consumption when income falls, according to the mainstream economic approach to saving and consumption decisions. According to the theories put forth by Friedman [23] and Modigliani [22], the consumer is in a position to set up his ideal pattern of accumulation and saving to level out marginal utility over the course of his lifetime. Numerous studies have demonstrated how, among other things, consumer preferences, the state of the economy, and the advantages of the social safety net can influence such a life cycle optimization process Browning and Lusardi [24], Skinner [25], and Attanasio and Weber [26]. Theoretical models that incorporate important aspects of consumer behavior and the economy implicitly assume that people can create and carry out spending and saving plans, which require knowledge of purchasing power, proficiency in financial markets, and the ability to perform intricate mathematical calculations [27].

It was explained by Delavande, Roh Wedder and Willis [28], Jappelli and Padula [29], Hsu [30], and Lusardi, Micliand and Mitchell [31] how financial knowledge, saving and investing behavior are related.

The body of research to far has demonstrated that a large number of people lack financial literacy worldwide. The impact of financial literacy on economic decision-making has been corroborated by econometric models and experiments, which have also identified the effect of financial literacy on other parameters, such as education, in isolation [32].

- 5. Steps taken for Financial Literacy:** The Reserve Bank of India (RBI) has been actively engaged in promoting financial literacy. To this end, the RBI has initiated a project known as "Project Financial Literacy" with the primary aim of providing accessible and straightforward information about financial and banking concepts. In November 2007, a Financial Education Site was launched to spark children's interest in finance, where related concepts are presented through mediums such as films, cartoons, and games. Furthermore, RBI personnel have been actively visiting villages to impart financial education to rural India, a mission carried out between April 2012 and March 2013. During this period, 718 Financial Literacy Centres were established to enhance financial capabilities and instill greater confidence in managing financial matters [33].

The RBI has published a document titled "National Strategy for Financial Education Report 2020-2025," outlining its key objectives. The primary strategy adopts a comprehensive approach known as the "5 C's," which emphasizes the importance of Content, Capacity, Community, Communication, and Collaboration in advancing financial education. The Technical Group of Financial Inclusion, along with the Financial Literacy and Financial Stability and Development Council, is actively collaborating to facilitate the effective implementation of these policies. These initiatives are significant steps in the journey toward making India a financially literate nation [34].

The RBI has initiated a project known as "Project Financial Literacy" with the primary goal of disseminating information related to the central bank and fundamental banking concepts to a diverse range of target groups. These groups include school and college students, women, both rural and urban populations, defense personnel, and senior citizens. Since 2016, the RBI has been conducting week-long programs annually to educate individuals about the significance of financial awareness and well-being. These efforts have been instrumental in promoting awareness about savings, planning, prudent budgeting, and the responsible use of digital financial services. In the year 2023, the RBI's financial literacy week, which took place from February 13 to 17, centered around the theme "Good Financial Behavior – Your Savior." This theme aligns seamlessly with the overarching strategic goals outlined in the National Strategy for Financial Education 2020-2025, which seeks to foster financial resilience and well-being [35].

The Financial Stability and Development Council (FSDC) developed a National Strategy on Financial Education in 2012 to raise public awareness of fundamental issues such why people should invest and borrow money from banks. In light of this, the Financial Services and Deposit Committee (FSDC) suggested that industry participants, including banks, financial institutions, and regulators like the RBI, take official responsibility for financial literacy [36].

Since 2016, the RBI has organized the Financial Literacy Week annually, focusing on crafting financial education messages centered around a specific theme for

nationwide dissemination. Banks have received guidance to actively share this information and raise awareness among their customer base and the general public. Additionally, during the Financial Literacy Week, the RBI has launched mass media campaigns to further amplify its outreach efforts [37].

The Securities Exchange Board of India (SEBI) is an entity created to safeguard the interests of investors. SEBI is highly proactive in its role as a regulatory authority in the realm of financial literacy. In 2003, SEBI initiated a campaign called the Securities Market Awareness Campaign with the primary objective of educating investors. As part of this initiative, SEBI organized a series of workshops conducted across the country [38].

The Insurance Regulatory and Development Authority (IRDA) has made several financial literacy-related initiatives. There have been awareness campaigns on radio and television, with the goal of spreading basic information regarding policyholder rights and obligations, available avenues for resolving disputes, etc.[39].

Public education about social security was carried out by the Pension Fund Regulatory and Development Authority (PFRDA). In an effort to bring the pension service to underprivileged communities in India, PFRDA has created a frequently asked questions section on its website [40]. It has also partnered with a number of nongovernmental groups in the country.

Commercial banks have started a number of initiatives to raise public knowledge of financial literacy, including Financial Literacy and Counseling Centers and Rural Self Employment Training Institutes. These centers' goals include giving people advice on how to access the banking system and other financial institutions, educating the public about money management, offering counseling to those who are having difficulty making their loan payments and assisting them in resolving their debt issues, and assisting in the rehabilitation of distressed borrowers, among other things [41].

Government and non-government organizations' financial literacy campaigns were crucial in advancing India's financial inclusion and consumer empowerment. To ensure the highest level of financial literacy, the Indian government has been implementing practical initiatives. (42)

VI. CONCLUSION AND SUGGESTION

It is concluded from the foregoing analysis that Brazil and Mexico stood first and second with 50.4 percent and 47.8 percent financial literacy respectively. India's rank was 23. In the top 10 states with respect to general literacy the financial literacy rate was very much lower. Kerala stood first with 84 percent general literacy rate but the financial literacy rate was only 36 percent. Goa stood second with 80 percent in general literacy rate but it stood first in financial literacy rate with 50 percent. The all India general literacy rate was 77 percent but the financial literacy rate was only 35 percent. Women's financial literacy rate is the highest in Brazil with 50.2 percent, followed by Australia at 48.8 percent, Mexico 47.8 and USA 44.4 percent. India was ranked at 19 with only 36.8 percent of Indian women as financially literate. There was close link between financial knowledge, saving and investment

behavior. Various measures were taken by RBI and the Government to enhance financial literacy rate.

Since the financial literacy level in India is low and high level of financial literacy is required for improved financial decisions, this study suggests that all the stakeholders including policy makers should improve the financial knowledge on par with the general literacy. Besides Government, R.B.I, the NGOs and SHGs should contribute for improvement in financial education of the people. The National Center for Financial Education should develop modules in the form of audio-video contents/booklets, etc. The problem of financial illiteracy could be solved by preparing modules separately for children, young adults and women.. As the financial literacy in India is lower than many countries in the world, the financial standards and guidelines developed at the international level should be implemented in India. National Strategy for Financial Education formulated for increasing financial literacy should be strictly implemented by the government, in cooperation with the private sector.

The study found state-wise and gender-wise inequality in the financial literacy. It suggests for implementation of specific programmes in the backward states and women centered literacy programmers.

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